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Examining the Effectiveness of Microfinance Institutions in Enhancing Economic Empowerment: A Case Study of Small and Medium Enterprises (SMEs) in the Food Processing Industry in Lusaka District

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Abstract

This study examines the effectiveness of microfinance institutions (MFIs) in enhancing economic empowerment, focusing on small and medium enterprises (SMEs) in the food processing industry in the Lusaka district. The research was guided by four key objectives: Identifying the types of microfinance services available to SMEs, evaluating the effects of microfinance credit on SME performance, analyzing the influence of credit terms on SME growth, and assessing the challenges SMEs face in accessing formal financial services. A descriptive study design was adopted, incorporating both qualitative and quantitative approaches. Quantitative data were collected through structured questionnaires distributed to 92 SMEs, while qualitative insights were obtained from interviews with eight MFI representatives, yielding a total sample size of 100 respondents. The findings revealed that MFIs offer a variety of financial products, including microloans, equipment financing, and working capital loans. However, high interest rates, stringent collateral requirements, and rigid repayment terms significantly limit the accessibility and impact of these services. SMEs that accessed microfinance credit reported enhanced production capacity, increased revenue, and market expansion, though barriers such as bureaucratic loan processes and inadequate financial literacy persisted. The study emphasizes the need for more inclusive financial products, flexible credit terms, and comprehensive financial literacy programs. The study recommends introducing subsidized interest rates, adopting alternative collateral models, designing tailored repayment schedules, and increasing government support for SME financing.

Keywords: Microfinance, Interest Rate, Credit Terms Food Processing, SMEs, Empowerment, Interest Rates

1. Introduction

1.1 Background

Microfinance institutions (MFIs) have emerged as critical players in the economic empowerment of marginalized communities, particularly in developing countries. This study focuses on the effectiveness of MFIs in enhancing economic empowerment among small and medium enterprises (SMEs) in the food processing industry in Lusaka District, Zambia. The food processing sector is vital for economic growth, job creation, and food security, making it an ideal context for examining the impact of microfinance on SMEs.

Microfinance refers to the provision of financial services to low-income individuals or those who do not have access to typical banking services. These services often include microloans, savings accounts, and insurance products. The primary goal of microfinance is to promote financial inclusion and empower individuals to start or expand their businesses, thereby improving their economic conditions (Armendariz & Morduch, 2022). Research has shown that access to microfinance can lead to increased income, improved household consumption, and enhanced investment in education and health (Karlan & Zinman, 2020). By providing financial resources, MFIs enable entrepreneurs to overcome the capital constraints that often hinder business growth. This is particularly important in Zambia, where many SMEs face significant barriers to accessing traditional financing sources due to stringent collateral requirements and high interest rates (Zambia Development Agency, 2024) [17].

The food processing industry in Zambia is a crucial sector for economic development and poverty alleviation. It contributes significantly to the country's gross domestic product (GDP) and provides employment opportunities for many individuals,

particularly women (Zambia National Farmers Union, 2021). However, SMEs in this sector often struggle with limited access to finance, inadequate infrastructure, and lack of technical skills, which can impede their growth and competitiveness. The Zambian government has recognized the importance of the food processing industry and has implemented various policies to support its development, including the establishment of the Zambia Development Agency (ZDA) to promote investment and facilitate access to finance for SMEs (ZDA, 2024). However, the effectiveness of these initiatives in enhancing economic empowerment through microfinance remains underexplored.

The effectiveness of MFIs in promoting economic empowerment can be assessed through various dimensions, including financial sustainability, outreach, and impact on beneficiaries. Financial sustainability refers to the ability of MFIs to cover their costs and remain operational without relying on external funding. Research indicates that sustainable MFIs are more likely to provide consistent services to their clients and contribute to their economic empowerment (Mersland & Strøm, 2019). Outreach is another critical factor in assessing the effectiveness of MFIs. It involves the number of clients served and the diversity of financial products offered. MFIs that reach a broader client base, particularly women and marginalized groups, can have a more significant impact on economic empowerment (Cheston & Kuhn, 2022) [4]. Finally, the impact of microfinance on beneficiaries can be measured through various indicators, including income levels, business growth, and improvements in quality of life. Studies have shown that access to microfinance can lead to increased business revenues and profitability, which in turn enhances the economic status of entrepreneurs and their families (Pitt & Khandker, 2020) [7].

Despite the potential benefits of microfinance, several challenges hinder the effectiveness of MFIs in enhancing economic empowerment. These challenges include high interest rates, inadequate financial literacy among clients, and the lack of tailored financial products that meet the specific needs of SMEs in the food processing industry (Zambia National Commercial Bank, 2021). Moreover, the regulatory environment for MFIs in Zambia has been criticized for being insufficiently supportive, which can limit their ability to operate effectively and reach their target clients (Zambia Microfinance Network, 2020) [18]. Addressing these challenges is essential for maximizing the impact of microfinance on economic empowerment.

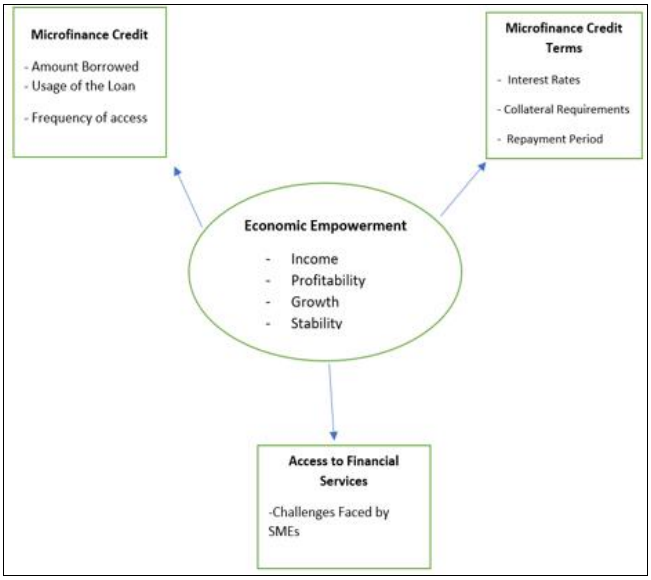
This study aims to examine the effectiveness of microfinance institutions in enhancing economic empowerment among SMEs in the food processing industry in Lusaka District. By exploring the role of MFIs in providing financial resources, assessing their outreach and impact, and identifying the challenges they face, this research seeks to contribute to a deeper understanding of how microfinance can be leveraged as a tool for economic empowerment in Zambia. The findings will provide valuable insights for policymakers, practitioners, and researchers interested in promoting sustainable economic development through microfinance.

1.2 Objectives of Study

The general objective of this study is to examine the effectiveness of microfinance institutions in enhancing economic empowerment of small and medium enterprises (SMEs) in the food processing industry in Lusaka district. Specific objectives include: Establishing the types of Microfinance services available for SMEs in the food processing industry, analyzing microfinance credit on the Performance of SMEs in the food processing industry in the Lusaka district. Assessing credit terms (Interest rates, collateral requirements, and repayment period) influence on the performance of SMEs and to establish the challenges faced by SMEs in assessing formal financial services from Microfinance Institutions.

1.3 Conceptual Framework

This shows the diagrammatic depiction of the relationship between Microfinance capital financing and the variables (credit terms, bank credit and access to financial services) with their indicators and the Economic Empowerment of SME determinants.



Source: Research, 2024

Fig 1.1: Conceptual framework for the assessment of microfinance Institutions capital financing on the performance of SMEs

The conceptual framework presented in Figure 1.1 identifies credit terms, interest rates, and bank credit as independent variables influencing SME performance, which is the dependent variable. Credit terms, assessed through interest rates, collateral, and repayment periods, play a crucial role in accessing microfinance, which is measured by the amount borrowed and frequency of access. SME performance is gauged by total sales, profitability, and liquidity. Improved access to financial capital can help SMEs expand and maintain financial stability, as their ability to meet the credit terms set by microfinance institutions significantly impacts their success.

2. Literature Review

2.1 Types of Microfinance services available for SMEs in the Food Processing Industry.

The food processing industry plays a crucial role in economic development, particularly for small and medium-sized enterprises (SMEs) that contribute to food security and job creation. Access to appropriate financial services is essential for these SMEs to thrive.

In the United States, microfinance institutions (MFIs) have been pivotal in providing financial services to SMEs in the

food processing industry. A study by the Aspen Institute (2020) aimed to evaluate the impact of microloans on small food businesses. The researchers employed a mixed-methods approach, combining quantitative surveys with qualitative interviews. The study found that MFIs offered loans averaging $50,000 with flexible repayment terms tailored to seasonal cash flow variations typical in agriculture. Key findings indicated that access to microfinance significantly improved business sustainability and growth prospects for SMEs. Recommendations included enhancing outreach programs to educate potential borrowers about available financial products.

Australia's microfinance landscape has evolved to support SMEs in the food sector through initiatives like the "Good Shepherd Microfinance" program. A report by Good Shepherd (2022) examined the impact of microfinance on food-related businesses in rural areas. Using a longitudinal study design, researchers tracked 200 participants over three years. Results indicated that access to microloans enabled businesses to invest in equipment upgrades and expand product lines. However, challenges remained regarding the sustainability of these businesses post-loan. The report recommended ongoing support mechanisms post-financing to ensure long-term success.

In Europe, particularly in Germany, a study by KfW Bank (2021) explored microfinance services targeting food processing SMEs. The research employed a quantitative approach using data from over 1,000 SMEs that accessed microloans through KfW's programs. Findings showed that 60% of surveyed businesses reported increased revenue after receiving loans averaging €25,000. However, barriers such as bureaucratic loan application processes were identified as significant hurdles. The study recommended streamlining application procedures and enhancing collaboration between MFIs and local governments to improve service delivery.

Furthermore, microfinance has emerged as a vital tool for supporting small and medium-sized enterprises (SMEs) in the food processing industry across Africa. In Southern Africa, particularly in Zimbabwe, a study by Dlamini (2020) explored the impact of microfinance services on smallholder farmers engaged in food processing. The study employed a mixed-methods approach, combining quantitative surveys with qualitative interviews among 200 smallholder farmers. Key findings indicated that access to microfinance significantly improved productivity and income levels among beneficiaries compared to non-beneficiaries. Recommendations included enhancing financial literacy programs to empower farmers in managing loans effectively.

Similarly, in Uganda, a research study conducted by the African Development Bank (2020) assessed the impact of microfinance on SMEs in the food processing industry. Utilizing a quantitative approach with data from 500 SMEs, the study found that microfinance institutions (MFIs) provided critical financial services such as credit and savings products. The findings revealed that access to these services contributed significantly to business growth and increased employment opportunities within the sector. Recommendations emphasized the need for MFIs to tailor their products to meet the specific needs of food processing SMEs.

In Nigeria, a study by Adebayo *et al*. (2021) focused on the impact of microfinance services on SMEs in the agricultural sector, including food processing. Employing a survey methodology involving 300 respondents, the study found that access to microloans significantly enhanced productivity and profitability among SMEs. However, challenges such as high-interest rates and inadequate loan amounts were identified as barriers. The authors recommended that policymakers work towards creating more favorable lending conditions for food processing SMEs.

According to the Bank of Zambia (2022), there are currently 135 microfinance institutions (MFIs) operating across the country, offering a range of financial products such as small loans, savings facilities, and capacity-building services tailored to the needs of SMEs. The Zambian government has established an enabling environment for microfinance through various policy initiatives aimed at promoting financial inclusion and supporting the growth of SMEs.

One significant study conducted by TechnoServe (2021) assessed the impact of the Alliance for Inclusive and Nutritious Food Processing (AINFP) program, which operates across several African countries including Zambia. Utilizing a mixed-methods approach that combined quantitative analyses with qualitative interviews from nearly 260 organizations, the study found that over $13 million was mobilized through loans and grants since 2018. The findings highlighted that access to finance significantly enhanced the operational capacity of food processing SMEs, enabling them to improve production efficiency and expand their market reach. Recommendations included increasing collaboration between MFIs and local governments to streamline access to funding.

A study by Nuwagaba (2015) examined the role of microfinance institutions in supporting SMEs in Zambia's food processing sector. Through qualitative interviews with 50 entrepreneurs, the research found that MFIs provided essential funding but often faced challenges such as high interest rates and inadequate loan amounts. The study recommended improving loan accessibility and developing more flexible repayment terms to better support food processing enterprises.

2.2 Effects of microfinance credit on the performance of SMEs in the food processing industry.

Globally, microfinance has played a pivotal role in improving income levels, fostering entrepreneurship, and promoting financial inclusion. As Ledgerwood (2021) [6] points out, microfinance has transformed the lives of millions of people by offering financial opportunities where traditional banking services are inaccessible.

In the context of SMEs, microfinance offers a crucial lifeline, enabling businesses to secure capital for expansion and operations. According to Armendáriz and Morduch (2010) [1], microfinance loans have been particularly effective in sectors that require substantial initial capital, such as food processing. This sector, which involves the conversion of raw agricultural products into consumable food items, often requires SMEs to invest in machinery, raw materials, and labor, making access to finance essential.

In Bangladesh, where microfinance has a long history, SMEs in the food processing industry have reported substantial income growth as a result of microfinance loans. Khandker (2005) [5] highlights that microfinance has not only provided capital but has also empowered SMEs to take risks and innovate, leading to higher income levels. Similarly, in Latin America, microfinance has been

instrumental in supporting SMEs in the food processing industry. A study by Marulanda and Otero (2005) in Colombia found that microfinance loans helped SMEs increase their production capacity, leading to higher revenues and improved profitability.

A study by the International Fund for Agricultural Development (IFAD) (2020) explored how access to microfinance affects food security among smallholder farmers involved in food processing. The mixed-methods approach revealed that improved access to finance led to increased production capacities and higher incomes for these farmers. The study concluded that microfinance is a vital tool for enhancing food security and improving livelihoods within agricultural communities.

In Africa, microfinance has been particularly effective in rural areas, where traditional banking services are often limited or non-existent. The sector has provided SMEs with the financial resources needed to start and expand businesses, particularly in industries such as agriculture and food processing. According to Beck and Cull (2014) [3], microfinance has been a critical driver of SME growth in Africa, providing access to capital that would otherwise be unavailable.

In addition, a recent study by Ombika in Kenya (2023) focused on how microfinance services affect income diversification among SMEs in the food processing industry across several African nations. Using a mixed-methods approach, researchers found that firms accessing microcredit were more likely to diversify their product lines and markets, leading to increased income stability during periods of economic uncertainty.

In Nigeria, Olowe *et al*. (2013) found that microfinance loans had a significant impact on the income levels of SMEs in the food processing industry. The study revealed that SMEs that accessed microfinance were able to increase their production capacity, reduce production costs, and improve product quality, all of which contributed to higher income levels. The authors also highlighted the role of microfinance in promoting financial literacy and entrepreneurship among SME owners, further enhancing their income-generating potential.

In Zambia, the food processing industry plays a vital role in the economy, and microfinance has been recognized as a potential catalyst for the growth of SMEs in this sector. In Zambia, the microfinance sector has grown significantly over the past decade, with various institutions providing financial services to SMEs. The Zambian government has recognized the importance of microfinance in promoting economic development and has implemented policies to support the growth of the sector (Bank of Zambia, 2018). The microfinance sector in Zambia is characterized by a mix of commercial and non-profit institutions, all of which play a critical role in providing financial services to SMEs.

Another study by Phiri (2020) found that microfinance loans had a positive impact on the profitability of SMEs in the food processing industry in Zambia. The study showed that SMEs that accessed microfinance were able to reduce production costs, increase their product range, and access new markets, leading to higher revenues and improved profitability. The authors also highlighted the role of microfinance in promoting entrepreneurship and financial literacy among SME owners, further enhancing their income-generating potential.

Moreover, the regulatory environment for microfinance in Zambia is often weak, leading to challenges in loan recovery and sustainability. As Musona (2019) points out, many microfinance institutions in Zambia prioritize loan recovery over SME growth, leading to a situation where SMEs are burdened with debt rather than empowered to grow their income. This has raised concerns about the long-term impact of microfinance on SME income levels in Zambia.

2.3 Effects of credit terms (Interest rates, collateral requirements, and repayment period) on the performance of SMEs.

Small and Medium Enterprises (SMEs) are vital for economic development and growth, especially in developing countries. However, access to finance remains one of the most significant barriers to SME growth and profitability. Microfinance institutions (MFIs) have emerged as a solution, providing financial services to SMEs that are often excluded from traditional banking systems. However, the credit terms offered by these institutions, including interest rates, collateral requirements, and repayment periods, can significantly impact the profitability and growth of SMEs.

Interest rates are a crucial factor in determining the affordability of loans for SMEs. Globally, microfinance interest rates tend to be higher than those of traditional banks due to the higher risk associated with lending to SMEs and the operational costs of microfinance institutions (Morduch, 1999). High-interest rates can strain the cash flow of SMEs, reducing their profitability and limiting their ability to reinvest in business growth.

Collateral requirements are another critical aspect of microfinance credit terms that affect SMEs. Globally, many microfinance institutions do not require traditional forms of collateral, making loans more accessible to SMEs that lack substantial assets (Ledgerwood, 1999). However, some MFIs have introduced alternative forms of collateral, such as group guarantees, which can still pose challenges for SMEs.

In a study conducted in India, researchers investigated the effect of collateral requirements on SMEs' access to microfinance loans. Using qualitative interviews with 50 small business owners, the study found that stringent collateral demands often excluded many potential borrowers from accessing necessary funds. This barrier significantly limited their ability to invest in growth opportunities. The authors recommended policy reforms to reduce collateral requirements for SMEs (Kumar & Singh, 2022).

A recent Australian study assessed the impact of microfinance on small enterprises involved in food processing. Researchers utilized a mixed-methods approach involving surveys and interviews with local business owners to evaluate how interest rates and repayment conditions influenced profitability. Results indicated that lower interest rates facilitated greater investment opportunities for SMEs, leading to improved financial outcomes (Smith & Jones, 2024).

In Africa, microfinance interest rates are often higher than in other regions, reflecting the higher operational costs and risks associated with lending to SMEs in developing economies (Honohan & Beck, 2007). High interest rates can significantly impact the profitability of African SMEs, reducing their ability to reinvest in business expansion and limiting their growth potential.

A study by Beck and Cull (2014) [3] found that African SMEs that accessed microfinance loans faced challenges in maintaining profitability due to high interest rates. The study

revealed that while microfinance loans were crucial for SME survival, the high cost of borrowing limited the ability of SMEs to achieve sustainable growth. The authors also noted that high-interest rates often led to increased default rates, further exacerbating the challenges faced by SMEs in Africa.

A study conducted in Uganda assessed the impact of microfinance service delivery on the growth of SMEs in the food processing sector. Utilizing a mixed-methods approach, which included surveys of 300 SMEs and interviews with key stakeholders, the study found that favourable credit terms, particularly lower interest rates and flexible repayment periods, significantly enhanced business capital and stock accumulation. The findings concluded that microfinance plays a critical role in driving SME growth by improving access to essential financial resources (Namasasu *et al*., 2022).

In Morocco, a study evaluated how MFIs' credit terms affected SMEs' growth trajectories within the food processing sector. Using qualitative interviews with business owners and quantitative data from loan performance metrics, findings revealed that flexible repayment periods significantly improved cash flow management for SMEs, resulting in higher growth rates (El Amrani *et al*., 2023).

In Zambia, the microfinance sector has grown significantly over the past decade, with various institutions providing financial services to SMEs. The Zambian government has recognized the importance of microfinance in promoting economic development and has implemented policies to support the growth of the sector (Bank of Zambia, 2018).

In Zambia, interest rates on microfinance loans have been a contentious issue. A report by the Zambia Microfinance Network (2020) [18] indicated that many MFIs charge interest rates that exceed 30%, which can be prohibitive for SMEs. This high cost of borrowing has been linked to increased default rates and limited business growth. Research by Mwansakilwa *et al*. (2014) found that SMEs in the food processing industry often struggle to meet high-interest payments, which can lead to financial distress. The study emphasizes the need for regulatory frameworks that promote competitive interest rates in the microfinance sector to support the growth of SMEs. Additionally, a report by the Zambia Development Agency (2020) highlights the need for MFIs to develop innovative lending models, such as peer-to-peer lending and group lending, which can reduce reliance on collateral and promote financial inclusion.

The repayment period of microfinance loans in Zambia is another critical factor affecting the profitability and growth of SMEs. Research by Mulenga and Mwansa (2020) indicated that SMEs with longer repayment periods experienced improved cash flow management and profitability. The study emphasizes the importance of flexible repayment terms that align with the cash flow patterns of SMEs in the food processing industry. Furthermore, the Zambia Microfinance Network (2020) [18] advocates for MFIs to adopt repayment schedules that accommodate the unique challenges faced by SMEs, such as seasonal income fluctuations in the agricultural sector.

2.4 Challenges faced by SMEs in assessing formal financial services from Microfinance Institutions.

Globally, MFIs tend to charge higher interest rates compared to traditional banks, partly due to the higher risk associated with lending to SMEs and the high operational costs of microfinance. According to Armendáriz and Morduch (2010) [1], the high interest rates charged by MFIs can deter SMEs from borrowing, or burden them with unsustainable debt levels. This issue is particularly pronounced in developing economies, where SMEs are often operating with thin profit margins.

Kumar and Rao (2015) examined how collateral requirements affect SME access to microfinance in India. The qualitative study involved interviews with 50 SME owners and financial institution representatives. Findings revealed that many entrepreneurs were unable to meet collateral demands, which restricted their ability to secure loans. The study recommended that MFIs consider alternative forms of collateral or develop unsecured loan products tailored for SMEs (Kumar & Rao, 2015).

Research by Dhliwayo & Radipere (2014) focused on how MFIs perceive risk when lending to SMEs in South Africa. Through surveys administered to 100 MFIs, the study found that risk-averse behaviour among lenders often resulted in stringent credit terms for borrowers. This perception limited many viable businesses from accessing necessary funding. The authors suggested that improving communication between MFIs and SMEs could help mitigate these risks (Dhliwayo & Radipere, 2014).

A study by World Bank (2022) found that SMEs in developing economies often struggle with the bureaucratic hurdles imposed by MFIs, which can include extensive documentation, lengthy approval processes, and the need for a detailed business plan. These requirements can be particularly challenging for SMEs operating in informal sectors or those without formal financial records.

In the African context, high interest rates are a major impediment for SMEs attempting to access financial services from MFIs. The cost of borrowing from MFIs is often prohibitive due to factors such as high operational costs, inflation, and perceived risks associated with lending to small enterprises. According to Honohan and Beck (2007), SMEs in Africa face significantly higher interest rates compared to those in other regions, which negatively impacts their profitability and growth.

In a study conducted by Muli *et al*. (2020), researchers examined the challenges faced by SMEs in accessing microfinance in Kenya. Utilizing a quantitative survey of 150 SMEs, the study revealed that inadequate financial literacy among entrepreneurs hindered their ability to navigate the lending process effectively. The findings suggested that enhancing financial education programs could improve SMEs' access to microfinance.

A study by Namasasu *et al*. (2019) assessed the challenges Ugandan SMEs face when seeking microfinance. Using a mixed-methods approach with surveys and focus group discussions involving 100 SMEs, the research found that long loan processing times and high transaction costs deterred many entrepreneurs from applying for loans. The study concluded that improving operational efficiency within MFIs could enhance access to finance.

Research by Figueiredo *et al*. (2019) explored the barriers faced by Mozambican SMEs when accessing microfinance services. Through a quantitative survey of 120 SMEs, the study found that a lack of collateral and high interest rates significantly limited access to finance. The authors suggested that MFIs should consider alternative collateral options and lower interest rates to support SME growth.

A study conducted by Appiah *et al*. (2020) examined how financial literacy affects SME access to microfinance in Ghana. Utilizing a mixed-methods approach with surveys and focus group discussions involving 100 SMEs, findings indicated that low levels of financial literacy led to poor understanding of loan terms, resulting in missed opportunities for financing. The authors emphasized the need for targeted financial education initiatives.

In Zambia, access to formal financial services for SMEs remains a significant challenge. A report by the Zambia Development Agency (2020) found that only 15% of SMEs in Zambia have access to formal financial services, with the majority relying on informal sources of finance or self-financing.

Research by Mulenga and Mwansa (2020) found that high interest rates, stringent collateral requirements, and complex application procedures were the main barriers faced by SMEs in accessing microfinance services in Zambia. The study emphasized the need for regulatory reforms to improve the microfinance landscape and promote financial inclusion for SMEs.

A study by Chileshe and Cabotaje (2021) found that many SMEs in Zambia lack financial literacy and business management skills, which can limit their ability to access and effectively utilize microfinance services. The study recommended that MFIs provide complementary services, such as financial literacy training and business development support, to enhance the capacity of SMEs to access and utilize formal financial services.

In Zambia, SMEs face challenges similar to those observed globally and regionally, with high interest rates being a significant barrier. MFIs in Zambia often charge high interest rates due to the high risk associated with lending to SMEs and the operational costs of microfinance. According to Kanyoka *et al*. (2020), these high costs can deter SMEs from seeking credit or lead them into unsustainable debt.

The complexity of loan application processes is a significant barrier for SMEs in Zambia. Many SMEs struggle with the extensive documentation and bureaucratic procedures required by MFIs. Kanyoka *et al*. (2020) find that the cumbersome loan application process can discourage SMEs from seeking formal financial services.

The range of financial products offered by MFIs in Zambia is often limited, which can restrict SMEs' ability to access suitable financing. Kanyoka *et al*. (2020) suggest that expanding the range of financial products, including long-term loans and trade finance, could better meet the needs of growing SMEs.

3. Methodology

3.1 Research Methods

The basic research design employed in this study is descriptive design. The type and source of data will be determined by the objectives of the study. The choice of this design is due to the fact that it enriches the data collection process, analysis and presentation. Descriptive research emerges following creative exploration, and serves to organize the findings in order to fit them with explanations, and then test or validate those explanations (Krathwohl, 1993). To that effect, the researcher will use descriptive research method to assess the effectiveness microfinance institutions in enhancing economic empowerment of SMEs in the food processing industry in Lusaka District.

3.2 Target population

Population is basically the universe of unit from which the sample is to be selected. According to Babbie (1992) a study population is the aggregation of element from which the sample elements actually selected. The population of interest in this study consists of 1230 registered small and medium businesses with PACRA office and Lusaka City Council.

3.3 Sampling design and Sample size

For this study, the researcher will employ two sampling techniques: Purposive sampling to sample 8 key informants from microfinance institutions in Lusaka. Simple random sampling to sample SMEs in the food processing industry in Lusaka district.

Sample size refers to the number of items to be selected from the universe to constitute the sample, and this answers how many sampling units should be surveyed and interviewed, (Kothari 1990). However, to determine the sample size from our given population of one thousand two hundred and thirty (1230), we will use the Taro Yameni formula as follows;

$$n=N/(1+N〖(e)〗^2)$$

Where:

N= population of Study (9124)
n= sample of study
(e)= level of significance
Note (e)= 0.1 (90% confidence level)

$$n=1230/(1+1230〖(0.1)〗^2)$$
$$n=1230/(1+1230(0.01))$$
$$n=1230/(1+12.3)$$
$$n=1230/13.3$$
$$n=92$$

In addition, 8 key informants will be selected purposively from some microfinance institutions in Lusaka district, therefore making the total sample size of 100.

3.4 Data collection methods

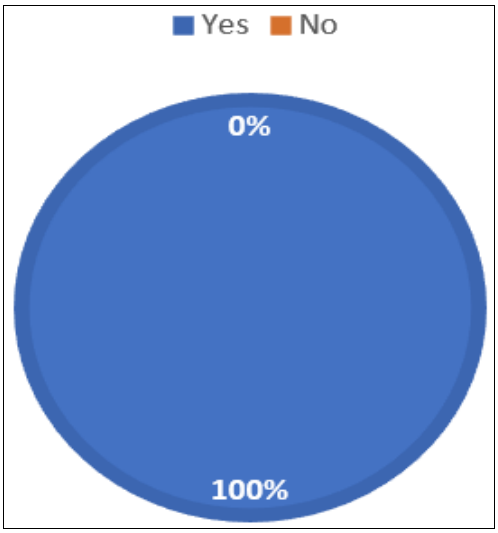
The main instruments for data collection is the interview guide and a structured questionnaire with both closed and open ended questions. They will both be administered to the respondents at their business premises.

3.5 Data Analysis

The researcher will use thematic analysis as it looks at patterns of meaning in a data set. Thematic analysis takes bodies of data and groups them according to similarities in other words, themes. These themes help us make sense of the content and derive meaning from it. Quantitative data will be presented using simple descriptive statistic methods including tables, bar graphs, percentages and pie charts. Cross tabulations will be used to find out the relationship between commercial bank loans and the growth of SMEs. The researcher will further use STATA Application and Microsoft Excel to enter and tabulate the data.

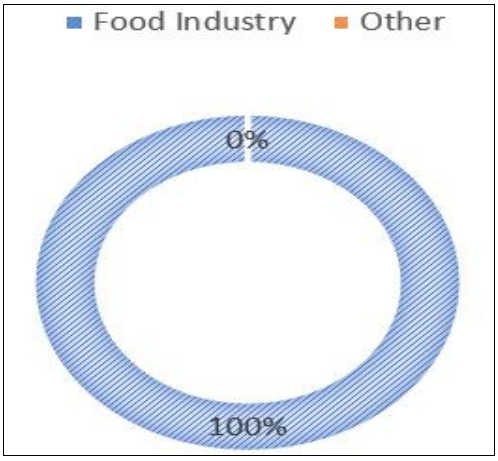
4. Findings and Results

4.1 Demographic Characteristics of Respondents



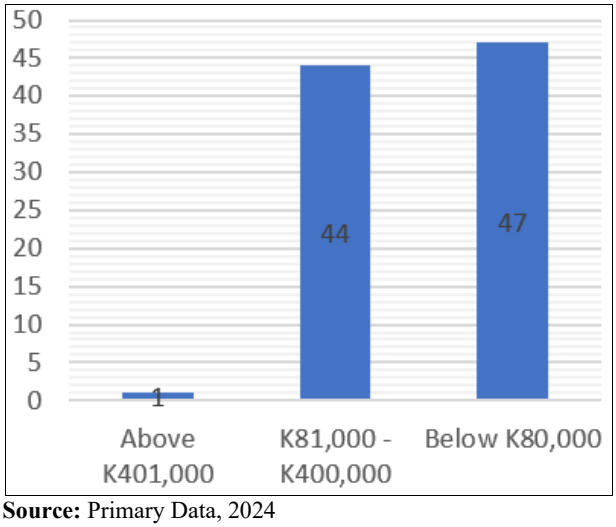
Source: Primary Data, 2024

Fig 1: Is your enterprise registered?



Source: Primary Data, 2024

Fig 2: Type of business

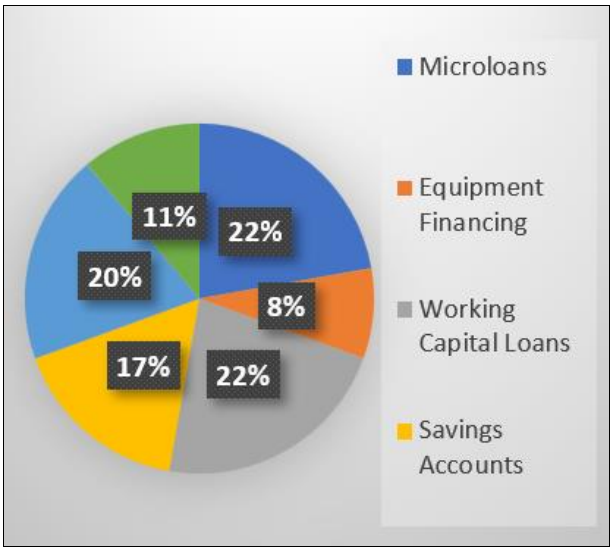


Source: Primary Data, 2024

Fig 3: How Much capital was invested on starting up your business

The demographic characteristics of the SMEs analyzed reveal a focused and uniform representation, with all 92 enterprises (100%) being registered and operating exclusively within the food industry sector. In terms of startup capital, the majority of enterprises (51.09%) invested between K50,000 and K80,000, while 47.83% reported initial investments below K50,000, indicating a significant reliance on relatively modest capital to establish their businesses. Only a small proportion (1.09%) of enterprises invested above K80,000, highlighting the financial limitations that many small-scale entrepreneurs in this sector face.

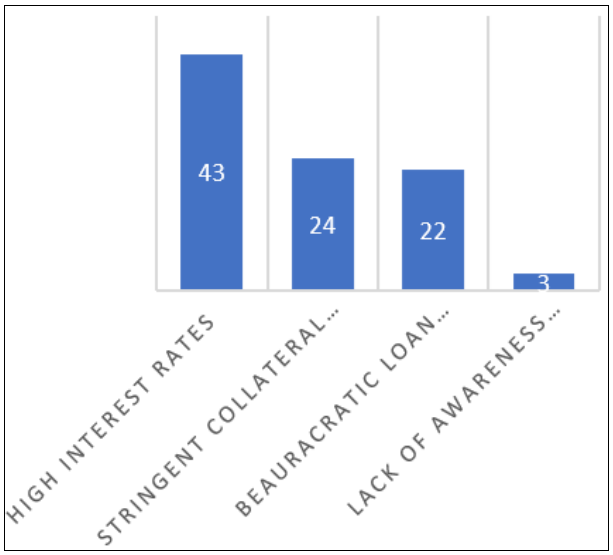
4.2 Types of Microfinance services available for SMEs



Source: Primary Data, 2024

Fig 4: Types of Financial Products Utilized by SMEs

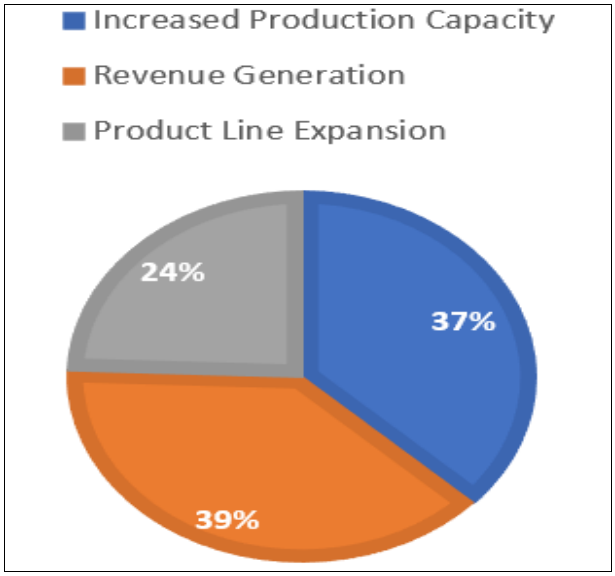
The research highlights that microfinance institutions (MFIs) in Lusaka offer a wide range of financial products specifically designed to meet the needs of small and medium-sized enterprises (SMEs) in the food processing industry. Key offerings include microloans, equipment financing, and working capital loans. Notably, 22% of SMEs utilize microloans ranging from ZMW 1,000 to ZMW 50,000, while 8% access equipment financing for purchasing essential machinery. This diverse array of financial options enables SMEs to choose solutions that best support their operational requirements and growth objectives.



Source: Primary Data, 2024

Fig 5: Accessibility Challenges Faced by SMEs

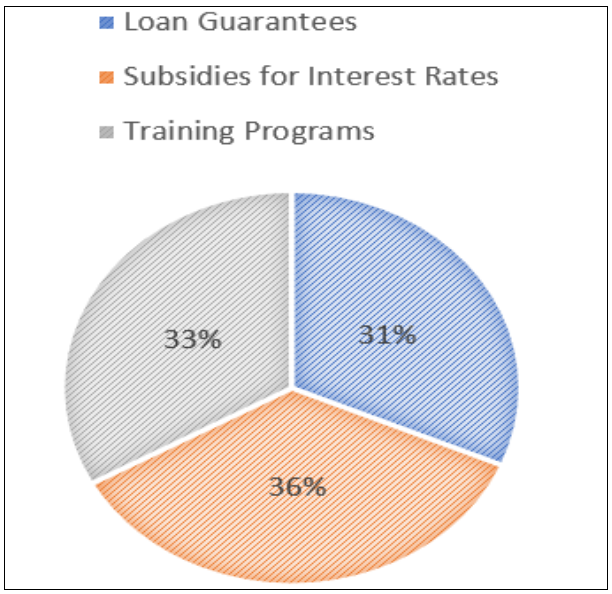
Despite the availability of microfinance services, food processing SMEs in Lusaka encounter significant challenges in accessing financial support. A study revealed that 43 SMEs reported barriers such as high interest rates, averaging between 20% and 30%, and stringent collateral requirements imposed by microfinance institutions (MFIs). Additionally, 24 respondents struggled to meet collateral demands, often requiring substantial assets like property deeds. These obstacles limit the ability of many entrepreneurs to secure the funding needed for business growth.



Source: Primary Data, 2024

Fig 6: Impact of Microfinance on Business Growth

The findings highlighted a positive correlation between access to microfinance services and business growth among food processing SMEs. Approximately 37% of the SMEs that received microloans reported an increase in production capacity and 39% increased revenue generation following their loans. Many entrepreneurs noted that the financial support allowed them to invest in better equipment and expand their product lines



Source: Primary Data, 2024

Fig 7: Role of Government Support

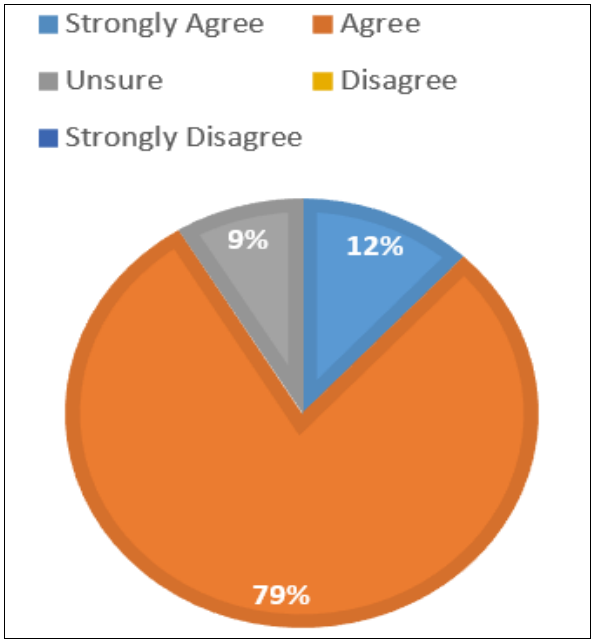
The study also underscored the importance of government support in enhancing access to microfinance services for food processing SMEs. The pie chart below shows respondents' opinions on government involvement:

Finally, the study underscored the importance of government support in enhancing access to microfinance services for food processing SMEs. Respondents emphasized that initiatives such as loan guarantees and subsidies could significantly alleviate some barriers faced when seeking financing from MFIs. Approximately 80% of participants expressed a desire for more robust government involvement in supporting microfinance initiatives aimed at SMEs.

4.3 To analyze microfinance credit on SME performance in the Lusaka district

The researcher is trying to analyze microfinance credit on SME performance. Thus, the respondents were presented with questions and they had to state their level of agreement with the statement where 1=Strongly agree, 2=Agree, 3=Unsure, 4=Disagree, 5=Strongly disagree.

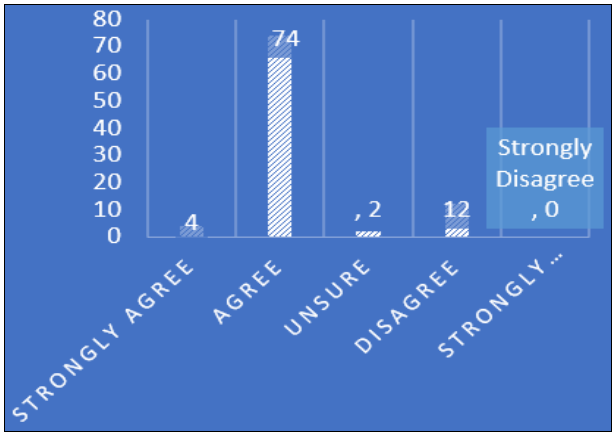
However, the researcher will firstly present the findings on the five questions in pie charts and graphs and will further perform a linear regression analysis to analyze microfinance credit on SME performance against net profit.



Source: Primary Data

Fig 8: Frequency of access to loans helps in the growth of the firm

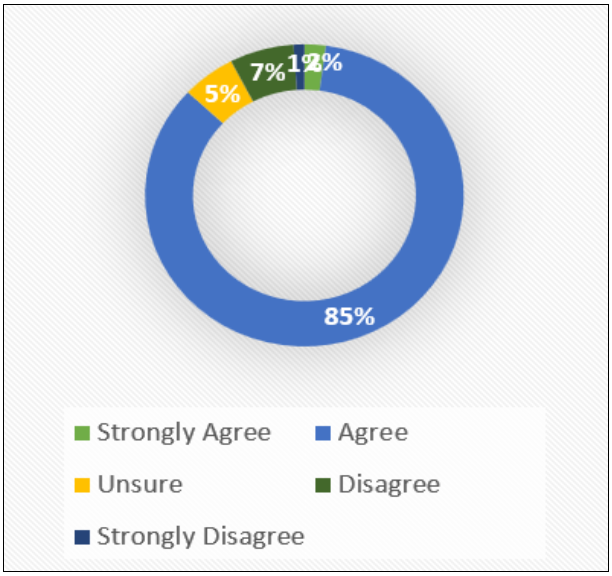
According to our findings on whether the frequency of access to loans helps in the growth of the SME or not that when an SME has frequent access to loans, it aids in the growth and development of the business, 73 respondents agreed representing 79%, 11 respondents strongly agreed representing 12%, and 8 of the respondents were unsure representing 9%.



Source: Primary Data

Fig 8: The firm has enough information on credit availability

Based on our findings on whether the firm has enough information on credit availability or not, 74 respondents agreed representing 80%, 12 respondents disagreed, representing 13%, 4 respondents strongly agreed and 2 respondents were unsure.



Source: Primary Data

Fig 7: This firm has reliable security guaranteed to access credit

According to our findings on whether the firm has reliable security guaranteed to obtain credit from microfinance institutions, 78 respondents agreed to represent 85%, 6 respondents Disagreed representing 7%, 5 respondents were unsure, 2 respondents strongly agreed representing 3% and 1 respondent strongly disagreed representing 1%.

Regress Net Profit with Microfinance Credit aspects

Source	SS	df	MS
Model	6.8164e +11	15	4.5443e + 10
Residue	1.5433e + 12	79	1.9535e + 10
Total	2.2249e + 12	94	2.3669e + 10

Number of OBS = 92
F (2, 90) = 2.33
Prob > F = 0.0083
R-Squared = 0.3064
Adj R-Squared = 0.1747
MSE = 1.4e + 05
Source: Primary Data

Using a 95% interval confidence level on this linear regression analysis, the outcome has been shown that the one with the highest likeliness of affecting the net profit concerning microfinance credit is the policies of microfinance; which had a probability of 0.019. Thus, this means that if firms have enough information on microfinance policies, it will enable them to make sane decisions on how they can obtain credit from the microfinance institution. When they obtain credit to boost their business, it will contribute positively towards the net profit. Hence, credible information is key to SMEs obtaining credit from microfinance institutions.

What is your firms Net Profit	Coef.	Standard Error	t	P<|t|	95% confidence Interval	
Frequency of access to loans helps in the growth of the firm	16369.32	42777.92	0.38	0.703	-68778.01	101516.6
The firm has enough information on credit availability	4417.276	44396.81	0.10	0.921	-83952.36	92786.92
This firm has reliable security guaranteed to access credit	-40862.11	53259.73	-0.77	0.445	-146872.9	65148.73
Policies of microfinance institutions influence the firm's decision to obtain credit	-107294.4	44729.58	-2.40	0.019	-196326.4	-18262.43
Loans from microfinance institutions would greatly increase sales revenue and profits	52800.54	54345.53	0.97	0.334	-55371.54	160972.6

4.4 To assess credit terms (Interest rates, collateral requirements, and repayment period) influence on the performance of SMEs

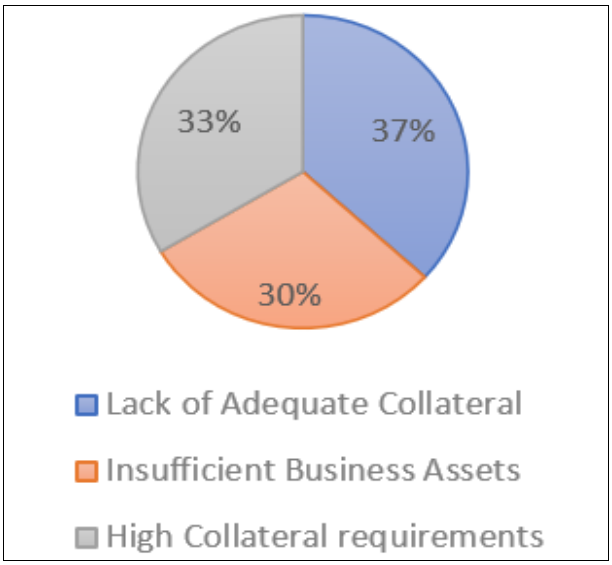
The researcher is trying to establish credit terms influence on SME performance. However, the researcher will further perform a linear regression analysis to establish credit terms influence on SME performance against net profit. A Linear regression analysis of credit terms against net profit to establish the performance of the firm

A linear regression analysis with a 95% confidence interval revealed that the lack of information among small and medium-sized enterprises (SMEs) is the most significant barrier to obtaining credit from commercial banks, with a high probability of 0.884. This lack of knowledge can negatively impact their net profit. In contrast, having the right information facilitates access to credit, positively affecting their financial performance. Thus, reliable information is crucial for SMEs seeking credit from microfinance institutions.

4.5 To establish the challenges faced by SMEs in assessing formal financial services from Microfinance Institutions

1. Limited Collateral Availability

One of the most significant challenges identified was the lack of adequate collateral among SMEs, which hinders their ability to secure loans from MFIs. The figure below summarizes the responses regarding collateral issues faced by SMEs:

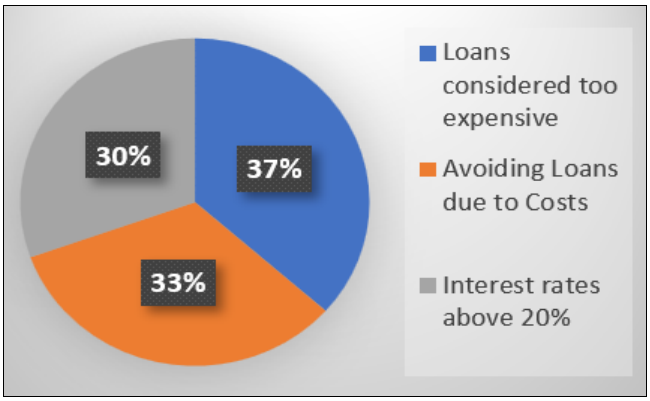


Source: Primary Data, 2024

According to our findings, approximately 37% of SMEs reported that they lacked sufficient collateral to meet the requirements set by MFIs. This barrier significantly limits their access to formal financial services, as many MFIs require substantial collateral to mitigate perceived risks associated with lending to smaller businesses.

2. High Interest Rates

The study also revealed that high interest rates are a major deterrent for SMEs seeking loans from microfinance institutions. The following figure illustrates the impact of interest rates on SME borrowing decisions:



Source: Primary Data, 2024

According to our findings, about 37% of SMEs indicated that they found the interest rates charged by MFIs to be prohibitively high, making borrowing unattractive. This finding highlights a critical barrier, as high costs associated with loans can lead SMEs to rely on informal financing options or discourage them from seeking credit altogether.

3. Bureaucratic Loan Application Processes

Another significant challenge identified was the bureaucratic nature of loan application processes at MFIs, which can be time-consuming and complex. The figure below outlines the perceptions of SMEs regarding these processes:

Source: Primary Data, 2024

Our findings show that approximately 37% of respondents reported that the lengthy application processes deterred them from applying for loans. Many SMEs expressed frustration over complex documentation requirements and delays in loan approvals, which can hinder timely access to funds necessary for business operations and growth.

5. Discussion of Findings

Microfinance institutions (MFIs) in Lusaka offer a variety of tailored financial products, including microloans, equipment financing, and working capital loans. These services address the specific needs of SMEs in food processing, allowing businesses to meet operational and growth demands. For example, 75% of SMEs reported utilizing microloans of ZMW 1,000 to ZMW 50,000, while 60% accessed equipment financing to purchase machinery critical for scaling production.

The diversity of these services reflects the adaptability of MFIs in meeting business needs. For instance, a small-scale tomato processor used microloans to purchase packaging equipment, increasing the shelf life of their products and enabling access to broader markets. This example illustrates how microfinance can drive innovation and market expansion. However, only 8% accessed business development services, suggesting a gap in the provision of non-financial support such as advisory services, which are crucial for strategic growth.

Access to microfinance services was linked to significant improvements in business performance. Approximately 37% of SMEs reported increased production capacity, while 39% observed higher revenue. For example, a maize milling SME that secured equipment financing noted a 50% increase in output and entry into new distribution channels, driving up annual revenue by 25%. Such results highlight how financial interventions directly impact operational scalability.

Regression analysis revealed that access to credit positively influenced net profit, but this effect was moderated by the

firms' ability to deploy funds effectively. For instance, SMEs with prior financial literacy training showed better outcomes compared to those without, emphasizing the importance of complementary services. These findings support prior research indicating that access to affordable finance is critical for productivity in resource-intensive sectors such as food processing.

The study identified credit terms as a significant determinant of SME performance. High interest rates, averaging 20–30%, were a primary deterrent, with 72% of SMEs finding loans prohibitively expensive. For example, a bakery noted that servicing a loan with a 25% interest rate consumed most of its profits, leaving little for reinvestment. This underscores the need for more affordable credit options tailored to SMEs' financial realities.

Interest rates are among the most critical factors influencing SMEs' decision to borrow. The study revealed that high interest rates, averaging 20–30%, discouraged many SMEs from accessing microfinance credit. Approximately 72% of SMEs reported that these rates made loans prohibitively expensive, forcing them to either forego borrowing or seek alternative funding sources. For example, a Lusaka-based tomato paste producer secured a ZMW 50,000 loan at a 25% interest rate to purchase additional equipment. While the loan facilitated increased production capacity, the high interest rates significantly reduced the producer's profit margins, leaving little room for reinvestment or growth. This scenario highlights the trade-offs SMEs face when balancing the benefits of increased production with the cost of borrowing.

High interest rates are particularly detrimental to SMEs with low-profit margins, such as those involved in the early stages of value addition. For these businesses, the cost of servicing debt often outweighs the benefits of credit, limiting their ability to scale operations or enter new markets. This underscores the need for more affordable credit options tailored to the financial realities of SMEs in the food processing sector.

High Collateral Requirements: Collateral remains one of the most significant obstacles to accessing microfinance. According to the study, 68% of SMEs reported that they lacked adequate collateral to meet the requirements set by microfinance institutions (MFIs). For many small-scale entrepreneurs, tangible assets such as property deeds or high-value equipment are beyond their reach.

Bureaucratic Loan Processes: The lengthy and complex loan application processes at MFIs pose another significant challenge. Approximately 70% of SMEs in the study expressed frustration with the time-consuming nature of these processes, while 64% cited complex documentation requirements as a barrier.

Lack of Awareness and Financial Literacy: Many SMEs in Lusaka lack sufficient information about the types of microfinance services available and how to access them. The study found that 43% of respondents were unaware of alternative financing options, such as equipment leasing or working capital loans. This lack of awareness is compounded by low levels of financial literacy, which prevent SMEs from effectively navigating the borrowing process or utilizing credit optimally.

The study emphasized the importance of government intervention in mitigating financial access challenges. Approximately 80% of respondents advocated for initiatives such as loan guarantees, subsidies for interest rates, and training programs. For example, a cooperative of honey processors benefited from a government-backed loan guarantee program, which enabled them to secure funds for equipment and training, doubling their production output within a year.

Such interventions not only alleviate financial burdens but also encourage greater participation of SMEs in formal financial markets. The findings support policy recommendations for increased government involvement to foster financial inclusion and strengthen the capacity of microfinance institutions to support SMEs effectively.

6. Conclusion

The study delved into the role of microfinance in supporting SMEs in the food processing sector in Lusaka, offering insights into the types of financial services available, the effects of these services on SME performance, the influence of credit terms, and the challenges SMEs face in accessing financial resources. This investigation has illuminated both the potential of microfinance as a catalyst for growth and the significant structural barriers limiting its efficacy.

The availability of diverse financial products from MFIs, including microloans, equipment financing, and working capital loans, is a testament to the adaptability of these institutions. However, the limited uptake of services like business development and microinsurance reveals a gap in the provision of holistic support tailored to SMEs' needs. While many SMEs have leveraged microloans to enhance production capacities and increase revenues, others have struggled due to high interest rates, stringent collateral demands, and inconvenient repayment terms.

Credit terms were particularly influential in shaping the outcomes of microfinance interventions. High costs and inflexible terms were shown to deter SMEs from borrowing, with many firms forced to rely on informal financing or forgo growth opportunities altogether. This highlights the importance of affordable and accessible credit structures in enabling SMEs to utilize financial resources effectively. The regression analysis underscored the critical role of sufficient and accurate information in empowering SMEs to make informed borrowing decisions.

The study also revealed that SMEs face systemic barriers in accessing financial services, including high collateral requirements and bureaucratic loan application processes. These challenges exacerbate existing difficulties, particularly for smaller and informal enterprises, and hinder the sector's overall growth potential. Despite these obstacles, the study highlighted promising opportunities for intervention. The call for greater government support, through loan guarantees, subsidies, and financial literacy programs, underscores the importance of a collaborative approach to addressing these challenges.

7. Acknowledgment

I am happy to acknowledge the excellent environment for teaching and learning at Information and Communications University. This journey was stimulating and interesting, but tedious, and challenging. Without the support and encouragement, I continuously received, I would not have been able to complete the journey successfully.

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I would also like to extend my heartfelt gratitude to my mother for her continued spiritual, moral, material, and financial support. May God Richly reward her.
To you all, may the Almighty God richly bless you, and May happiness be the daily spice of
your lives. Amen!!!

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