An assessment on the Impact of Financial Products and Services Accessibility on SME Growth and Development in Zimbabwe

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**ARTICLE DETAILS**

**ABSTRACT**

This study investigates how the access to financial products and services affect growth and development of the Small and Medium Enterprises (SMEs) in Zimbabwe. The study uses a mixed-methods approach that combines primary data collected from self-administered questionnaires targeted at SMEs owner-manager by incorporating secondary sources from monetary policy statement, World Bank financial statistics, and scholarly literature. The objective of this all-inclusive data collection approach is to present, an overall picture of the financial infrastructure for SMEs in Zimbabwe which is focused on both access to Finance and the impact of financial services on SME growth. The survey instruments were, therefore, developed to provide more nuanced feedback on the twin issues, inquiring both qualitatively and quantitatively about notions of SMEs' involvement with financial services. The secondary data assists to present these findings within the broad economic environment; thus, a macro-level perspective of the challenges and opportunities that are facing SMEs in Zimbabwe is provided. The anticipated outcomes of the research aim at improving knowledge about of the role of financial accessibility in supporting growth and development of SMEs in a developing country. Thus, we note the lack of policies that increase the financial inclusion and ensure the SMEs as major development engines.

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1. Introduction

The study is premised on evaluating the effect of microfinance availability on the development of Small and Medium Enterprises (SMEs) in Zimbabwe. Microfinance being a significant component of financial inclusion has an undertaking of financial services like small loans, savings accounts, insurance among others to individuals and businesses not having access to traditional banking institutions (Hussaini & Chibuzo, 2018). The contribution of microfinance in empowering economically vulnerable, less privileged groups such as SMEs towards sustainable economic development has now been well-recognized. Microfinance programs are developed to fill the void between the conventional financial
system and the demands of the excluded populations. The World Bank and some other international organizations consider financial inclusion, primarily through microfinance, as one of the strong drivers for poverty reduction and economic growth (World Bank, 2011). Micro-finance institutions (MFIs) attempt the provision of these crucial services at affordable prices that support the expansion of business activities, income equality as well as societal welfare (Wang & Shihadeh, 2015; Beck, Demirgüç-Kunt, & Levine, 2007).

In Zimbabwe SMEs contribute in a big way to the economy as they provide many jobs and account for some industrial activities. They are fundamental to income earning and wealth creation in the country. Yet, the expansion and resilience of the SMEs is often undermined by challenges related to access to financial services (Njanike, 2019). The Zimbabwean government recognizes this challenge and has put up efforts including the National Financial Inclusion Strategy to amongst others boost access to financial services for SMEs (Reserve Bank of Zimbabwe, 2016). SMEs are key in the growth profile of the Zimbabwean economy and for this reason face quite a number of obstacles when in need of obtaining formal financing, particular from traditional financial institutions. Microfinance being a potential answer to this problem has emerged providing more flexible and accessible services to the small and medium enterprises (Njanike, 2019). While microfinance accessibility affects SMEs growth and development in Zimbabwe, the extent about this influence is scantily analysed yet. There is a rapid development of SMEs in Zimbabwe yet their growth has been hindered by the restrictive barriers to accessing financing particularly from commercial banks. The provision of microfinance services which is almost a solution, has been suitable for this problem. Many of these microfinance institutions give better services which are accommodating and easily accessible to the small and medium enterprises (Njanike, 2019). Microfinance accessibility influences SMEs growth and development in Zimbabwe but the extent of this influence is underexposed. Much has been said on financial inclusion and its general benefits but very little is known on the specific impact of microfinance accessibility on SMEs especially within Zimbabwe’s context. This study seeks to fill this gap by looking at how microfinance, considered as an instrument of financial inclusion, impacts the expansion of SMEs in Zimbabwe. It intends to assess the link between microfinance accessibility and indicators of SME growth like revenue increase, job creation, market expansion, and innovation. This research will give useful information to the policymakers, financial organization and entrepreneurs towards how microfinance is going to contribute towards development of SMEs in Zimbabwe.

The central problem this study addresses is that Small and Medium Enterprises (SMEs) in Zimbabwe are gaining stagnated growth and declined development despite the availability of microfinance services (Matsongoni & Mutambara, 2021). In Zimbabwe, there are many microfinance institutions (MFIs) operating and services are provided, however, there is a marked disparity between the services they provide and what ends as the impact on the growth parameters of SMEs. This gap is spelled by a little enhancement in important areas like revenue growth, jobs creation, market expansion and innovation in the SME sector. The problem stems from the situation where SMEs, though accessing microfinance services, continue to battle with expanding their operations, growing their market share, and improving their competitiveness in the industry (Watambwa & Shilongo, 2021). This setting illustrates the imperfections in the current microfinance service delivery models serving the small and medium scale enterprises in Zimbabwe or a mismatch in the services and the specific hurdles facing Zimbabwean SMEs.

The core of the problem is twofold, to start with, there is limited effectiveness in the creation and issuance of microcredit assets which do not sufficiently respond to the peculiar demands of the small business sector in Zimbabwe. Yet, some SMEs do not have the necessary skills to use these
finances services maximally in their growth and development (Matsongoni & Mutambara, 2021). The problem thus calls for research to establish the impact of microfinance in the development of SMEs in Zimbabwe. The research objectives are to examine if the microfinance models are suitably designed to serve SMEs and examine any gaps and improvement areas. The result of this study is projected to give practical solutions to MFIs, policymakers, and entrepreneurs which will assist them in formulating more effective strategy and policies that can close the gap between microfinance accessibility and small business growth in Zimbabwe.

The targeted businesses were SMEs with less than 40 employees. The research study was focused on SME businesses that fall under sectors retail, motor spares and accessories and hardware. The study concentrated on SMEs in Harare since this city is known to be a prominent economic hub and it is expected to have a high density of SMEs which are pertinent to this research. The number of eligible subjects at the start was supposed to be large and broad. Consequently, the final choice was restricted to the SMEs fulfilling the specific criteria predetermined for the purpose of the article. Research was also fed from a widely diverse civil group that participates in the formulation and implementation of national macroeconomic related policies.

This study has the following objective and research question.

To explore the impact of financial products and services accessibility on SME growth and development in Zimbabwe.

Does the accessibility of financial products and services improve the growth and development of SMEs in Zimbabwe?

2. Literature Review

2.1 Definition of Small to Medium Enterprise (SME)

In 2007 the World Bank pointed out that there was no generally accepted operational or numerical definition of what constituted small-scale enterprise. Beck et al. (2007) noted that there was no consensus definition of small-scale business universally. The characterization of SMEs is usually diverse as the person doing the defining and the reasons behind their definition. However, World Bank (2007) stated that all organizations with fewer than 99 people were SMEs. The European Commission (2020) proposed an economic instead of legal definition of ‘Small and Medium Enterprises’ (SMEs) using metrics such as staff headcount, turnover and/or annual balance sheet total as indicated in Table 2.1 below:

Table 2.1 The EU Commission’s Definition of SMEs

<table>
<thead>
<tr>
<th>Company Category</th>
<th>Staff Headcount</th>
<th>Annual Turnover</th>
<th>Annual Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Size</td>
<td>&lt; 250</td>
<td>&lt; €50 million</td>
<td>&lt; €43 million</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt; €10 million</td>
<td>&lt; €10 million</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>&lt; €2 million</td>
<td>&lt; €2 million</td>
</tr>
</tbody>
</table>

Source: European Commission (2020:11)

Also, the International Finance Corporation (2012) saw SME as the business which is run by an owner personally, rather than by formulated management systems. IFC’s opted to use three variables, which are number of employees, annual sales and total assets as the indicators to classify SMEs. SMEs in Ghana were defined by multiple definitions, but the most popular criterion was the number of
employees of the enterprise (Demirgüç-Kunt & Klapper, 2013). SMEs in South Africa were categorized in line with the legislation. The National Small Business Amendment Act 26 (2003) defines SMEs based on the sector the SME operates in of which there five types, agriculture, manufacturing, retail, construction and transit. The figures such as the number of employees and full-time equivalent, turnover, and asset value excluding fixed property generally reflect the small and medium-size enterprises (SMEs) (Banking Association of South Africa, 2015). Additionally, the SMEs in Zimbabwe were categorized according to the number of employees and average annual turnover by Chitokwindo et al. (2014). SMEs in Zimbabwe are defined by the Government as enterprises using family and hired labour that range from 5–40 employees (Mafunga, 2017). The RBZ governor, Gono (2012) preferred to use the SME definition quoted in section 2b of the Finance Act (Chapter 23: 04). The corresponding functional interface of the method filter () is of type Predicate. This was based on the employment figures, the annual turnover and the value of the assets that was being categorized. However, for the needs of this research, small and medium enterprises in Harare are firms that have less than 10 employees.

2.2 Theoretical Underpinning

The section discusses the theories that relate to financial inclusion and business performance among them are mainstream banking, balance scorecard and pecking order theory.

2.3.1 Universal Finance Theory

Scholars of universal finance theory claim that all companies have an equal opportunity to exploit the financial markets. Nevertheless, it is empirically proved that smaller firms struggle to assess credit risk (Carreira & Silva 2012). Despite that primary responsibilities of Financial Institutions are to offer services to SMEs, some of these institutions are not furnishing SMEs properly. In accordance with the universal financial theory, all firms have the same access to the financial market, SMEs however face a more difficult time procuring credit from external sources (Carreira & Silva, 2012). Lee et al. (2015) claim that because of the harsh measures by financial institutions, serving small businesses is not rendered. As indicated by Meegersa (2020) and Dong and Men (2014), the issue of lack of SMEs financing is also exacerbated by the largely bank based financial system of developing countries. Personal and business firms have financial growth cycle according to the model by Berger and Udell (2006). Access to funds in the initial stage of the Small and Medium-Sized Enterprises (SMEs) resulted in the business failure and in the later stage, they experience developmental stagnation. Karedza et al. (2014) argued that banks decline to support SMEs because of collateral and risk problems.

2.2.2 Concept of financial access

Financial access means including those groups that were excluded before in the financial inclusion. It calculates the numbers the intended population that is to gain from financial products and services a financial. Jaising (2013) noted that ‘the level of financial inclusion measured by the proportion of the population with a bank account has a noticeable positive impact on human development.’ In determining the level of access it should be the main determinant the measure of population that have access to a formal bank account (Demirgüç-Kunt and Klapper, 2013). Also, a vigilance should be taken into consideration by the fact that most of the people involving in retail financial services are having more than one account whether with single bank or multiple banks (Hannig & Jansen, 2010). With respect to access points the number of mobile money agents rose substantially from 38,745 in December 2015 to 59,218 at the end of 2019 (Mangudya, 2019). Nevertheless, the numbers of mobile money agents decreased in the second half of 2020 upon the implementation of RBZ directive to stop mobile money agents to participate in mobile money transactions (Mangudya, 2019). The directive was hence forth necessitated to protect customers on
mobile money platforms which were being misused by merchants involved in shadow banking.

In 2016, active mobile subscriptions reached 3.3 million, and by 31 March 2020 they had risen to 7.67 million (Mangudya, 2020). The hike was due to the increase in the registered mobile telephone subscription numbers. The count of the mobile subscriptions as at the end of March 2020 was 24,379,810; 13,724,522 were active (Mangudya, 2020). Additionally, the number of Point of Sale (PoS) terminals in Zimbabwe increased impressively from 16,363 in December 2015 to 121,413 in 2019, largely due to Reserve Bank of Zimbabwe (RBZ) efforts at promoting electronic payments and mPOS introduction in 2019. This initiative targeted Small and Medium Therefore significant efforts are made in Zimbabwe to expand financial inclusion by easy way to financial offerings.

Table 2.2 Access Points and Devices: 2015-2019, Zimbabwe

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ATMs</td>
<td>556</td>
<td>569</td>
<td>561</td>
<td>551</td>
<td>542</td>
</tr>
<tr>
<td>Standard POS</td>
<td>16,363</td>
<td>32,629</td>
<td>59,939</td>
<td>99,935</td>
<td>121,413</td>
</tr>
<tr>
<td>Bank Agents</td>
<td>1,723</td>
<td>4,059</td>
<td>4,865</td>
<td>4,815</td>
<td>4,840</td>
</tr>
<tr>
<td>Mobile banking Agents</td>
<td>38,745</td>
<td>40,590</td>
<td>47,838</td>
<td>50,740</td>
<td>59,219</td>
</tr>
<tr>
<td>MPOS</td>
<td></td>
<td></td>
<td></td>
<td>21,248</td>
<td>29,991</td>
</tr>
</tbody>
</table>

| Debit Cards              | 2,365,160| 3,127,153| 4,281,683| 4,734,299| 5,625,031|
| Credit Cards             | 10,854   | 16,030   | 17,411   | 17,204   | 18,089   |
| Prepaid Cards            | 30,125   | 43,288   | 63,987   | 88,406   | 99,278   |
| Total Number of Cards    | 2,406,139| 3,186,471| 4,363,081| 4,839,909| 5,742,398|
| Active Mobile Banking Subscriptions | 4,683,959| 3,303,188| 4,706,778| 6,352,552| 7,334,639|
| Active Internet Banking Subscribers | 108,662  | 168,339  | 277,674  | 353,103  | 415,901  |
| Total Registered Mobile subscribers | 8,430,888| 8,928,214| 10,801,013| 13,722,394| 15,567,046|
| Bank Accounts (inc Ecocash save) | 3,540,988| 3,995,959| 4,422,435| 4,969,262| 7,138,016|
| Ecocash Save Accounts    | 1,359,990| 1,429,018| 1,507,312| 1,620,127| 1,717,821|

Source: Reserve Bank of Zimbabwe 2019

2.3 Microfinance and Its Role in SME Development

Microfinance has lately gained momentum as the strategic means of promoting economic development of Micro-, Small and Medium-Sized Enterprises (SMEs), especially in economically underdeveloped societies such as in Ethiopia where the classical banking services are often restricted for small businesses due to high interest rates or collateral requirements (Tessera, 2021). Microfinance, the core lies in the ability to bridge the financial gap, offering a lifeline to SMEs by providing access to credit, savings, insurance, and other financial services integral to business development and sustainability. As per Ismail, Farooq and Ahmed (2020), microfinance institutions (MFIs) are a critical player in financial inclusion, providing specialized financial products that cater to the particular needs of SMEs. On the contrary, Singh, Dutt and Adbi (2022), contend that although microfinance offers a lot of opportunities for SMEs, the impact of microfinance on long term business growth is still a subject of debate, further implying that not all SMEs can really benefit from microfinance for substantial development.
MFIs offer a diverse range of financial products designed to meet the particular needs of SMEs. They consist of microloans for capacity development, micro savings for liquidity management, micro-insurance products for risk mitigation, and payment systems for operational efficiency. As it was pointed out by Demirguc-Kunt, Klapper (2013), and Munyao, (2022), that these services help SMEs to overcome financial constraints, improve their operational capacities, and manage risks successfully. However, the efficiency of such products in promoting SME growth significantly differs. On the positive side, Kisyliak (2015) points out the relationship between the enhancement of micro-financing access and the increased investment into businesses of SMEs as well as the expansion of the market. Microfinance is, however, viewed with concern by Kersten et al. (2017). They warn against over-estimating the benefits of microfinance stating that without necessary business skills and a good regulatory environment, its impact on SME development can be minimal.

In the discourse assessment we analyse that microfinance is an important but tricky issue within the development environment of SMEs. Despite the consensus about the potential of microfinance in implementing financial inclusion and provide essential financial services to SMEs, diverging views persist regarding its ultimate impact on SME growth. Such divergence brings to this fore the need for a discriminating belief of the contexts in which microfinance will be most efficient. The implication of this is, though microfinance is a vital tool for SME growth, its positive effects will be enhanced significantly by the availability of business development services and an ecosystem conductive for SMEs. Therefore, in this endeavour to narrate on microfinance and the SME sector, advocating for a holistic approach that focuses on the availability of financial products, is one critical aspect but the other aspects are equally important. These are environmental factors such as infrastructure and the business enabling environment that play a role in promoting SME growth and development in Zimbabwe.

Empirical studies of microfinance impact on SME growth and development have generated a lot of interest especially in developing economies and regions like Sub-Saharan Africa. The literature we have henceforth reviewed gives a wide variety of findings on how the performance of SMEs across different metrics, such as revenue, employment, and innovation have been affected by microfinance. A seminal study by Olowe et al. (2013) assessed the impact of microfinance on SME growth in Nigeria and showed that microfinance access is positively correlated with SME revenue growth. It was argued that microfinance institutions (MFIs) function as a source of funds required by SMEs for expansion and access to new markets. While on the same viewpoint, Amsi et al. (2017) did a similar study in Kenya that advocates against being too optimistic. They saw the benefits of microfinance as well and noted challenges SMEs have in maximizing the use of microloans in ensuring their business growth they said interest rate is too high and short repayment period that can be hardly managed.

To Zimbabwe, Zvirikuzhe (2022) gave the particular effect of microfinance services on SME innovation in that region. The study revealed that access to finance was indeed vital for SMEs in investing in technologies and product development but lack of financial literacy and business support prevented effective utilization of these funds for innovation. Such a discovery is in line with Machiambi (2014) who maintained that the gains of microfinance go beyond financial access as services integration is essential in improving the competitiveness and innovation capacity of SMEs. The discourse on the impact of microfinance in developing the SME sector gets more diverse with the work of Machingambi (2014) who looks into the link between microfinance and job creation in Zimbabwean SMEs. The research however, showed a significant positive effect of microfinance on job creation, explaining the phenomenon as being caused by the improved operational efficiency and increased market coverage brought about by microfinance loans. Nonetheless, Njanike (2019) adds that one of the key concerns
Incorporating the above it is evident that microfinance has the capacity to foster SME growth in Sub-Saharan Africa, Zimbabwe specifically. Nevertheless, the differences observed across studies highlight the multidimensionality of this link. Although financial access through microfinance can stimulate SME development through the increase in revenue, market presence and/or employment, the magnitude of these benefits still depends on the nature of loan terms, the level of financial literacy and the availability of other essential business support services (Zhang & Ayele, 2022).

By synthesizing the empirical literature, I argue for a sophisticated position of microfinance as regards SME development. Evidently, microfinance is not a cure for all but rather a device to integrate in other broader support tools which if used appropriately can result into huge growth of SME. This perspective calls for bringing MFIs, public and non-governmental organizations together enabling them to provide SMEs with financial literacy besides just providing SMEs with financial products. This is meant to ensure SMEs are adequately equipped and ready to confront the challenges of business expansion and innovation. The empirical studies reviewed here, overall, point to the transformative impacts of microfinance on SMEs in Zimbabwe and the larger Sub-Saharan African context. Nevertheless, this also draws the attention to the necessity of policies and practices due to the role that microfinance plays in promoting enterprises’ accessibility and impact, ultimately achieving sustainable SME development. The gap is between financial access and effective utilization which we must close as we go forward so that SMEs utilize microfinance to survive, but also grow and prosper.

2.4 Exploration of factors that determine the accessibility of microfinance for SMEs in Zimbabwe, including regulatory, market, and institutional determinants.

The availability of microfinance to Small and Medium Enterprises (SMEs) in Zimbabwe is determined by a number of aspects, which extend to regulatory regimes, to market dynamics and institutional determinants (Joseph, 2021). Together these factors define the environment within which SMEs function and the extent to which they are able to receive the support of microfinance institutions. The nature of regulatory policies to a large extent determines the accessibility of microfinance by small and medium scaled enterprises. Scholarly argument by ESCAP (2017) is that strict regulatory requirements usually imposed by the national banking authorities on MFIs may restrict operational flexibility resulting in lowering capabilities of MFIs to provide adaptable financial products to small and medium enterprises. Instead, García-Pérez et al. (2020) state that clear regulatory regimes enable robust microfinance sectors, which sustain SME development through reliable and trustworthy MFIs. The discussion outlines the dual-edged nature of the influence of regulation indicating that extent of microfinance accessibility depends upon the equilibrium attained between regulatory stringency and operational flexibility.

The market determinants such as MFIs’ competition and the demand for MF services also affect reachability. Mboya (2013) contend that a competitive microfinance market will lead to more innovative and tailored financial products for SMEs which will in shaping them to be more accessible. Nevertheless they point out the danger of markets reaching a level of saturation resulting in over-competitiveness, which can harm SMEs through excessive debt. The same is seconded by Blankenburg (2018) who points out the fact that microfinance services prices and availability do not occur in vacuum as market dynamics are the determinants of taking place of the MFIs. More importantly, both over- and under-competition in the MFI sector may have unfavourable results for SMEs. Institutional factors that cover MFIs’ internal policies, practices, and capacities determine the microfinance accessibility. Quaye et al., (2014) research indicates that the institutional focus on collateral requirement and risk assessment
techniques can limit SME access to microfinance through the lack of the real estate usually required as collateral. On the contrary, ESCAP (2021) posit that MFIs which adopt innovative risk assessment models and offer non-collateral-based products can boost financial access of SMEs, thus demonstrating an ability for institutional practices to counter the traditional hurdles on microfinance.

The hindrances and barriers towards the access to micro finance are varied for SMEs in Zimbabwe. A major challenge lies in the mismatch between the financial products offered by MFIs and the real SME demand. As per Mudamburi (2019) most of the Zimbabwean MFIs provide financial products with terms that are not in line with the cash flow patterns of SMEs, which causes repayment issues and financial distress. This issue is worsened by the low financial literacy levels found in some of the owners of these SMEs as noted by Noureen (2023), who is of the view that the lack of understanding of financial management and the complexities of microfinance products makes it difficult for SMEs to use microfinance capital efficiently for growth and development. This consolidation of discussions reveals that the availability of microfinance for SMEs in Botswana is a complex issue which depends on regulatory, market and institutional factors. Even though, regulatory frameworks and market dynamics are the main drivers of microfinance operations, institutional determinants as well as specific challenges of SMEs access to financial support have direct relevance on the microfinance accessibility. It is concluded that a holistic approach which incorporates the macro-level determinants and the micro-level challenges is vital for improving the access of SMEs to microfinance in Zimbabwe. The system should be reformed so as to encourage MFIs flexibility, market regulation to facilitate competition and innovation of institutions to adjust financial products to SMEs needs. In the long run, intensifying the microfinance availability for SMEs in Zimbabwe necessitates concentrated actions by the policy makers, financial institutions, and the SME sector.

2.5 Impact of Microfinance Accessibility on SME Growth and Development

Interdependency of microfinance availability and Small and Medium Enterprise (SME) expansion and development is a controversial issue. Microfinance institutions (MFIs) have been seen as engines of economic empowerment especially for small and medium businesses in the developing world (Amran & Mwasiaji, 2019). This view raises from the fact that the small businesses are otherwise unable to access the financial resources which are provided in this perspective. In this part we investigate the various ways in which the establishment of microfinance institutions has affected the development of small and medium enterprises; covering its impact on financial performance, market expansion, job creation, and innovation.

2.5.1 Financial Performance

The financial performance of SMEs is hugely affected by microfinance which provides capital for operational and strategic investments. As per a theoretical framework suggested by Ngeno (2019), access to microloans is causally linked to better liquidity and working capital management of SMEs. This boost enables the businesses to ensure continuity of their operations, invest in quality improvements, and expand the scale of activities, hence higher revenue and profitability. The microfinance and the financial performance is not linear. It indicates that the positive effect of microfinance is dependent on the financial literacy of the SME owners and the terms of the microfinance products (Osei-Assibey & Asamoah, 2019).

2.5.2 Market Expansion

The role of microfinance in the promotion of market development for SMEs is huge. Allowing small businesses to access capital, MFIs empower them to expand their market, range of products and build a better competitive advantage. Akamobi (2019) argues that microfinance renders it possible for
SMEs to expand their operations and to explore export opportunities which are vital for SMEs targeting to break out local market constraints. While the potential to use microfinance for market expansion also is determined by a SME’s strategic vision and operational capabilities, this emphasizes importance of managerial skill in ensuring that maximum benefits are gained from the microfinance.

2.5.3 Employment Creation
Enabling employment creation in SMEs is one of the socially impactful features of microfinance to be leveraged. Funding is important in expansion of SMEs, the additional process would definitely lead to hiring more workers. The data from Kenya presented by Orji et al. (2023) show a positive relationship between microfinance access and SME job creation. Nonetheless, Abisuga-Oyekunle, Patra and Muchie (2020) also contend that quality of such jobs can vary as well since some are temporary or seasonal, hence the need for a complete approach to microfinance that features support for a number of growth strategies.

2.5.4 Innovation Capacity
In a nutshell, the accessibility of microfinance determines the innovation potential of small and medium sized enterprises. Financial limits are quite frequently cited as a major roadblock to innovation within small businesses. Microfinance may alleviate those limits, the small and medium size enterprises (SMEs) equipping the resources needed for research and development (R&D), adopting new technologies, and innovating product ranges. Machingambi (2014) emphasizes that microfinance-supported SMEs in Zimbabwe could come up with market-disruptive products, primarily because microloans were strategically used for innovation. Nevertheless, the ability of microfinance to foster the innovation is not a universal, where success of which is related to the enabling environment among SMEs entrepreneurs and the broader entrepreneurial innovation ecosystem which support the microfinance. Availability of microfinance significantly affects growth and development of SME’s. The implications are on financial performance, market expansion, employment creation, and innovation capacity. Although the possible benefits are great, it is not enough to have financial access. More than a financial access it requires an integrated approach that incorporates financial literacy, strategic planning, and a regulatory and advisory framework.

2.6 Strategies for Enhancing Financial Inclusion Through Microfinance
Exploring financial inclusion through microfinance particularly for small and medium enterprises (SMEs) need strategic approaches involving both innovative financial products and supportive policy frameworks (Santoso et al., 2020). In the light of Ensari and Karabay (2014), many countries have rolled out successful strategies and policies which have significantly improved SME access to microfinance providing useful lessons and best practices for developing countries which are seeking to strengthen their SME sectors. This paper reviews such approaches and tips to follow in order to advance SME growth through microfinance.

2.6.1 Innovative Financial Products
Innovative financial products targeted at the specific wants and needs of SMEs are a successful method of promoting financial inclusion. An example of that is microfinance institutions in Bangladesh, which introduced flexible lending products with variable repayment schedules that are aligned with the seasonal cash flow patterns of agricultural SMEs (Cull and Morduch, 2018). This approach has led to an increase in loan recovery and survival of both SMEs and MFIs. Likewise, the digital microfinance solutions that have been based on mobile technology have been used to provide credit to rural businesses in this region and showed the abilities of the fintech to enhance the financial inclusion (Anakpo et al., 2023).
2.6.2 Capacity Building and Financial Education

Some other effective strategy is the integration of both capacity building and financial education into microfinance services. In Asia the partnership between MFIs and Central Banks is usually for the purpose of providing financial literacy training for SME owners. The training enables the SMEs' owners to acquire skills to manage their finances and also make informed decisions (Prêtet and Klang, 2019). This way enhances the financial performance of SMEs but also reduces default risk, a win-win for both the MFI and the clients.

2.6.3 Government Policy and Regulatory Support

Government policies and regulatory frameworks have an essential part in the promotion or impeding of microfinance access for SMEs. The governmental Micro Units Development & Refinance Agency (MUDRA) scheme in India facilitates refinancing support of microfinance institutions providing loans to micro and small enterprises (Dheenadhayalan, 2016). This microfinance policy has increased greatly the financial access for SMEs altogether in this country. Besides, regulatory sandbox schemes in countries such as Singapore allow fintech startups to experiment with innovative financial products in controlled settings which encourage development of new microfinance solutions (Goo and Heo, 2016).

2.7.4 Partnerships and Collaboration

Emergence of partnerships between MFIs, governments, NGOs and the private sector as a major tool for achieving financial inclusion has also been noted. For instance, in Colombia, partnership between MFIs and agricultural cooperatives have aided smallholder farmers to access credit which in turn has significantly contributed to the growth and sustainability of rural SMEs (Varangis et al., 2014). Such partnerships often harness the advantages of each participant, ranging from financial strength to local knowledge and networks, to bring microfinance services to the SMEs that fall outside the service coverage.

3. Methodology

3.1 Research Philosophy

The study adopted a positivist research ethic predominantly because it concentrated on findings which could be quantified and subjected to statistical analysis. Positivist researchers usually advocated the implication of a highly structured method so as to increase the likelihood of replication (Gill & Johnson, 2010). The researcher adopted positivist approach to objectively observe the impact of financial literacy on SMEs performance in Zimbabwe. Miller (2021) claims that positivists say that there is a single reality that can be observed and described from any perspective by an observer or externally and the observed events remain unchanged.

3.2 Research Design

The categorisation of the purpose or design of research as invoked in the research methods' literature is the threefold type which includes exploratory, descriptive and explanatory (Saunders et al., 2009). Nevertheless, the aim of research could change as times cross over (Robson, 2002). Research Design is the complete strategy of research. An exploratory research study is a beneficial method for discovering and understanding "what is happening," gaining new perspectives, posing inquiries, and evaluating occurrences from a fresh perspective (Robson 2002:59.). Exploratory research is particularly valuable when you have to see the whole picture of the challenge and when you are unsure of the very confines of problem areas ( Saunders et. al., 2009). This study utilised explanatory research method to probe on what makes the small and medium enterprises (SMEs) not grow into big corporations.
3.3 Research Strategy

Research strategy is the purposeful plan undertaken to conduct the research process (Creswell, 2014). The approach of the research is derivable from the plan. The research approaches selection was based on the research questions and objectives as well as the philosophical grounds (Saunders et al., 2009). The present study makes use of an explanatory research design, thus, engages the case study method which is commonly used in explanatory and exploratory research. Case studies may explore data gathering methods which can be diverse and often conducted in parallel. These methods include interviews, observations, document analysis and questionnaires (Saunders et al., 2009).

3.4 Data Collection Methods

The research focuses on the influence of financial products and services accessibility in the growth of SMEs in Zimbabwe using a purposive sampling approach. It integrates primary information from questionnaires which were handed out to SME owners and managers that provide first-hand knowledge of financial access, secondary information from the likes of the Reserve Bank of Zimbabwe and World Bank statistics. This mix provides an in depth look at SME experiences and the broader economic background, and thus gives a well-rounded view of how financial inclusiveness affects the growth of SMEs. The intended objective of the strategic questionnaire delivery was to achieve the maximum responses and data integrity, while secondary sources provided a contextual framework for analysis - hence the comprehensive and relevant finding.

3.4.1 Primary Data
3.4.1.1 Questionnaires

Primary data was collected using self-administered questionnaires which were directly administered to SME owners and managers. The questionnaires were designed in such a way that it contained both open ended and close ended questions which were aimed at eliciting all the required information from the respondent as suggested by Creswel (2014).

3.4.1.2 Administration Method

Adopted was the strategic dropping and picking method of distribution and collection questionnaires. This approach adoption caused an increase in convenience for respondents which lead to a significant increase in response rate as well as sound data collection exercise.

3.4.2 Secondary Data Collection

3.4.2.1 Sources of Data

The study employed several secondary data sources. Monetary policy statements of Reserve Bank of Zimbabwe (RBZ), World Bank financial statistics, profiles of various SMEs and scholarly papers from financial literacy journals were some of these materials. These were essential sources of knowledge, providing a framework in which to situate the research in the context of the global and local financial developments.

3.4.2.2 Relevance and Utility

The study was mainly based on secondary data which served as background as well as context. The data was vital in depicting a detailed scan of how fair lending to the SMEs was. The aim for the secondary literature is in order to equip the reader with accurate information which can serve as a measuring stick in an evaluation against where the primary findings are coming from so as to give the research findings more dimensions.
3.5 Data Analysis Approach

3.5.1 Quantitative and Qualitative Analysis

Qualitative and quantitative analysis techniques were used in the interpretation of the data. The qualitative statistical methods that were used to establish the relationship between financial literacy and improved SME performance and an explanatory qualitative approach that illustrated the nuances that surrounded this relationship based on their respective contexts.

3.5.2 Data Presentation and Analysis Tools

Statistical tools were analysed using SPSS and Microsoft Excel. With these applications, the researcher could analyse complex sets of data from which he/she could draw valid conclusions and make correct interpretations. The study was carried out according to the criteria that were properly defined, and therefore allowing investigation of the complicated interlink between financial literacy and SMEs operations. Different kinds of primary and secondary data were used while the different models of an economic development survey were applied, the study provided reasons that made growth for SMEs and how financially included economic agents can become national economic development drivers.

3.6 Population and Sample of the Research

Population of study is the whole set of cases from which the sample is taken (Saunders et al., 2009). All SMEs in Harare constituted the research study’s target population. Towards the objective of confirming the nature of their operations, a number of SMEs were included in the sample to see the state of the SME and financial literacy sector in Zimbabwe. Both banks, microfinance institutions and SMEs are vibrant in Harare which is the business hub and also the centre for many SMEs. So it appeared logical to have as subjects participants from Harare in the research study. A record of SMEs from Harare City Council that have registered was obtained. Each SME was allocated a unique number, hence, the first SME on the list of registered SMEs Harare City Council provided us. Systematic sampling was applied for SME responders’ selection.

3.7 Validity and Reliability of the Research Instrument

Reliability is the level to which data collection methods or analysis processes will produce the same results (Ihantola & Kihn, 2011). Validity relates to the degree to which the research findings truly reflect the intended scope of the subject matter (Anderson & Arsenault, 2005). The researcher undertakes a number of steps to guarantee the questionnaires validity and reliability before they are administered. In the introduction of the questionnaire, the researcher promised the participants and their answers confidentiality. The main objective was to ensure that respondents would not disfigure the information or deliberately hide the relevant information which would allow the research to be achieved.

3.8 Ethical Considerations

The ethical principles were strictly adhered to before, during, and after the study. Participants were informed that their participation in the study was voluntary and could withdraw anytime they felt like to do that as per Wiles (2012). The participants were also informed that the process of encoding data will also ensure their anonymity. The participants were informed of the overall aim and risks of the research project. The researcher also assured that the respondents would be protected in the issues of communication with them and confidentiality, all the findings will be handled at utmost confidentiality.
4. Analysis, Interpretation of Results

4.1 Questionnaire Response Rate

The research employed systematic sampling to select respondents from SMEs targeting a total of 100 participants. The main purpose of these questions was to administer it to the employees that are seniors, managers, or owners of SMEs. Response rate of research study is depicted in Table 4.1.

Table 4.1: Questionnaire Response Rate

<table>
<thead>
<tr>
<th>Administered</th>
<th>Collected</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100</td>
<td>86</td>
</tr>
<tr>
<td></td>
<td>86</td>
<td>86.00%</td>
</tr>
</tbody>
</table>

Source: Primary data (2019)

Table 4.1 indicates that of the 100 questionnaires distributed, 86 were returned. These questionnaires were administered to SMEs found in Harare which include Hardware and Electricals businesses such as Motor Spares Shops and Building and Construction industries which include the Manufacturing sector as well as Retailing. One of them, Sax et al. (2003) and Saleh & Bista, (2017) argue that a response rate of 50% is enough for a study to be empirical. Thus the response rate of 86% was reliable as it is beyond 50% measure.

4.2 Reliability Test

The set of questions given was a factor containing 6 items. Cronbach's Alphas were measured to evaluate the elements internal consistency within each construct. The reliability coefficients of each concept utilised in the questionnaire are depicted in Table 4.2

Table 4.2: Reliability Coefficient

<table>
<thead>
<tr>
<th>Construct</th>
<th>No. of Items</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Access</td>
<td>6</td>
<td>0.7932</td>
</tr>
</tbody>
</table>

Source: Primary Data (2021)

Table 4.2 reveals that the reliability coefficient was acceptable since it was above the 0.7 as posited by Nunnaly, (1978) who state that a reliability coefficient equal that is 0.7 and above shows that the information collected was reliable.

4.3 Respondents Demographics

Section A of the questionnaire was mainly to gather respondents' demographic responses. Below are charts and tables showing respondents demographic characteristics in the study.

Table 4.3: Age of Respondents

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;30</td>
<td>10</td>
<td>11.62%</td>
</tr>
<tr>
<td>31-40</td>
<td>24</td>
<td>27.91%</td>
</tr>
<tr>
<td>41-50</td>
<td>32</td>
<td>37.21%</td>
</tr>
<tr>
<td>&gt;50</td>
<td>12</td>
<td>13.95%</td>
</tr>
<tr>
<td>Not stated</td>
<td>8</td>
<td>9.31%</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: Primary Data (2021)
As shown in Table 4.3 most respondents are from the age of 30 to 49 which is economically active. This is consistent with findings by Mauchi, (2022) who noted that, the age group somehow have gone through horrid economic turn of events in Zimbabwe and shifted to SME operations for employment.

**Figure 4.1: Gender of Respondents**

![Gender of Respondents](image)

*Source: Primary Data (2021)*

The chart 4.1 demonstrates that 81% of the respondents were males while 19% were females. This suggests that women are more financially excluded since majority of them lack regular income, some of them do not have bank accounts and they end up running businesses that require less capital (Berguiga and Adair, 2021).

**Figure 4.2: Level of Education of Respondents**

![Level of Education of Respondents](image)

*Source: Primary Data (2021)*
Figure 4.2 shows that the respondents in the study are mainly those with formal education levels. It is observed that owners and managers of SMEs with higher educational qualifications are strongly financial included as against the financial illiterate ones (Ghosh, 2013).

4.4 Descriptive Statistics

Descriptive statistics for each construct were computed for data collected to statistically describe the impact of financial inclusion on the performance of SMEs in terms of profitability, liquidity, return on investment and market share.

4.4.1 Financial Access and Business Performance

The respondents were to indicate to what extent they agreed that financial access had a positive effect on the performance of the SME. After that, the financial access was divided into six categories as in table 4.4 below.

<table>
<thead>
<tr>
<th>Code</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1.</td>
<td>Financial Access has a positive effect on sales volume</td>
</tr>
<tr>
<td>C2.</td>
<td>Financial Access improves liquidity position of SMEs</td>
</tr>
<tr>
<td>C3.</td>
<td>Funding from banks and microfinance is very powerful in assisting the business to invest and get return on investment.</td>
</tr>
<tr>
<td>C4.</td>
<td>Funding from banks are essential in providing start-up capital</td>
</tr>
<tr>
<td>C5.</td>
<td>Funds from banks have a positive influence on growth of SMEs thereby improving the firm’s market share.</td>
</tr>
<tr>
<td>C6.</td>
<td>Financial Access has a positive impact on overall net profit</td>
</tr>
</tbody>
</table>

The descriptive statistics relating financial access and business performance are shown in the Table 4.5 below.

<table>
<thead>
<tr>
<th>Code</th>
<th>N</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>86</td>
<td>5</td>
<td>1</td>
<td>3.91</td>
<td>0.75</td>
</tr>
<tr>
<td>C2</td>
<td>86</td>
<td>5</td>
<td>2</td>
<td>3.91</td>
<td>0.66</td>
</tr>
<tr>
<td>C3</td>
<td>86</td>
<td>5</td>
<td>2</td>
<td>3.88</td>
<td>0.67</td>
</tr>
<tr>
<td>C4</td>
<td>86</td>
<td>5</td>
<td>2</td>
<td>3.71</td>
<td>0.68</td>
</tr>
<tr>
<td>C5</td>
<td>86</td>
<td>5</td>
<td>2</td>
<td>3.78</td>
<td>0.86</td>
</tr>
<tr>
<td>C6</td>
<td>86</td>
<td>5</td>
<td>1</td>
<td>3.78</td>
<td>0.89</td>
</tr>
</tbody>
</table>

Source: Primary Data (2021)

The researcher was interested in determining whether financial access of financial products and services influences the performance of SME business. The managers and owners of SMEs faced the question of whether they consider loans as a way to improve business performance, and with the mean average of 3.83 they agreed with the mentioned statement. Therefore, SMEs will use more capital in order to buy new machines and some advanced technology which will in turn lead to reduction in production cost. All respondents affirmed that credit financing increases SME’s capital which then gives them the leverage to take advantage of current chances within the business operating environment. The previous results which reveal a positive link between financial access and the performance of SME businesses are supported by a survey by the Association of Ghana Industries (AGI), 2011, which also
identified lack of adequate access to credit as the top hindrance to the growth of small to medium businesses (Avortri, Bunyaminu and Wereko, 2013). Adeola and Evans (2017) also established that financial access has a positive and significant connection to economic growth. Valencik and Cervenka (2016) claim that financial inclusion helps small to medium-sized enterprises to grab investment chances.

4.5 Regression Model

The researcher aimed to find out how financial inclusion affects business performance. Table 4.3 presents the outcome of regression analysis.

Table 4.13 Regression Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t-statistic</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-2.948</td>
<td>0.905</td>
<td>-3.257</td>
<td>.001*</td>
</tr>
<tr>
<td>Financial Access</td>
<td>0.555</td>
<td>0.156</td>
<td>3.567</td>
<td>.001*</td>
</tr>
</tbody>
</table>

The model shows that all the variables impacted positively on business performance as they were all significant in the model at the 5% level with coefficients of 0.555. Financial access is positively related to overall performance of SMEs, as shown by the positive coefficient of 0.555. This implies that any deliberate move by Government or financial institutions to ease access to financial product, such as relaxing the stringent collateral requirements would result in an increase in SMEs performance.

5. Summary, Conclusions and Recommendations

5.1 Summary

The aim of the study was reached because the study managed to reveal that financial access has a positive and significant influence on profitability therefore it positively impacted on SMEs business performance. This was as stated in a study done by Ahmedova (2015) which revealed that the ease with which SME’s were able to access financial services made the SMEs more competitive. Increasing the financial accessibility to the SMEs is also amongst the survival strategies that are being employed by some government to enhance the growth of these firms (Peter, et al., 2018).

5.2 Conclusion

Financial inclusion promotes business performance. Financial access ease is a must for the SMEs growth. This is also in tandem with Peter, et al., (2018), however, these authors further disclosed that financial access positively and significantly correlates with business performance. Both Sarma and Pais (2011) also argue that financial access leads to many opportunities which include the integration of individuals that are economically and socially excluded into the formal economy.

5.3 Recommendations

Government should address the issues that hinder effectiveness of financial inclusion for example power shortages and foreign currency scarcity, and give tax breaks to SMEs. Taking into consideration this elements will attract financially excluded SMEs to conventional financial services. Through the study, it was evident that most of the SMEs in manufacturing sector were financially excluded and this had a negative influence on SMEs performance. As per the survey done by the Association of Ghana Industries (AGI), Avortri, Bunyaminu and Wereko (2013), there was not sufficient
access to financial services especially access to credit which hindered the growth of small businesses. The greatest obstacle for most SMEs that keeps them from obtaining loans from formal financial institutions is the collateral. Government can replace the guarantee note for SMEs which are applying for loans from formals banks as it is currently the case with small scale farmers who are accessing credit from Agribank.

However, Hainz and Nabokin (2019) state that having access to credit does not mean there is a demand for it. Hence, the list above, Huang et al (2010) suggests that from the institutional standpoint, the financial products are homogeneous since services come at a premium. Therefore, the services are not customized according to different financial requirements leading to a misfit between supply and demand. In this respect, financial organizations should offer tailored-made products to SMEs that cater for their needs.

5.4 Suggestions for further research

The study was carried out to ascertain the effect of financial access on the commercial performance of small and medium enterprises (SMEs) in Zimbabwe. In view of the constraints of the researcher in collecting the data and analysing it due to the Corona Virus pandemic it is recommended that researcher concentrates on the whole industrial sector after the epidemic to have the empirical conclusion. Future investigations should also unravel the obstacles that prevent financial access in the Small and Medium-sized Enterprises (SMEs) across the whole board of SMEs.

References


Megersa, K., 2020. Improving SMEs’ access to finance through capital markets and innovative financing
instruments: some evidence from developing countries.


