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FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

ASSESSING THE IMPACT OF MICROFINANCE INSTITUTIONS ON SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE.

Submitted by [B203008B]

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DECLARATION

I Leasah Berekwa declare that the work represented on this research report is my own and has not been previously submitted for a degree at this or any other university.

DISCLAIMER

This study does not constitute professional or financial advice for small and medium enterprises or financial institutions in Zimbabwe. The findings may not be applicable to all SMEs or financial institutions. The authors are not liable for any damages resulting from the use of this study or any decisions made based on it. This study is intended for informational purposes only.

DEDICATION

I dedicate this piece of work to the Lord Almighty who is fount of all knowledge and wisdom, I offer my deepest gratitude. I am also eternally grateful to my mother

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I would like to thank my supervisor, for his invaluable guidance and support throughout the process of writing this dissertation. Without his insight and supervision, I would not have been able to complete this project. I would also like to thank Bindura University of Science Education for offering this degree program, which provided me with the opportunity to complete this work.

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ABSTRACT

This study was inspired by the current concern over the effects of MFIs on SMEs businesses in Zimbabwe. The study's main goal is to investigate how microfinance institutions affect SMEs in Zimbabwe. The purposive sampling strategy was determined to be the most effective for gathering data by the researcher using the nonprobability sampling method. The researcher determined that 138 SMEs would be an appropriate sample size for a thorough investigation by applying the sampling technique. The instrument used for gathering data is qualitative. Interviews and case studies were used to gather qualitative. The findings showed that when SMEs collapse, MFIs are unable to collect the remaining loan balances since the SMEs are not providing collateral. The study's conclusions also showed that SMEs may choose fully to ignore their responsibilities and default when they get loans without collateral security. Furthermore, moral hazards and unfavourable selection are brought about by information asymmetry in MFIs and information asymmetry makes MFIs and other financial institutions hesitant to lend to SMEs, according to study findings. The research additionally demonstrated that knowledge asymmetry may prevent big SMEs with strong growth prospects from obtaining financial support. The research highlights the scarcity of resources, company shutdowns, difficulty in obtaining resources, and inadequate funding-related barriers to acquiring adequate infrastructure. According to the research study, limited investment to small and medium-sized businesses and economic growth are inversely related. According to the survey, when SMEs default, MFIs are unable to recoup loan balances since the SMEs are not providing collateral. Furthermore, when SMEs took out loans without providing collateral, the research concluded that they were purposefully defaulting on the loans. The knowledge asymmetry between banks and SMEs was the root reason of China's funding difficulties for SMEs.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

SMEs stands for Small Medium Enterprises and it refers to firms that a considered as small and medium in size. It is the aim of this research to assess the impact of MFIs (Micro Financial Institutions) to prove that microfinances are very important to the GDP of a country since there is provision of financial and other services to small and medium enterprises. Improving the access to finance for small and medium enterprise is crucial sine it reduces poverty, create employment and increases the GDP (Chipangura & Kaseke, 2012). Many SMEs are facing challenges in having access to funds because the finance providers consider these firms as high risk carriers which are associated with high cost and low returns on investments. This chapter will look at the background of the study, statement of the problem, aim of the study, research objectives, research questions, and significance of the study, scope of the study, limitations of the study, justification of the study and organization of the study.

1.2 Background of the study

The origins of microfinance in Zimbabwe can be traced back to the 1960s, when people began to form savings club (Mago, 2013).Still, the impoverished have been receiving credit services for ages from unofficial sources such friends and family loans, moneylenders, and commercial agents. In particular, private moneylenders have been criticized for offering "chimbadzo," or exploitative lending, which involves charging exorbitant interest rates.

Vincent (2015) predict that Zimbabwe's microfinance sector is currently modest, with fewer microfinance institutions than it did in the early 2000s. About 1600 MFIs were operational in Zimbabwe in 2003, however by 2004 there were fewer than 200, and as of 2015, there were still less than 200. With a population of over 13 million and a poverty rate of roughly 70%, Zimbabwe's MFIs under 200 are insufficient to support all SMEs in the country with financial services. Furthermore, the SMEs sector employs over 70% of Zimbabwe's workforce, meaning that MFIs support economic growth by lowering unemployment and offering services to SMEs. Zimbabwe should leverage the informal sector, according to Minister of Finance and Economic Development Mr. Patrick Chinamasa, and microfinance is another tool that can be utilized to support small businesses.

In the 1990s, the government of Zimbabwe began to recognize the importance of microfinance in reducing poverty and promoting economic growth and it started to grow in the early 2000. The Reserve Bank of Zimbabwe took steps to create a supportive environment for microfinance, leading to the establishment of a range of microfinance institutions, both non-profit and for-profit. These institutions played a key role in providing financial services to previously excluded groups, particularly those living in poverty. ZAMFI, or the Zimbabwe Association of Microfinance Institutions, was founded in 1999 to support the growth and development of microfinance in Zimbabwe. ZAMFI serves as an umbrella organization for microfinance institutions, and provides a platform for collaboration, advocacy, and capacity-building. By bringing together MFIs, ZAMFI aims to create an environment that fosters the expansion of microfinance services, and supports the financial inclusion of previously excluded groups. Another key of developments in the early stages of microfinance in Zimbabwe was the establishment of the Small Enterprises Development Corporation (SEDCO) in the 1980s. SEDCO played a significant role in providing credit and business development services to small and medium-sized enterprises (SMEs) in the country. It served as a precursor to the emergence of MFIs by demonstrating the potential impact of microfinance on poverty alleviation and economic development. It is said that finance institutions came to promote growth and development especially for women and the poor (Halimana, 2004).

SMEs have been part of the Zimbabwean economy for a long time, but their significance as a sector became increasingly recognized after the country gained independence in 1980. The government at the time placed a strong emphasis on economic development and took steps to support SMEs. This included the establishment of the Small Enterprises Development Corporation (SEDCO) to provide assistance and services to SMEs. SEDCO was created as part of a broader effort to promote indigenous Zimbabwean ownership of businesses and self-sufficiency.

The establishment of both the SEDCO and the ZAMFI was to foster financial services to small and medium enterprises since it has helped the country to a greater extend. According to the World Bank in 2019, micro, small, and medium-sized businesses (MSMEs) constitute 99 percent of the estimated 19.3 million enterprises in the EU and generate 65 million jobs, or two thirds of all employment, making them crucial to society and the economy. SMEs make up the vast majority of enterprises and employ a sizable section of the labour force in Africa. This is the reason why it has been important for MFIs to support SMEs financially.

Mataruka (2015) noted that the microfinance sector and SMEs banking units play a critical part in the process of developing inclusive financial systems that may support growth and development. The SME banking and microfinance summit was held in Harare on March 15, 2015. When small and medium-sized businesses receive financial services from microfinance, this can be accomplished. As of December 31, 2014, 147 microfinance institutions with 473 branches nationwide were serving over 205 000 consumers, according to his research. The Monetary Policy Statement from January 2016 states that there are 160 MFIs in Zimbabwe, of which 155 only offer loans, three accept deposits, and two are development institutions. African Century Leasing Company, Getbucks Financial Services (Private) Limited, and Collar hedge Finance (Private) Limited are the three deposit-taking microfinance organisations. Therefore regionally and globally MFIs increase access to finance and also reduce poverty.

Critics however doubt MFIs' contribution to SME growth and have expressed concern over the overestimation of what microfinance can do in bettering the livelihoods of people especially the poor. Microfinance has not been able to reduce poverty because most modern programmes have not been as successful in certain cases, microfinance has made the poorest people's situation worse (Hulme & Mosley, 1996).

1.3 Research problem

Limited collateral can be a significant barrier for SMEs when it comes to accessing funding. Collateral refers to physical assets or financial guarantees that a business can offer as security for a loan for example property, inventory, or cash reserves. But SMEs may not have these types of assets to put up as collateral, this can make it difficult for them to secure loans or other forms of funding, which can in turn limit their ability to grow and expand. It is estimated that around 90% of SMEs in Zimbabwe are operating without adequate access to finance. The growth of SMEs remains a challenge regardless of the support from the government through policy formulations (such as the indigenization policy) that were customized to encourage the growth of SMEs. The primary obstacle facing SMEs in Zimbabwe is the lack of access to capital to purchase collateral, which prevents them from expanding their businesses. Therefore, this study focuses on the effects of MFIs on the growth of SMEs in Zimbabwe.

1.4 Aim of the study

The aim of this study is to assess the impact of MFIs to small and medium enterprises. Researchs questionnaires and the findings were carried out showing that small and medium enterprises have access to MFIs loans and have a positive effect on promoting their products, increase cash flows for most SMEs and reduce poverty. This study is also looking at the negative impacts that are causing the SMEs not being able to access loans from MFIs that is the MFIs are facing challenges of poor management, poor risk management, lack access to long term loans, limited knowledge, SMEs have no enough financial records to be able to be given a loan, they also don't have collateral security and they lack financial knowledge. However this study is going to assess both the negative and positive impacts of Microfinance institutions on small and medium enterprises.

1.5 Research objectives

- To assess the overall influence of microfinance institutions on the growth, development, and sustainability of small and medium enterprises in Zimbabwe.
- To identify and analyze the obstacles encountered by small and medium enterprises when seeking micro-credit from MFIs.
- To examine the potential of microfinance institution loans in reducing poverty among small and medium enterprises in Zimbabwe.

1.6 Research Questions

The research questions are as follows:

- How does the limited funding of SMEs by microfinance institutions affect the economic growth in Zimbabwe?
- What are the causes of limited funding of SMEs by microfinance institutions in Zimbabwe?
- To what extend do SMEs suffer from limited funding from microfinance institutions in Zimbabwe?

1.7 Significance of the study

Government and policy maker, microfinance institutions and other stakeholders in planning are expected to benefit greatly from this study in a number of ways that include:

- Since it is proven that the SMEs are very important to the economic growth of the country through job creation, poverty reduction in many developing countries including Zimbabwe. Assessing the impact of MFIs on SMEs can provide an insights into their effectiveness in fostering economic growth.
- There is entrepreneurship and innovation and job creation in funding SMEs. So by assessing the impact of MFIs on SMEs institutions facilitate the growth and development of entrepreneurial ventures in Zimbabwe. The findings can help policymakers and MFIs design targeted interventions to enable more entrepreneurship support.
- MFIs will also receive information on the kinds of support SMEs require to support their clients in a sustainable manner.

1.8 Scope of the study

The impact of MFIs on SMEs is the focus of this study. Geographically the study focuses solely on MFIs and SMEs . This analysis covered from year 2000 to year 2020 considering the period in which the growth of MFIs and SMEs as Zimbabwe emerged from the 2008 financial crisis.

1.9 Limitations of the study

- The researcher made less use of secondary data from libraries due to reduced access there by limiting literature data in the research however to cater for this problem the researcher was able to use internet from the phone.
- Some information was deemed private and confidential there by resulting in some respondent not fully disclosing their information.
- Not all MFIs and SMEs portray pictures are shown by the sample chosen.

1.10 Assumption of the study

Assuming all other things constant the writer came up with assumptions that will aid in the provision of a guideline to the study.

- The information gathered from SMEs operators will be true without bias and that they will be willing to cooperate in carrying out the research.
- Secondary data will be available and accessible when required.
- The selected sample of the SMEs operators will give exact information.

1.11 Justification of the study

The purpose of this study is to help financial institutions in Zimbabwe understand and track the value of supporting small and medium enterprises. This study will also help explain why SMEs are not getting enough funding from financial institutions and what that means for SME growth and the economy as a whole. With this deeper understanding, practitioners and policy makers will be able to focus on their efforts on creating an environment that is supportive of SMEs.

1.12 CHAPTER SAMMARY

This study seeks to assess the impact of microfinance institutions on the development of small and medium enterprises in Zimbabwe. This chapter explained the background of the study, statement of the problem, aim of the study, research objectives, research questions, significance of the study, scope of the study, limitations of the study, justification of the study, and organization of the study have all been outlined. This research is important because its adding to the existing body of knowledge on the topic, and may provide useful insights for policy makers and practitioners working in the field of microfinance and SME development.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Microfinance institutions (MFIs) have attracted substantial attention in Africa as a means of promoting financial inclusion, assisting small and medium companies (SMEs), and boosting economic development. The purpose of this literature review is to investigate the body of knowledge regarding MFIs' effects on SMEs in Africa, with a particular emphasis on financial performance, employment creation, loan availability, and poverty alleviation.

2.2 Access to Credit and Financial Inclusion:

It is said that for small and medium enterprises to grow and develop there is need for credit so that they can be able to fund their business. In expansion for the above statement MFIs access to credit can enable the SMEs to manage their day to day running of the business such as purchasing inventory, managing cash flow gaps and covering operational costs, access to credit leads to financial inclusion by extending financial help to SMEs that have limited collateral or credit history and for having advanced technology that may lead the form to be more competitive due to innovative. MFIs have been very helpful in supporting underserved SMEs in Africa. A meta-analysis of research conducted throughout Africa by Mersland and Strøm (2019) revealed that microfinance has a beneficial impact on SMEs' ability to obtain loans. They pointed out that SMEs with few formal financial choices benefited most from MFIs' close proximity, flexible loan terms, and collateral-free lending methods. Additionally, Kasekende and Atingi-Ego (2019) noted that MFIs were essential in helping SMEs in isolated and rural areas where there are few official financial institutions to have access to loans so that they can scale up their activities.

2.1.2 Financial Performance and Growth:

The literature has shown interest in how microfinance affects the financial performance and expansion of SMEs. According to Sub-Saharan African (SSA) economies using annual secondary data over the 2000–2019 period the research states that there is a bidirectional causal relationship and a strong long-term relationship between financial inclusion and economic growth, suggesting that these two variables work hand in hand. Thus, it is recommended that developing countries develop macroeconomic policies that promote financial inclusion and enhance the functioning and oversight of their domestic financial markets. This will ensure that all citizens have access to the tools, products, and services necessary for sustainable economic growth. Financial inclusion increases household income, which boosts small businesses' operations and improves households' overall economic well-being (Naceur et al., 2017). Hartarska and Nadolnyak's (2018) discovered a positive correlation between microfinance and SME profitability in Africa. They highlighted that having access to microfinance increased the working capital, cash flow, and investment potential of SMEs, which increased their profitability.

The literature does, however, present mixed findings about the connection between financial inclusion and economic expansion. According to some research, there is a strong correlation between finance and economic expansion (Kim et al., 2018). In view of the same concept, Kapingura (2021) mentioned that there is a negative relationship. According to Patrick (1966), there are three key ways in which the financial sector might affect economic growth. First, by financial intermediation between the various asset holders, the financial system encourages ownership changes. Financial institutions facilitate the efficient allocation of resources from relatively low to comparatively more productive applications by facilitating the movement of funds.

2.1.3 Employment Generation and Poverty Alleviation:

Microfinance funding to SMEs has the ability to increase employment rates and alleviate poverty. In Africa, microfinance has been found to play a significant role in these areas. When the World Bank was established in 1944, the mid-19th century decline in poverty was institutionalised. When it was established, its objective was to lend money to developing country governments and institutions through structural adjustment projects (Kim and Sang, 2018).Unfortunately, it was shown that these efforts had little effect on improving the life of the societies and, thus, reducing poverty (Morduch, 2000). Microfinance institutions (MFIs) emerged as a result of a change in development philosophy brought about by the formal institutions' inability to effectively reduce poverty (Abrar & Javaid, 2016). Furthermore, according to Gassner et al. (2019), it may be a vehicle that is specifically made to accommodate those with little economic activity. Low-income households can get funding through MFIs that they cannot get through the financial services offered by commercial banks.

A quarterly microfinance industry report (2019) that indicated an 11.7% growth in the number of registered MFIs in Zimbabwe provided proof that MFIs are rapidly expanding and reporting supernormal profits. Between December 2018 and December 2019, they were able to issue loans totalling from $388 million to $633 million, or a 63 percent increase in loans (Bank Supervision Division, 2019). In Zimbabwe, microfinance firms are growing exponentially in earnings even as the country's poverty rates continue to rise.

2.1.4 Challenges and Sustainability:

While microfinance has demonstrated positive impacts on SMEs in Africa, several challenges and sustainability concerns need consideration. SMEs frequently have trouble obtaining funding from conventional sources like banks because SMEs are smaller, have a less established track record, and require less collateral, financial institutions may view them as higher risk. Due to this, it might be difficult for SMEs to obtain loans or credit on favourable terms. Moreover, SMEs might not have the collateral required to satisfy traditional lenders' requirements. Many SMEs lack the tangible assets that banks frequently require as collateral. This makes it more difficult for them to obtain loans using conventional lending standards. It was emphasised that insufficient infrastructures, like restricted access to financial and technological infrastructure, may compromise the efficacy of microfinance interventions (Dzansi, 2019). Furthermore, issues with excessive debt, trouble making loan payments, and high interest rates have been noted (Hartarska & Nadolnyak, 2018). Attention to governance structures, regulations and capacity building within MFIs are necessary to ensure the sustainability and scalability of microfinance programmes (Kasekende & Atingi-Ego, 2019).

2.2 THEORETICAL FRAMEWORK

The idea of financing small and medium-sized businesses (SMEs) has been extensively examined by a number of international bodies. The study will examine four theories: the Pecking Order Theory (POT), the Information Asymmetry Theory (IAT), the Human Capital Theory (HCT), and the Business and Strategy Theory (BST) in order to fully comprehend the difficulties that SMEs encounter when trying to obtain external finance. Additionally, information on the methodologies used to evaluate SMEs' credit ratings will be included in this area.

2.2.1 Information asymmetry theory

According to information asymmetry theory, the impact of microfinance institutions on SMEs in Zimbabwe may be limited due to the lack of information available to both parties. The microfinance institution might not have access to all the information they need to grant finance to the SME's, and the SME owner may not be able to provide all the information needed to assess their creditworthiness. This can lead to a situation where the microfinance institution is unable to provide the SME with the financing they need, or the SME is unable to access the financing they need to grow and expand their business (Stiglitz, J. E., & Weiss, A., 1981).

Asymmetry in information results in adverse selection. When borrowers have greater knowledge of project risk, rewards and borrower credit than finance institutions, this is known as adverse selection. Put differently, there is a relative information advantage for the borrowers. As a result, financial institutions can only boost lending rates in order to lessen the possibility of credit losses due to their relative disadvantage. As odd as it may seem, bank profits could actually decrease as a result of lending interest rates. Rather than selecting higher interest rates and attempting to accommodate all of the borrowers' loan demands, the majority of banks would likely choose relatively low interest rates in this situation and reject some of the demand for loans. This is referred to as "credit rationing" in its initial form.

Moral hazard in financial markets arises when borrowers, having obtained a loan, may disregard the terms of the agreement and engage in high-risk activities or purposeful default. This behaviour stems from the inability of financial institutions to continuously monitor borrowers' actions and assess their willingness and ability to repay. This lack of oversight leads to increased default risk, potentially resulting in bad debt and adverse effects on financial institutions. To mitigate this risk, banks often resort to credit rationing, reducing lending to certain borrowers, particularly small and medium-sized enterprises, to minimize the likelihood of moral hazard (T.L & Ming, 2003).

2.2.2 Pecking order theory

The pecking order theory, originally proposed by Myers and Majluf (1984), is an economic theory that relates to the financing choices of firms. The premise of the theory is that enterprises would choose the financing that is most cost-effective because different forms of financing have varying costs and benefits. According to this theory, the pecking order of financing sources is as follows: internal financing (e.g. retained earnings) to fund new investments, then turn to debt financing (e.g. bank loans), and finally use external equity financing (e.g. selling shares to investors).

Companies prefer internal sources of funding, such as profits that have been retained, as their main source of financing. Internal financing is least expensive and least risky option, because it doesn't involve taking on more debt or diluting ownership. If internal funding did not satisfy or cover the expenses, debt financing can be used as the next choice. Debt can be raised through borrowing money from banks, issuing corporate bonds, or getting loans from other financial institutions. Debt financing is seen as a less preferred option compared to internal financing because it involves interest payments and possible financial commitments. However, the benefit of debt financing is that it doesn't dilute the ownership of the company, unlike equity financing and last is equity financing which involves selling shares of the company to investors in exchange for cash. It is a riskier option than debt financing because it dilutes the ownership of the company. The idea proposes that small enterprises should receive financial education and training from microfinance institutions in order to assist them become more adept at managing their finances (S. C. Myers, "The riddle of capital structure", 1984)

2.2.3 Human capital theory

According to the human capital theory, people can boost their productivity and earning potential by investing in their own talents and abilities. This idea implies that investing in human capital is a crucial component in determining a business's performance, which has significant consequences for funding small firms. Economics has examined the human capital idea extensively; some important sources are (Becker, G. S., 1964).

MFIs have the ability to support the growth of human capital in SMEs by supporting those companies. The money may be used, for instance, to support initiatives aimed at developing skills, training programmes, or the purchase of specialised knowledge and experience. MFIs can increase the chance of business success by helping SME owners develop their management, technical, and business intelligence through investing in their human resources. MFIs can support greater economic development and growth by providing credit to SMEs. This is in line with the main objective of human capital theory, which is to use investments in human capital to increase productivity and achieve favourable economic results (Schultz, 1960 & Gary Becker, 1970).

2.2.4 Business and strategy theory

According to business and strategy theory, a company's success depends on how it is managed and the strategies it uses to compete in the marketplace. This theory says that companies can gain an edge over their competitors by offering unique products or services, focusing on specific markets, or developing new technologies. This theory will help explain why microfinance institutions often customize their services to meet the specific needs of small businesses, and why some microfinance institutions focus on particular industries or regions ("Porter's Competitive Strategy", 1980)

Given that they must modify their business models to fit the unique requirements and features of the SME sector, MFIs take business and strategy theory into account when providing finance to SMEs MFIs must evaluate the risk associated with financing SMEs and modify their models as necessary. In addition, they must provide basic guidance on business strategy, assist in creating a marketing plan, and suggest creative ways for start-ups and rapidly expanding businesses to split risks and benefits. MFIs must also provide credit management training services and enhance service delivery, such as expedited loan processing (Becker, G. S., 1964).

2.3 EMPIRICAL LITERATURE REVIEW

The empirical review section provides an overview of the existing research on the topic, and how it relates to the specific objectives of this study. The literature will be organized according to the research objectives, and the discussion will be tailored to address the specific issues being investigated. In addition, the discussion will be structured around the causes, extent, and impact of limited funding for SMEs, as these are the key issues addressed in this study.

2.3.1Causes of limited funding of SMEs

Osano and Languitone (2016) studied the variables affecting SMEs' access to financing in Mozambique. The Maputo Central Business District's SMEs served as the study's case study. This study aimed to identify the variables influencing SMEs' ability to obtain financing. Furthermore, Mudzviti and Mawanza (2015) conducted research on the factors that contribute to China's SMEs' funding challenges. In this study, no research model was applied. Information about the root causes of the financial issues in SMEs was gathered through interviews. According to the research findings, MFIs were unable to provide facilities to SMEs because of the significant transaction costs associated with financial support to SMEs.

According to the study which was conducted in Nigeria in 2014, SMEs frequently have trouble getting loans from banks and other financial institutions due to a lack of sufficient collateral poor. Collateral security are assets that can be pledged by the borrower so as to compensate the loan in case of default. Banks and other lenders usually require collateral as security for the loan, but many SMEs don't have valuable assets they can pledge because they are still small in terms of growth in the market.

Wujing conducted a second related study in China on the causes and solutions of funding challenges for small and medium-sized businesses (Wujing, 2018). The study's foundation was quantitative research that drew on secondary data from related research projects. Prior to proposing and analysing the corporate guarantee problem, the funding demand problem of financing institutions, and the imperfection problem of the legal system during the financing process of Chinese SMEs, the study first established the idea of SMEs and current financing channels. The study discovered that SMEs are not capable of providing credit guarantees or mortgages. The survey also identified China's legal system's shortcomings as a hindrance to financing SMEs. In conclusion it was suggested that in order to alleviate the financing challenges faced by SMEs, they should strengthen their own capacity to accumulate assets, create a system of credit guarantees and provide specialised bank services.

In addition Osano and Languitone (2016) studied the variables affecting SMEs' access to financing in Mozambique. The Maputo Central Business District's SMEs served as the study's case study. This study aimed to identify the variables influencing SMEs' ability to obtain financing. The 2,725 target population comprised 650 SMEs, including Maputo District Central Business, and staff of three banks: BIM Bank, BCI Bank, and Standard Bank. A total of 242 SMEs and 324 employees of specified banks were examined in the study. Clear and informative research designs were applied. To gather fundamental data, pre-made questionnaires were utilised.

The study's findings demonstrated a relationship between financing via SMEs and the banking sector's organisational structure. The study also discovered a connection between SMEs' access to financing and their knowledge of fundraising. Furthermore, the study's conclusions showed that SMEs' ability to obtain financing and the requirements for collateral were related. The investigation came to the additional conclusion that financial institutions did not help small businesses. The study makes recommendations for SMEs to offer small business support services in light of the research findings in order to enhance finance accessibility and reduce the need for further financial initiatives.

2.3.2 Extent to which SMEs are affected by limited funding

Several studies have demonstrated that one of the biggest challenges facing small and medium-sized businesses (SMEs) is shortage of finance. According to an Organisation for Economic Co-operation and Development (OECD) research, for instance, 60% of US SMEs stated that getting funding was a significant obstacle (OECD, 2013). Forty percent of SMEs in emerging nations reported having trouble getting finance, according to a different World Bank Group research (World Bank Group, 2012). These studies demonstrate that SMEs worldwide face a serious problem with scarce finance.

The study's findings indicate that financial limitations significantly impede the expansion of SMEs, and that this effect is more pronounced in high-income nations than in low-income ones. The study also discovered that financial limitations hinder economic expansion. All things considered, the study offers valuable insights into the obstacles SMEs have when trying to obtain financing and the possible effects these obstacles may have on economic expansion.

The influence of financing constraints and the role of banking market integration on the expansion of small and medium-sized firms (SMEs) in the United Kingdom were investigated by Moscalu et al., (2020). Access to Enterprise Finance (ECB/SAFE) regarding the European Central Bank's (ECB/SAFE) SME funding was completed. The study created external financing restriction factors, additional reliable variables used as controls in multiple regression models, and dependency variables (i.e., sales growth in the SME sector) based on this dataset. As said by Barbara Weltman revised on February 27, 2023 Small businesses were really hurt worse by the 2008 financial crisis than larger companies. Numerous small firms failed or were forced to reduce staff, cut expenses, postpone plans for growth, and discover new sources of income in order to survive until the financial crisis subsided due to lack of funding.

The results of the study suggest that the growth of SMEs is limited by the availability of credit. However, the study also found that the growth of banking markets in the euro area can help to increase the availability of credit and reduce the constraints faced by SMEs. In addition, the study found that SMEs that have consolidated their growth are better able to access credit, which can help to alleviate financial constraints. The study also found that financial constraints have a negative impact on economic growth, suggesting that improving access to finance for SMEs could have a positive impact on overall economic growth.

The third study was conducted in Pakistan by Bagh et al., (2017). The purpose of this study was to explain how financial limitations affect the expansion and advancement of small and medium-sized enterprises in Sialkot. Sample sizes from 150 small and medium-sized businesses, including those in the sports, surgical, and leather industries, were used in the study. The study found that borrowing from banks and financial institutions is more difficult for SMEs than for larger companies, and that economic constraints are hindering the growth and development of SMEs in Sialkot, Pakistan. The study makes recommendations for government policies to support the improvement of SMEs, but does not make any recommendations for how SMEs can operate more effectively to alleviate financial constraints.

Nizaeva (2019) also conducted study on the factors that influence financial constraints and how they affect the expansion of SME's in South Eastern Europe (SEE). The Business Environment and Enterprise Survey (BEEPS V), which was conducted from 2012 to 2016, provided the data used in this study. The survey's findings demonstrated that the expansion of SMEs in the area was severely hampered by financial limitations. Also, older businesses feel that financing is more limited, while SMEs in the business sector have comparatively less access to it.

2.3.3 The impact of limited funding of SMEs by MFIs on economic growth

It is crucial to take into account the contribution of SMEs to the economy, the effect of constrained funding on SMEs, and the effect of decreased SME success on the economy when analysing the impact of limited funding of SMEs by MFIs on economic growth. Low funding for SMEs was identified as the root cause of Zimbabwe's economic problems from 2000 until dollarization in 2009. The study came to the conclusion that Zimbabwe's weak economic growth was due to SMEs' lack of financial support.

As mentioned by Christensson (2017) he looked into the connection between poverty alleviation at the state in Nigeria and the availability of microfinance institutions and the findings indicate that there is a negative correlation between the amount of poverty and the number of microfinance organisations. The study came to the conclusion that microfinance organisations help lower Nigeria's rates of poverty. This suggests that a nation's poverty levels can be lowered by expanding the number of microfinance institutions in underdeveloped areas. Kasali (2020) used primary research to analyse the effect of microfinance loans on reducing poverty in Southwest Nigeria. The study found that although microfinance loans have a positive impact on reducing poverty in the study region, government assistance is still required.

The empirical analysis of poverty reduction in Zimbabwe has focused on smallholder farmers' access to financial services. In order to ascertain if smallholders are receiving money and have access to financial institutions and credit facilities, Mhlanga et al (2020) employed simple regression analysis with financial inclusion as the foundation. The findings demonstrated that there is a beneficial effect on reducing poverty when farmers are financially involved. The study's foundation was the degree of financial inclusion and the values of smallholder farmers. The study found that it is critical to make sure farmers participate in the financial system by saving, borrowing, and purchasing insurance, among other services, in order to combat poverty, particularly among smallholder farmers.

As stated by Afamefuna et al (2017), studied the examination of the long-term impact of loans to small and medium-sized businesses and their contribution to development in the Nigerian economy between 1992 and 2015. Information was gathered from United Nations Trade and Development Conference (UNCTAD) publications and the Central Bank of Nigeria's Statistics Bulletin. The outcome of the voluntary distribution delay demonstrated that lending to small and medium-sized businesses and economic development are not significantly associated. The study came to the conclusion that the reason for this insignificance which omitted SMEs' substantial contribution to economic development was the lack of funding provided to them.

Additionally, Sachikonye and Sibanda (2016) studied the significance of commercial banks' financing of SMEs in Zimbabwe. In order to contextualise and extract some insights from the theoretical and empirical literature that offered a framework for the study's analysis, the study employed a document review technique. The findings showed that while small and medium-sized enterprises (SMEs) have a significant socioeconomic impact in developing nations, SMEs in Zimbabwe still have limited access to financial services. Low funding for SMEs was identified as the root cause of Zimbabwe's economic problems from 2000 until dollarization in 2009. The study came to the conclusion that Zimbabwe's weak economic growth was due to SMEs' lack of financial support.

The impact of limited funding of SMEs by MFIs on economic growth, it is important to consider the contribution of SMEs to the economy, the impact of limited funding on SMEs and the impact of reduced SME success on the economy. Zimbabwe’s economic challenges since 2000 to dollarization in 2009 were indicated to be caused by low funding of SMEs. The study concluded that the poor economic growth in Zimbabwe were caused by the lack of financial support to SMEs (Munyaradzi, H., 2017).

2.4 GAP ANALYSIS

This study will not differ greatly from other studies in this field, however it will differ in some matters which will make it distinct study.

CHAPTER SUMMARY

In conclusion, the theoretical and empirical literature review provides insight into the various theories and research that relate to SME financing and the challenges that SMEs face when accessing funding. The theoretical review covered the information asymmetry theory, pecking order theory, human capital and firm financing theory, and the theory of firm and SME funding theory. The empirical review covered studies relating to SME financing, information asymmetry, and various other challenges faced by SMEs. This information provides a solid foundation for understanding the issues and challenges faced by SMEs in accessing financing, and provides a solid basis for understanding the issues and challenges faced by SMEs in accessing financing. The following chapter will be on research methodology.

CHAPTER 3

RESEARCH METHODOLOGY

3.1Introduction

This chapter presented the research methodology that was used in this study. The research paradigm, which is the set of philosophical assumptions and beliefs that guided the research process, was described. The research design, which outlines the methods and procedures used to carry out the study, was also presented. The research philosophy, which outlines the way the researcher views the world and the nature of knowledge, was discussed. The research approach, which is the overall strategy used to conduct the study, was also described in this chapter. In addition, this chapter discussed the study population, sample size, data validity and reliability, data presentation and analysis, model specification, significance tests, ethical considerations, and a summary of the chapter.

3.2 Research paradigms

A paradigm is a set of underlying beliefs and a theoretical framework that raises questions concerning positivism, interpretivism, and authenticity (Grix, 2004). According to positivism, reality exists independently of humans and is governed by immutable rules rather than our faculties. Due to its hybrid nature of positivism and interpretivism, realism was employed in the study. Mixed technique is supported by realism in research. According to Maxwell and Mittapalli (2010), has several unique consequences that call into question accepted methods in mixed-method research as well as practices in qualitative research. It was discovered that realism was the ideal paradigm to help the research objectives be achieved, especially given the qualitative research approach utilised in this study.

3.3 Research design

The research design is the overall plan or framework that guides the collection and analysis of data for a project. The qualitative research method was applied by the investigator since it is data research that involves collecting and analysing non-numerical data, such as words, pictures, and observations. The reasons behind the poor funding of SMEs by commercial banks will be identified and evaluated through the use of qualitative data. Naturally this design has some problems that are it can be difficult to replicate the results, as the data is often collected from small, non-representative samples, it can be challenging to draw conclusions from the data, as it is often subjective.

3.4 Research Approach

There are three primary research methodologies: deductive, inductive, and combined, or adductive, which integrates the two primary procedures. Top-bottom is the deductive approach; bottom-up is the inductive approach. Inductive research, sometimes referred to as inductive reasoning, is a kind of study that begins with certain data or observations and then extrapolates conclusions from them. The investigator noticed trends and formulates hypotheses in light of these findings. The researcher's choice of the inductive approach was a good one for investigating a subject that hasn't been thoroughly studied or understood, like how microfinance affects SMEs.

3.5 Research population

The registered MFIs (managers and loan officers) and small and medium-sized enterprises (SME) in Zimbabwe that utilize MFI services make up the research population for this study. According to Tuff and Tuff (2018), a population is the entire collection of elements (people or things) that share a characteristic determined by the researcher's sample criteria. Some population of MFIs in

Zimbabwe will be considered. However, since it can be challenging for an individual to evaluate data from the entire population, information can only be gathered from a sample.

3.6 Sample Techniques

A sample, according to Bone et al (2018), is a deliberately selected set of individuals, things, or occurrences that can accurately reflect the anticipated outcome from the entire group. The purposive sampling methodology was shown to be the most beneficial for gathering data, and the researcher used this nonprobability sampling method to get data. This gave the researcher the chance to use interviews to determine managers of particular MFIs to take part in the study. The researcher extract a great deal of information from the data they have gathered thanks to purposeful sampling. Purposive sampling sometimes make it harder to select participants. However, the study took into account SMEs that were assessed worthwhile and had over five years of market experience.

3.6.1 Sample Size

Sampling refers to the process of selecting a subset of individuals, things, or events from a larger population in order to make inferences about the larger population. It's was crucial part of the research process, because it allows researcher to collect data that is representative of the population they're studying, without having to survey or measure every single member of that population. This helps to make the research more efficient and cost-effective. 138 participants was considered an appropriate sample size for a thorough investigation by the researcher based on the sample technique utilized to determine the sample size for this study.

3.7 Data Collection instruments

These are the tools used for data collection. The instruments going to be used are qualitative in nature. The study will collect qualitative data through the use of interviews and case studies. This means that the researcher will use primary and secondary data sources.

3.7.1 Interviews

Interviews are a commonly qualitative research instrument used to collect data through direct conversations with individuals. The researcher use structured interviews (follow a predetermined questionnaire and questions are asked in a specific order), semi-structural interviews, unstructured interviews (open-ended conversational) and in-depth interviews (explore a specific topic in detail). These were found helpful because it was flexible, participants showed their thoughts and feeling and detailed data was provided.

3.7.2 Published Documents

Publications from the Reserve Bank of Zimbabwe (RBZ), the Ministry of Small and Medium Enterprise Development, and the Ministry of Finance and Economic Development provided the secondary data. The information was used to evaluate the connection between Zimbabwe's economic expansion and the lack of funding for SMEs.

3.8 Data Validity and Reliability

A data validity test is a method used to determine the accuracy, dependability, and representativeness of the data gathered for a research project with respect to the population under study. To accomplish this, the researcher review the data for mistakes or inconsistencies and contrast it with current benchmarks or standards. A pilot test was utilized to verify the data's authenticity.

Data reliability testing is a process used to assess the consistency and repeatability of the data collected in a research study. In order to verify the efficient of the research instruments utilized, a pre-test activity will be conducted. This will be an important step in obtaining the best replies that are required for this study. Questionnaires and document inspections were employed by the researcher to guarantee the accuracy of the data and also checking the collected data from two different sources, that is primary data sources and secondary data sources.

3.9 Data Analysis Presentation Techniques

To show data in a form that is simple to comprehend and analyze, practitioners employ data presentation techniques, which are also referred to as data visualization techniques. The research findings from primary data was presented in the study using tables, graphs, and pie charts. The data was presented in a manner consistent with the goals of the study. Case study analysis was used.

3.10 Ethical Issues

To make sure that all study criteria were fulfilled, the researcher adhered to certain ethical guidelines surrounding the gathering and use of data. Getting informed consent from all participants can entail informing them of the study's goals and methods as well as guaranteeing their right to withdraw at any time without incurring penalties. Other measures include preserving participant anonymity and confidentiality by making sure that their identifying information is kept private, minimizing the risk of harm to participants by using sensitive topics carefully, acknowledging and respecting the research's cultural context, and upholding transparency.

3.11 Chapter Summary

This chapter was discussing the research methodology which is going to be used in this study. The chapter covered research paradigm highlighting the use of realism to the study chapter also presented research design, research approach, research population, sample size and its justifications. Sampling techniques were also presented. More so, the reliability and validity of data will be covered. Data presentation and analysis techniques were also presented. The regression model specification and ethical considerations were presented. Following this chapter is data presentation analysis.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

After going over the research's foundation, literature review, and methodology, this chapter presented and examined the findings of the study on the impact of MFI services on the expansion of small and medium-sized businesses in Zimbabwe. The replies obtained from respondents case studies, surveys and interviews were presented and analyzed by the researcher using tables and graphs.

4.1.1 Analysis of data response rate

Table 4.1.1

Targeted population	Administered	Participants completed	Response percentage
SMEs	138	131	95%

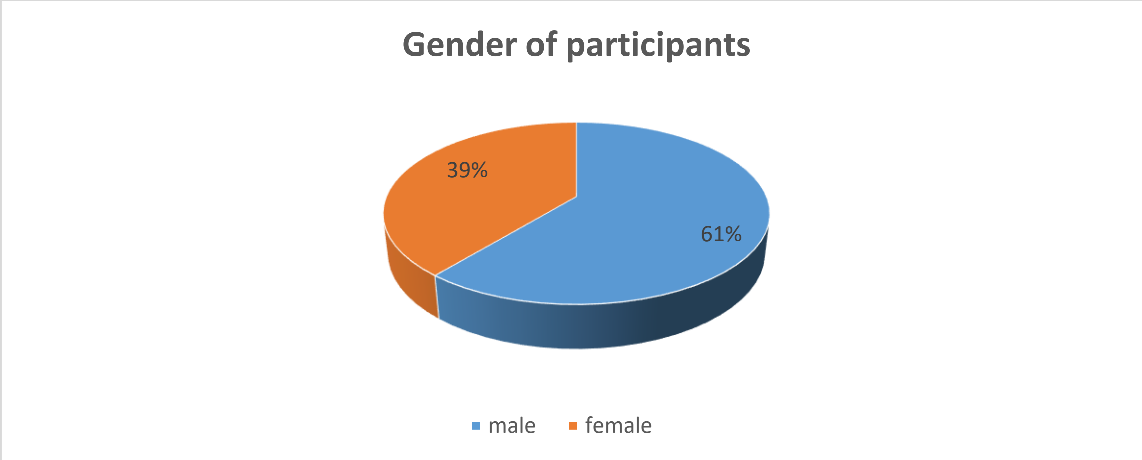
Participant interviews, as shown in table 4.1.1, were delivered by the researcher to the participants. The 95% response rate on the interviews was deemed suitable to move forward with the study.

4.2 Background of Small and Medium Enterprises

4.2.1 Gender of participants

Figure 4.2.1, out of 131 responses received, 80 were from male participants, and 51 were from female participants. This indicates that 61% of the SMEs respondents were male, while females accounted for only 39% of the responses.

Figure 4.2.1 Gender of Participants



Source: Primary data

This study aimed to draw conclusions about how gender affected business owners and how microfinance institutions (MFIs) have contributed to reducing gender inequality. Since men are expected to take care of the family in our culture, they have greater access to startup financing than women. But as MFIs have grown, more people especially women who were previously at a disadvantage due to a lack of capital are increasingly seeking out MFI services. The availability of credit has increased the number of people starting new companies.

4.2.2Working experience of respondents

An analysis of the respondents' working experience distribution was conducted using four groups. The goal was to determine how people with working experience help the researcher on what they see affecting the firm. These year group's ranges were between 11 months and below, 1-2 years, 3-4 years and 5 years and above.

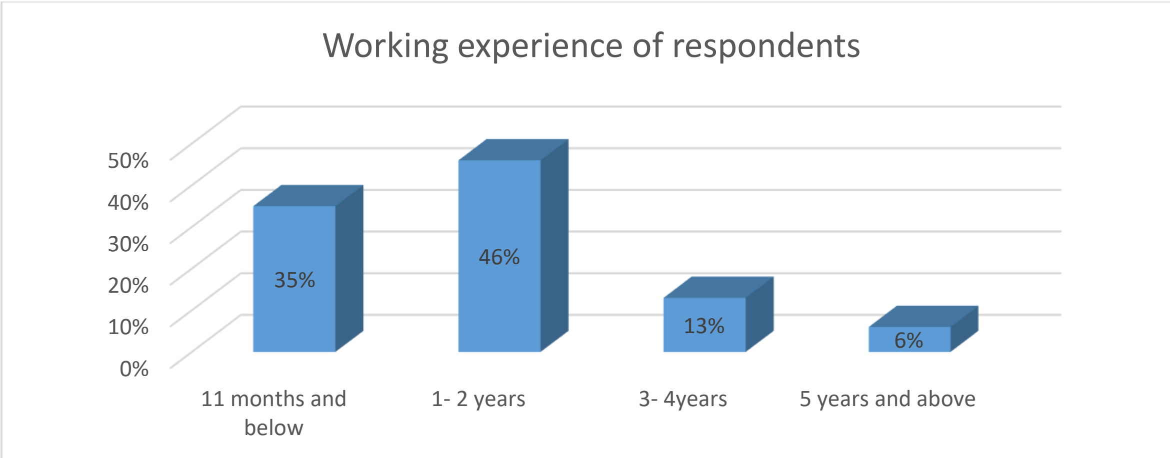


Figure 4.2.2

Source: primary data

In figure 4.2.2, the data is presented as 35% of the sample respondents has a working experience in that company of 11 months and below, these are people with fewer years of experience that may provide insights into the challenges and opportunities faced by newer businesses. 46% are respondents between 1 and 2 years, 13% is the working experience of those who are between 3 and 4 years and over 5 years is represented by 5%. These can offer perspectives on the long-term impact and evolution of SMEs in relation to MFIs. . The implication is that for those who have a working experience between 1 and 2 is the most active working time.

4.2.3 Position at work

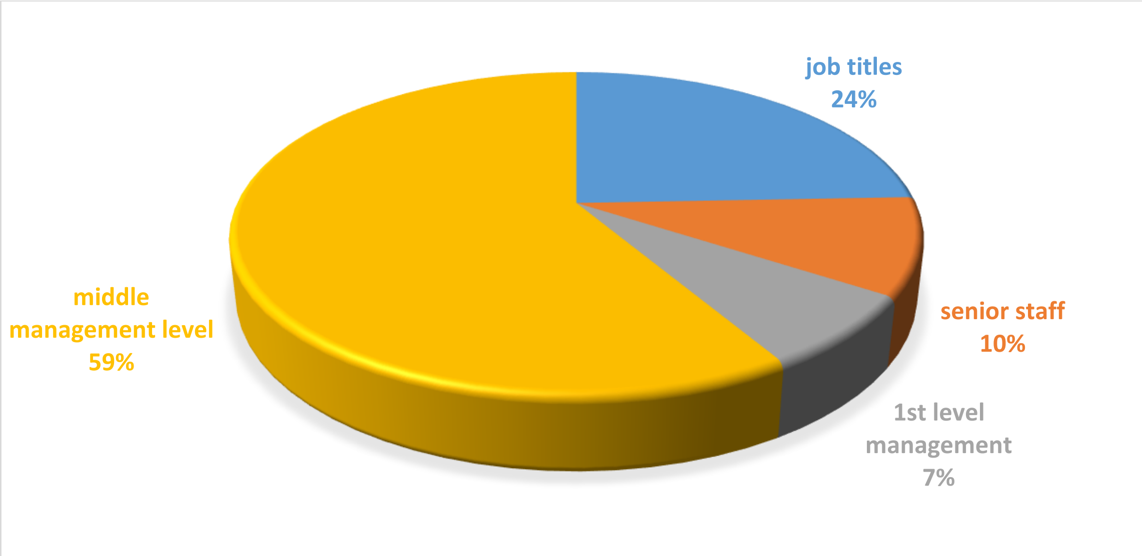


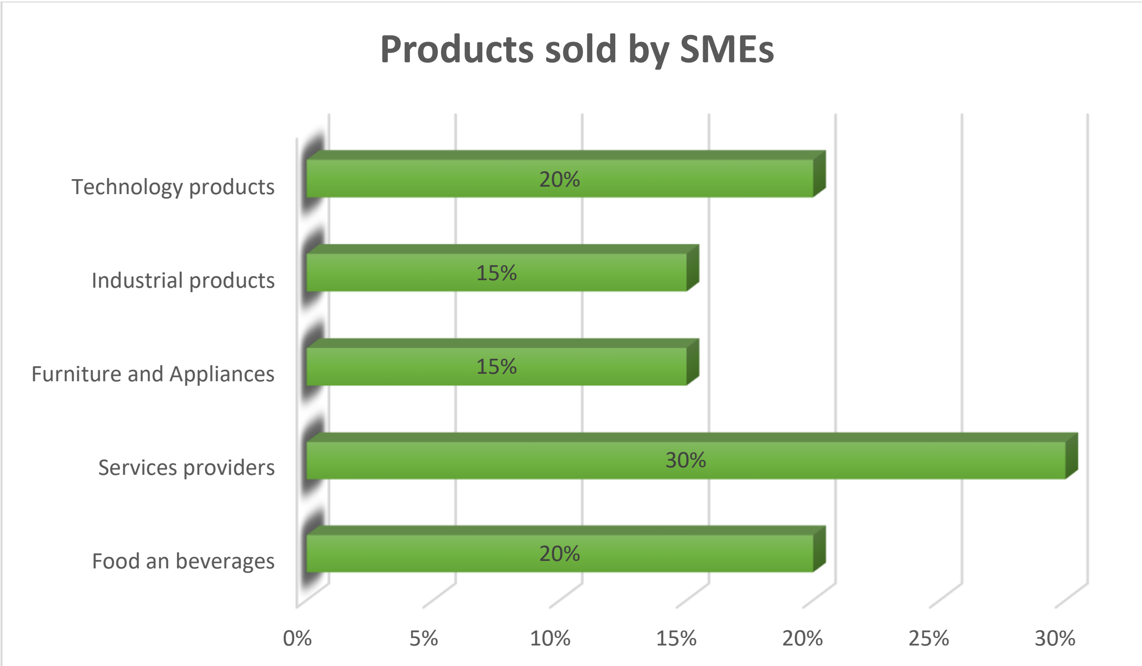
Figure 4.2.3

Source: primary data

This breakdown offers insightful information on the opinions of various SME levels regarding the influence of MFIs. The important participation of respondents at the middle management level implies that this group has a great deal of understanding and influence over how MFIs affect SMEs. Senior staff member's involvement further highlights how crucial their viewpoints are to comprehending the MFIs overall effects on SMEs. It's interesting to notice that the respondent's job title distribution offers a variety of insights, illustrating the differing degrees of participation and decision-making authority inside SMEs. The information emphasizes how important it is to take into account people's perspectives from a variety of job titles when assessing how MFIs affect SMEs.

4.2.4 Products sold by SMEs

Figure 4.2.4



Source: primary data

The percentages provided reflect the impact of Microfinance Institutions (MFIs) on different types of SMEs and their products. The distribution indicates that services providers, at 30%, are notably influenced by MFIs, potentially pointing to the significant role of microfinance in supporting service-based businesses within the SME sector. Additionally, the 20% attributed to technology products and food and beverages suggests that MFIs have a substantial effect on these segments as well.

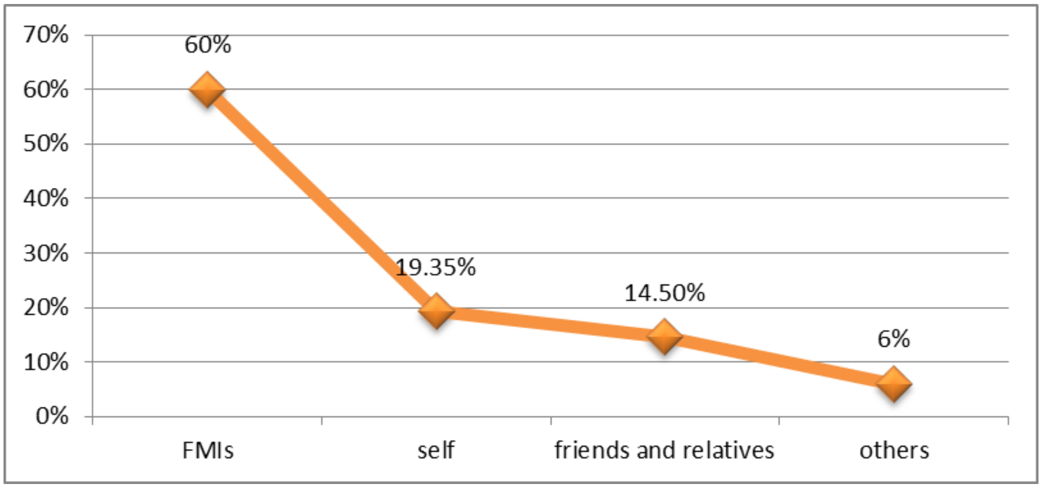
The percentages for furniture and appliances, as well as industrial products, both at 15%, indicate a relatively lower but still notable impact of MFIs on these categories of SMEs. This distribution underscores the diverse influence of microfinance on SMEs across various product sectors, potentially indicating the broad reach of financial support in driving the growth and development of these businesses.

4.3 Micro Finance to the survival of SMEs

In order to assess the contribution of MFIs in small scale businesses, the purpose of the study was to determine the sources of funding and the effects of MFI loans in businesses.

4.3.1 Sources of capital

Figure 4.3.1



Source: primary data

Sixty percent of the sample reported getting their business started with MFIs, while the remaining 40% obtained funds from relatives, personal savings, acquaintances, and other sources of finance. Overall the responses to the source of funding revealed that the majority of business owners seek loans from microfinance providers to fund their small-scale firms. This figure indicates that MFIs have a significant impact on the survival and growth of SMEs.

4.3.2 Services benefited from SMEs

Table 4.3.2

Service	Percentage
Credits	59.68
Financial management training programs	6.45
Advisory services	8.07
Business idea generation	3.23

Others	3.23
TOTAL	80.65

80.65% of the participants reported that they benefited from MFI services. More over half of the 80.65% used financial services, while the smallest number profited from business idea generating services and other MFI offerings. Most small-scale company owners in Harare have yet to benefit from other beneficial MFI-run programs designed to help them grow their firms. This viewpoint is consistent with the findings of (Kyale, 2013). Based on his research, a small percentage of respondents used financial literacy services, while the majority received credit.

4.3.3 Has your business grown since receiving financial services from MFIs?

Figure 4.3.3

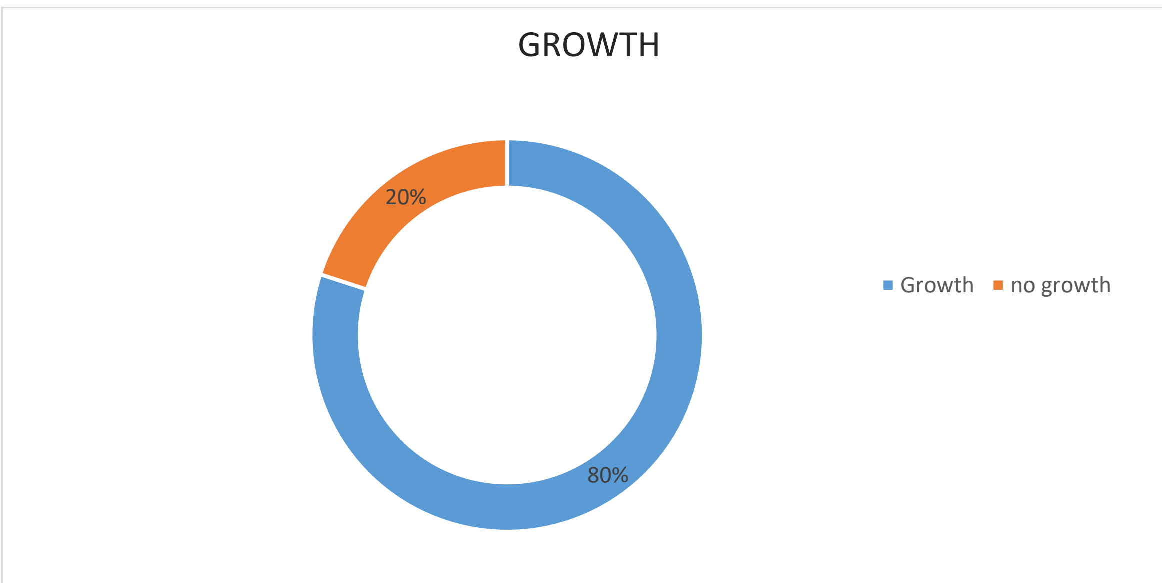


Figure 4.3.3

Source: primary data

80% of respondents answered "Yes", indicating that their business has grown since receiving financial services from Microfinance Institutions (MFIs).20% of respondents answered "No", indicating that their business has not grown since receiving financial services from MFIs. This could be due to various reasons such as inadequate financial management.

4.3.4 If yes in what ways?

The majority of respondents have experienced positive impacts on their businesses, such as increased revenue, expansion, or improved operations, as a result of accessing financial services from MFIs and made them to open new branches in different locations.

4.4 Causes of limited funding of SMEs by MFIs in Zimbabwe

The results of the study showed that a high percentage of nonperforming loans, a lack of collateral security, and the knowledge asymmetry of the SME sector were the reasons why MFIs funded SMEs at a limited rate. The survey's percentage results were tabulated below.

Table 4.4

Reason	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Lack of collateral security	100%	-	-	-	-
Information gap	15%	75%	10%	-	-
High non-performing loans	60%	11%	6%	23%	-
Miscomprehension of SMEs needs by MFIs	-	-	-	-	100%
Lack of financial innovation	-	-	20%	80%	-

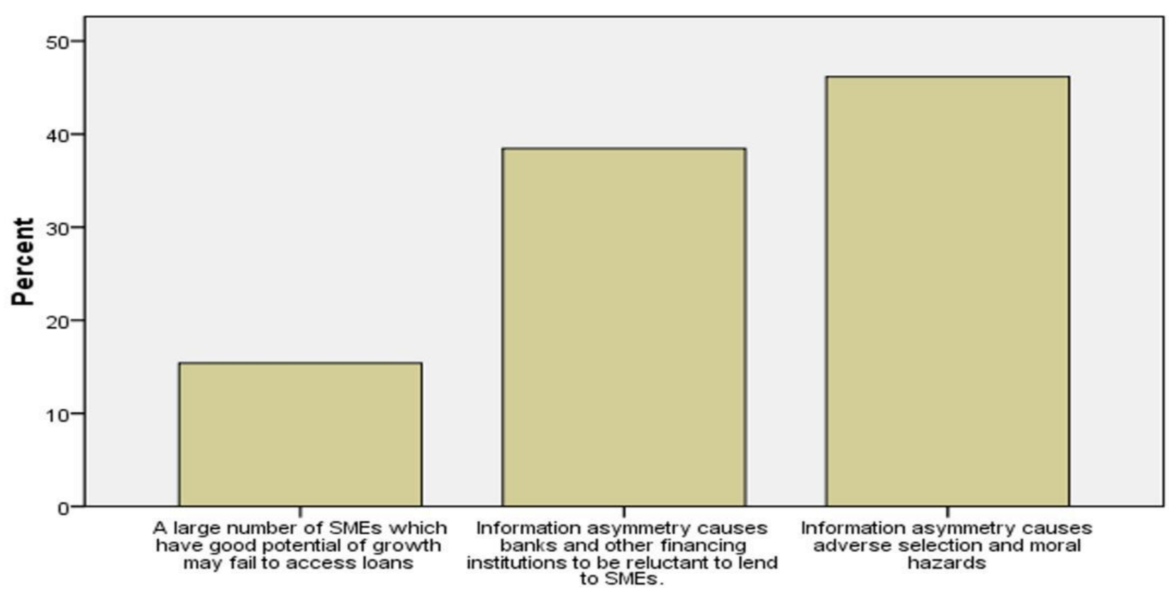
Due to their small operations, SMEs are only able to use collateral security; as a result, some of them may be looking for capital to strengthen their business foundations. The outcomes matched the research findings of (Osano & Languitone, 2016), who looked at the variables influencing SMEs' access to financing in Mozambique. The study discovered that SMEs could obtain financial help without the need for collateral. According to (Longenecker et al., 2012), as MFIs are the main sources of debt capital for businesses, they favour those with a track record of success and adequate hard asset collateral. For enterprises, obtaining collateral and proven track records might be challenging.

Most participants (90%) said that SMEs' lack of information about their businesses was a factor in the limited funding available to SMEs because many SMEs operate in different fields, MFIs may not have the information they need to assess creditworthiness unless it is proven by the SME. As a result, banks may be reluctant to lend to SMEs when they apply for financial assistance.

4.5 The key reasons for the limited funding of SMEs by MFIs in Zimbabwe.

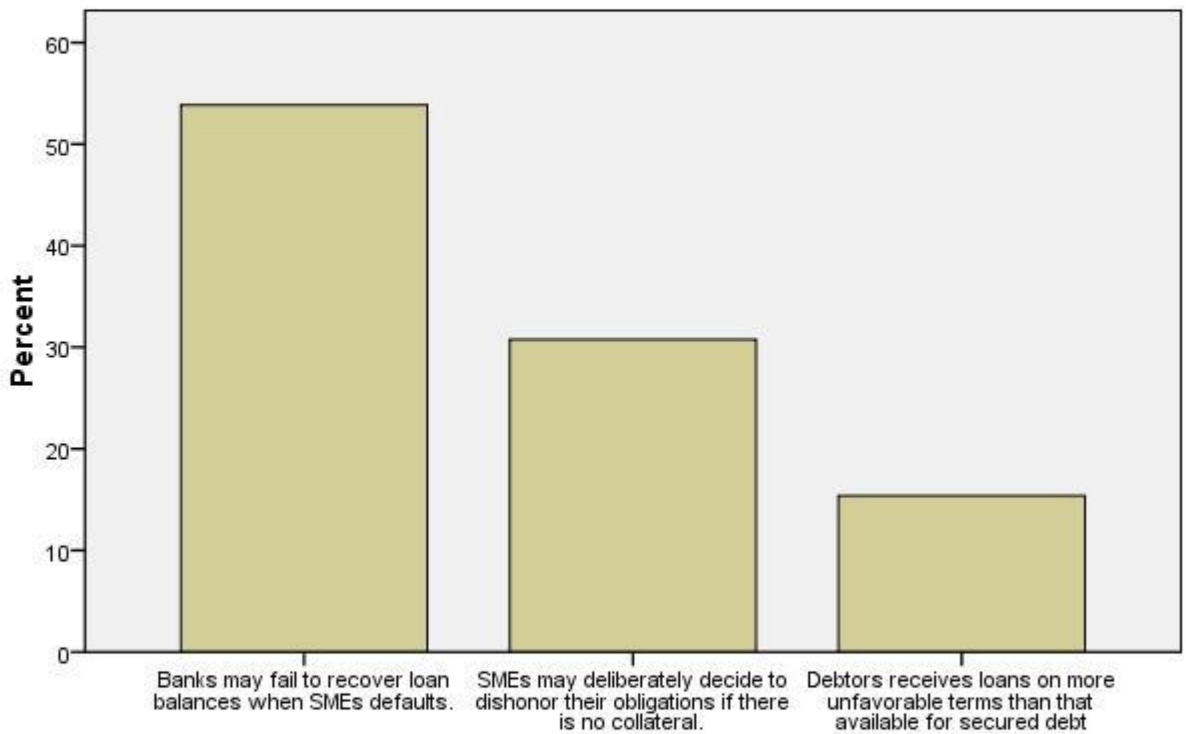
The findings of the study showed that the limited funding of SMEs had negative consequences. The results regarding the significance of the major reasons for the lack of funding for SMEs are presented below:

Figure 4.5.1 Information Asymmetry



The results in figure 4.5.1 shows that 46.2% of the participants had confirmed that information asymmetry causes adverse selection and moral hazards. Since MFIs would not be aware of the correct information regarding SMEs, the selection for funding may result in loan defaults. The findings align with Mudzviti & Mawanza's 2015 study, which focused on the reasons behind small and medium-sized enterprises (SMEs) experiencing challenges in obtaining financing in China. The study highlighted information asymmetry as a major factor contributing to the financing difficulties faced by SMEs. This is because microfinance institutions (MFIs) encounter issues related to adverse selection, prompting them to adopt proactive measures such as imposing non-monetary conditions. For instance, banks may require loan applicants to provide collateral or guarantees through specific mechanisms.

Figure 4.5.2 Lack of collateral



Lack of collateral from SMEs leads to MFIs failing to recover loan balances when they default. This is because MFIs use collateral security as a secondary measure to recover defaulted loans. Without collateral, SMEs may dishonor their obligations, reducing their commitment to loan repayments. Additionally, lack of collateral results in debtors receiving loans on unfavorable terms, leading to high interest rates for high-risk debtors. This highlights the importance of information asymmetry in SMEs' access to funds from MFIs.

4.6 The extent to which SMEs are affected by the low funding from MFIs in Zimbabwe.

Figure 4.6.1 shows how limited funding affected SMEs

Extend	Strongly	Agree	Neutral	Disagree	Strongly

	Agree				**disagree**
SMEs difficulties in obtaining the resources and the cost of accessing these resources is often high	39%	9%	52%	-	-
Lack of proper infrastructure	62.5%	8.5%	15%	15%	-
Manual operations result in slow and inefficient business processes	58%	28%	14%	-	-
Business closure	93%	-	-	8%	-
High employee turnover	-	-	100%	-	-

Figure 4.6.1 indicates 93% of participants noted that insufficient funding leads to SME closures. Their small size limits their ability to reduce operations during financial troubles, resulting in shutdowns as funding is crucial for their survival. This mirrors the findings of (Moscalu et al., 2020) on how financial constraints impact SME growth. Additionally, 71% of SMEs struggle with accessing suitable infrastructure due to financial limits, often settling in more affordable locations which restricts growth. Moreover, 46% of respondents cited challenges in accessing resources and the high costs of obtaining them, with manual processes slowing down operations. This is in line with studies by (Bagh et al., 2017) and (Nizaeva, 2019), indicating financial constraints as significant barriers to SME growth.

4.7 The impact of limited funding of SMEs on economic growth in Zimbabwe

Limited funding of Small and Medium Enterprises (SMEs) can have a significant impact on economic growth in Zimbabwe. SMEs play a crucial role in driving economic development, generating employment, fostering innovation, and contributing to overall economic output. However, when these businesses face constraints in accessing adequate funding, their growth potential is hindered, which in turn affects the broader economy.

Chapter summary

This chapter presented the data presentation and analysis of the study. Qualitative data was presented and analyzed. All the study questions were addressed in this chapter to meet the research objectives. The chapter finally presented a chapter summary. The following chapter focuses on study summary, conclusions and recommendations.

CHAPTER 5

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The chapter discussed the findings of the study and presented recommendations based on the research objectives. The study focused on understanding the causes of limited funding for SMEs by MFIs, the significance of the major reasons behind this limited funding, and the extent to which SMEs were affected. The chapter presented a summary of the study's findings and drew conclusions about the research. In addition to the conclusions and recommendations provided in this chapter, the researcher also suggests that there is still room for further study and investigation in related areas. This section offers ideas for future research that can be pursued by other academics and researchers. These ideas represent potential areas for further study and investigation that could contribute to a deeper understanding of the topic.

5.1 Summary

The findings showed that when SMEs default, MFIs are unable to recoup loan balances due to a lack of collateral from the SMEs. The study's conclusions also showed that SMEs may consciously choose to intentionally default on loans they obtain in the absence of collateral security. The study also discovered that moral hazards and adverse selection are brought about by knowledge asymmetry in MFIs. Furthermore, the study's conclusions showed that MFIs and other financial institutions are hesitant to lend to SMEs because of knowledge asymmetry. The study also demonstrated how information asymmetry can prevent major SMEs with strong development prospects from receiving financial support. The study's findings also revealed that SMEs were more negatively impacted by MFIs' inadequate funding. The study took into account the scarcity of funds, which led to business closures, resource limitations, and improper infrastructural access. The study's findings also showed an unfavorable relationship between economic growth and the amount of finance available to small and medium-sized businesses. The study's findings led to the following conclusions being drawn:

5.2 Conclusions

The research findings served as a cornerstone for the study conclusions, which primarily focused on giving a clear picture of the study's results in relation to its goals. The conclusions were laid out as follows:

The importance of the major reasons why MFIs in Zimbabwe finance SMEs a little.

- The study concluded that a high percentage of non-performing loans, a lack of collateral security, and information asymmetry in the SME sector were the main reasons why SMEs were not receiving enough finance. The contributions that the research participants made acts as evidence for this.

The main causes of MFIs' limited financing to SMEs in Zimbabwe.

- The investigation came to the conclusion that MFIs were unable to collect loan balances from defaulting SMEs because the SMEs failed to offer collateral. Furthermore, the study concluded that when SMEs took out loans without offering collateral, they were doing it on purpose. The report went on to say that information asymmetry was the reason behind moral hazard, adverse selection, and MFIs' reluctance to lend to SMEs.

The extent to which SMEs in Zimbabwe are affected by MFIs' insufficient finance.

- The study's findings indicated that SMEs suffered the most by funding constraints. The study also came to the conclusion that a lack of funding was the root reason of scarce resources, company closures, restricted access to resources, and inadequate infrastructure.

5.3 Recommendations

5.3.1 MFIs recommendation

Since certain projects can take longer to turn a profit than others, MFIs should figure out how to extend the grace period for loan payback before they begin to recover their investment. In order to boost the profit margin of SMEs, they should also try to lower the interest rates associated with loans. MFIs also bear a heavy burden of making sure borrowed funds are used properly, which is critical to the long-term viability of the company.

5.3.2 SMEs recommendations

SMEs should establish and maintain a good credit history for your business. Pay your bills on time, avoid defaults or late payments, and develop a positive credit profile, consider consulting with financial advisors or business consultants who specialize in securing finance for SMEs, keep your financial records up to date and organized for clean granted of loan and also to utilize the credits for right purposes.

5.3.3 Government recommendations

Policies that safeguard SMEs ought to be put into place since they are among those who are trying to solve unemployment and ought to receive help. Research has demonstrated that the state of the economy in both the nation and the global economy has a significant impact on the performance of SMEs. Therefore, in order to support SMEs in surviving and expanding, the government should work to develop the economy. In order to encourage SMEs to seek out the financial and non-financial services offered by FMIs, the government should collaborate with MFIs to launch public education campaigns.

5.4 Overall study conclusion

The study aims to examine the impact of microfinance institutions on SME development in Zimbabwe. The first chapter outlines the study's background, objectives, research questions, significance, scope, limitations, justification, and organization. The theoretical and empirical literature review provides insight into the challenges SMEs face in accessing funding. The theoretical review covered the information asymmetry theory, pecking order theory, human capital and firm financing theory, and theory of firm and SME funding theory. The empirical review covered studies related to SME financing and information asymmetry. Chapter three discussed the research method, design, philosophy, and approach. It also explained the population, sample size, data collection and analysis methods, reliability and validity, and research ethics. Chapter 4 presented the data presentation and analysis of the study. Qualitative data was presented and analyzed. All the study questions were addressed in this chapter to meet the research objectives**.** The last chapter, research findings were summarized and given to the study in this chapter. In addition to recommendations that aligned with the study outcomes, inferences were drawn from the study's findings. The list of references utilized in this study is provided in the next section.

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APPENDICES

Appendix 1: Letter of Approval

Bindura University of Science Education

P. Bag 1020

Bindura

Dear Respondent

RE: <u>REQUEST FOR RESPONSES ON THE QUESTIONNAIRE</u>

My name is Leasah Berekwa, a student at Bindura University of Science Education (BUSE) doing a Bachelor of Banking and Finance Degree. I am currently undertaking a research entitled "**assessing the impact of microfinance institutions on small and medium enterprises in Zimbabwe"**.

This is being done to partially satisfy a degree programme requirement. You have been selected to participate in this research project, and we would appreciate you taking a few minutes to respond to the following questions. I guarantee that all information you submit will be kept completely confidential and that your answers will only be used for academic purposes.

We sincerely appreciate your assistance and unwavering good faith in responding to the following inquiries. Please do not hesitate to contact Leasah Berekwa at leasahberekwa@gmail.com or 0783586659 if you have any questions.

The Researcher The Respondent

Signature……………………. Signature……………………….

Questionnaire

Instructions

a) Kindly answer each of the following questions.

b) Where appropriate, respond by checking the corresponding box or providing a brief explanation in the spaces provided.

b) Since there are no right or incorrect responses, kindly select the option that most closely reflects your viewpoint.

d) Please be aware that participation is entirely voluntary and that you are free to discontinue at any time.

e) Please be aware that the study will only be used for academic purposes and that all of your responses will be handled with the utmost confidentially

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SECTION A

DEMOGRAPHIC INFORMATION

Instruction

Please check or complete the corresponding fields.

1. Identify your SME name.

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2. Gender

FEMALE	
MALE	

3. How long have you been working for the organisation?

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4. Indicate your position at work.

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5 .Which products do you sell?

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SECTION B

6. Sources of capital

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7. Services benefited from SMEs

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8. Has your business grown since receiving financial services from MFIs?

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9. If yes in what ways?

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SECTION C

CAUSES OF LIMITED FUNDING OF SMES BY MICROFINANCE INSTITUTIONS IN ZIMBABWE.

10. Which of the following, in your opinion, accounts for the underfunding of small and medium-sized businesses? Indicate if you agree, strongly agree, disagree, or are indifferent.
Justification

Reason	**Strongly Agree**	**Agree**	**neutral**	**Disagree**	**Indifferent justification**
No or limited collateral security					
Asymmetry in information within the SMEs sector					
High ratio of nonperforming loans					
Banks' lack of awareness of the demands of SMEs					
Lack of financial innovation					

11. What further elements do you believe contribute to SMEs receiving less funding?

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THE IMPORTANCE OF THE PRIMARY CAUSES OF THE RESTRICTED FINANCING OF SMES IN ZIMBABWE BY MICROFINANCE INSTITUTIONS.

12. What significance do you think the factors for MFIs' poor funding of SMEs have? Indicate if you strongly agree, agree, neutral, disagree or strongly disagree.

i)

Lack of collateral security	**Strongly Agree**	**Agree**	**neutral**	**Disagree**	**Strongly Disagree**
When SMEs defaults, MFIs may not be able to cover up the loan balances.					
If there is no collateral, SMEs may deliberately fail to honour the loan agreement.					
Debtors receives loans on more unfavourable terms than that available for secured debt					

iii)

Information asymmetry	**Strongly Agree**	**Agree**	**neutral**	**Disagree**	**Strongly Disagree**
Many small businesses with good growth potential may not be able to get loans from financial institutions.					
Information asymmetry causes MFIs and other financing institutions to be reluctant to lend to SMEs.					
This can lead to problems like the lender choosing not to lend to businesses that are actually a good investment, or the borrower taking advantage of					

the lender by misrepresenting their business or financial situation.					

13. If there are any other comments that you want to provide with regards to the significance of the reasons behind the low funding of SMEs, fill in the space below.

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THE EXTENT TO WHICH SMES ARE AFFECTED BY THE LIMITED FUNDING FROM MICROFINANCE INSTITUTIONS IN ZIMBABWE.

14. To what extent are the SMEs affected by the limited funding from MFIs in Zimbabwe.

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