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Review Article

The Effectiveness of Microfinance Capital Financing on Working Capital, Operating Costs, and Profitability of SMEs in Lusaka, Zambia

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About Article

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ABSTRACT

In Zambia, microfinance institutions play a critical role in providing capital financing for Small and Medium Enterprises (SMEs). Despite microfinance's contribution to SMEs' capital financing, the impact is not evident because SMEs have been impended by high interest rates, collateral requirements, and other factors. This study assessed the effectiveness of microfinance capital financing on working capital, operating costs, and profitability of SMEs in Lusaka District, Zambia. A mixed-method approach was employed, combining qualitative and quantitative methods. Primary data were collected and analyzed using Megastat. The findings reveal a significant positive relationship between microfinance and SME's working capital growth, with a correlation coefficient (r = 0.534) and R-squared value (0.286). The significant test (F-statistics = 23.18, p-value = 0.00) confirms a statistically significant relationship. The study also finds a notable effect of microfinance on SME operating costs, indicated by the chi-square test (χ^2 = 32.79, df = 16, p = 0.0079). Regression analysis reveals a significant positive relationship between microfinance and operating costs, with a coefficient (0.4208, p = 0.0032). Furthermore, the study shows that microfinance capital has led to improved profitability for SMEs, with a mean response of 4.300 and a p-value of 0.0188. The findings also highlight the challenges faced by SMEs, including high interest rates (76.7%) and emotional and organizational strain (55%). The study recommends flexible disbursement schedules, sector-responsive repayment models, and tiered interest frameworks to enhance the effectiveness of microfinance. By integrating statistical testing with stakeholder perspectives, the research positions microfinance as a strategic instrument for SME resilience, growth, and inclusive economic development in Zambia.

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1. INTRODUCTION

1.1. Background

Microfinance is often presented as a tool to improve financial access for entrepreneurs in low-service markets. Evidence from Bangladesh, India, and Indonesia confirms that structured microfinance models help establish successful SMEs (Armendáris & Morduch, 2010; Yunus, 1999). Although such schemes facilitate economic participation, the performance of such schemes in real life is complex. Musumali (2019) cautions that Microfinance effectiveness is usually quenched by the high interest rates, strict terms of repayment and low literacy levels among the borrowers. In Zambia, nearly 80 percent of the owners of SMEs do not have financial management skills. This is a setback to the reason they can utilize microfinance products effectively. While (Cheston & Kuhn, 2022) views Microfinance as a driver of the economy all over Africa. A case in point is the power of available finance in Kenya, which is M-Pesa. Nonetheless, there are still nagging problems. Interest rates of borrowings are high. There is a deficiency in the aspect of financial education. Regulatory inconsistency hampers sector growth (Zambia Microfinance Network, 2020).

The contribution of SMEs within the Zambian GDP and employment is significant (Ministry of Small and Medium Enterprise Development 2023). Notwithstanding, they also have challenging terms of finance. The terms of the commercial banks are inflexible. The microfinance institutions aim to create the gap. Yet, the challenges are a high interest rate, complicate loan product, and low literacy of the borrowers (Kar, 2014; Hapompwe *et al.*, 2021). Government policies aim to improve financial inclusion.

However, bureaucratic inefficiencies slow progress. Support programmes are underused. Barriers include poor product tailoring and complex documentation (Chiponda, 2021). Targeted financial literacy initiatives programmes help and SMEs engaged in such programmes show better loan management and smarter investment choices (Mutegi *et al.*, 2015). These interventions play a vital role in building sustainable enterprise performance.

1.2. Statement of the study problem

Despite the capital supply in terms of microfinance in Zambia increasing, most small and medium-sized enterprises (SMEs) in the Lusaka District are weak. Particularly, when it comes to capital acquisition, repayment terms, and business maintenance (Beck & Cull, 2023). While microfinance institutions (MFIs) aim to enhance SME development, the effectiveness of these financial models remains uncertain. This is the case as it is revealed that companies continue to face immense interest rates, collateral needs, and repayment challenges that influence their capacity to reinvest and grow (World Bank, 2022). Although microfinance has become increasingly significant in facilitating the development and sustainability of small and medium-sized enterprises (SMEs), restrictive loan conditions; and limited accessibility remain key challenges affecting SME sustainability. According to the studies, 60 percent of SMEs in Lusaka are having issues regarding financial facilities. These issues include, interest rates that are too high, collateral requirements that are strict to follow, repayment terms that are complicated (Kabeer, 2020). Inadequate financial literacy among the proprietors of SMEs has been associated with poor loan management techniques and increased default situations as well as the debilitation of business resilience. However, the focus of the research is the study of how rigid lending policies unimpeded the access of small and medium-sized enterprises to financial resources and their ability to conduct long-term growth (Khursheed, 2022). The study also examined the influence of financial restrictions on the capacity of microfinance institutions to offer sustainable ways of funding, which further contributes to worsening the accessibility difficulties (Finnegan & Morales, 2024). Conducting the analysis based on credit terms, accessibility frameworks, and the loan repayment structure, it was possible to give some practical recommendations to improve the financial inclusion of SMEs and guarantee equivalent and efficient mechanisms of financing. The sectoral analysis also showed that almost 60% of SMEs in retail and sagriculture are unable to bring back profits, because payments on loans impair resources of a business rather than promote the growth (OECD, 2023). In view of these issues, this paper aimed at determining the impact of microfinance capital financing on the performance of selected SMEs in Lusaka District with a particular concern on restrictive loan conditions and poor accessibility. The study focused on the effect of credit terms, requisition of collaterals, and repayment patterns of SMEs to enable them access finances and maintain long-term survival. The study also evaluated how microfinance institutions can promote equal provision of financing by overcoming the obstacles of lending which include exorbitant interests, strict lending guidelines, etc. Through critical analysis of these factors, the study has been able to give practical policy recommendations on how to improve financial inclusion and make SMEs perform better. The results assist in the development of better credit policies, financial inclusion strategies and enhancement of SME development models that are microfinance-driven in Lusaka.

1.3. General study objective

The objective of this study is to assess the effectiveness of microfinance capital financing in selected SMEs within Lusaka District, focusing on financial accessibility and its impact on business sustainability.

1.3.1. Specific study objectives

i. To assess the effect of microfinance capital financing on the business working capital growth of selected SMEs in Lusaka District.

ii. To evaluate the effect of microfinance capital financing on the operating costs of selected SMEs in Lusaka.

iii. To examine the effect of microfinance capital financing on the profitability of selected SMEs in Lusaka District.

1.4. Research questions

i. How does microfinance capital financing influence the business working capital growth of selected SMEs in Lusaka District?

ii. What impact does microfinance capital financing have on the operating costs of selected SMEs in Lusaka?

iii. To what extent does microfinance capital financing affect

the profitability of selected SMEs in Lusaka District?

1.5. Theoretical framework

This study was based on the Financial Intermediation Theory, which states the relationship between surplus capital holders and credit-limited borrowers with the help of financial establishments. In this respect, Microfinance institutions (MFIs) play the role of intermediaries that facilitate access gaps. They provide customized loan products to small and medium-sized enterprises (SMEs). Especially to those which are not granted by the stringent lending criteria of commercial banks (Sarfo *et al.*, 2024; Lwesya *et al.*, 2023).

The development of MFIs has increased in developing world whereby formal financial access to grassroots entrepreneurs is commonly unavailable. In Lusaka District, most of the SMEs encounter challenges in their financing activity because of the high demands of collateralization, complicated loan application procedures, and ineffective use of credit ratings. MFIs are trying to provide an answer via simplification of process and low-cost loans.

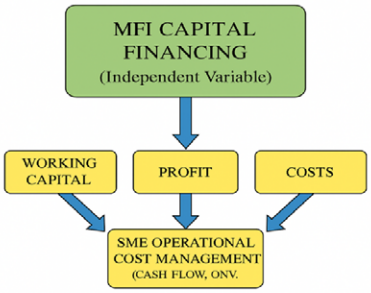
Intermediate is not only used to refer to capital flow, but also the manner in which the scheme of lending is done by financial firms. These are interest charges, repayment plans, surety and draw-down timing. These aspects affect performances of SMEs and sustainability of institutions. The theory explains why financial access, its credit terms, and terms of repayment influence the growth of the business and the liquidity results.

1.6. Conceptual framework

The conceptual framework demonstrates the impact of microfinance capital financing in relation to the SME performance in three dimensions. These are availability of working capital, management of operational cost and profitability.

In the model, microfinance is considered as independent variable. There are three performance indicators dependent on variables. MFIs are revealed to have closed the service gaps left by commercial lenders. Particularly, provision of loans to SMEs that are not accommodated by regulated financial systems. Intervening factors are also taken into consideration in the framework. These are conditions of the loans, repayment and the financial literacy of the borrowers. Unless these factors are considered, this can lessen the effect of microfinance. The framework led to the development of research tools and influenced qualitative and quantitative analysis of data. It was explored within the scope of the actions of decision-making, resilience, and sustainability of financial implications of SMEs in Lusaka District.

Such visual model enabled the researcher to focus on the effectiveness of access to capital and loan structure as impactive variables on viability of a SME. It aided in the general intent of the study to determine whether microfinance has become an effective tool in enhancing performance of enterprises. The visual analysis of Microfinance Capital Financing isolated one independent variable - the Micro finances Capital Financing to three dependent variables that included - working capital, operational costs and profitability. The conceptual Framework on the Impact of Microfinance Capital Financing on SMEs in Lusaka District is as shown in figure 1 below.



Conceptual Framework on the Impact of MFI Capital Financing on SMEs in Lusaka District

Figure 1. Conceptual framework

1.7. Significance of the study

The research is significant because it analyzed the efficiency of microfinance capital funding in enhancing financial accessibility of companies such as small and medium businesses in Lusaka. And also revised the degree of support of the current lending frameworks with regard to business sustainability. The research adhered to the guidelines of scholarly inquiry covering new information to financial access of SMEs (Lwesya *et al.*, 2023; Sarfo *et al.*, 2024).The stability of the SMEs in relation to finances is characterized by loan provision, loan repayment terms and financial education. The result of the study makes the SMEs better financially savvy. This also helps in empowering SMEs with superior information on borrowing to make informed financing choices (Chikwira *et al.*, 2022; Coronel-Pangol *et al.*, 2023).

The microfinance institutions find this research helpful as it assists the institutions develop superior loan products and service repayments as well as the superior risk insurance system to the SME borrowers. The study also assists policy makers to revamp the microfinance policy in Zambia to enable the financial inclusion system. This will permit a structured approach; ensuring the mitigation of the impediments caused by finances due to accessibility, loan terms and sustainability of the small and medium enterprises (Bika *et al.*, 2022; Samineni *et al.*, 2023). Besides, this study enhances financial education plans, such as special funding packages, which create a sustainable outlet of SME finances to propel the local economy. The study further assists in strengthening the resilience and successful growth of SME, given that the study shares its method with the approach of flexible and affordable microfinance.

2. LITERATURE REVIEW

2.1. Effect of microfinance capital financing on the working capital growth of SMEs

Working capital is critical to a small and medium enterprise (SME) (Sari & Anggara 2022). It is required to continue with its day-to-day activities including obtaining inventory, paying bills and suppliers (Ramadan & Morshed, 2023). In a situation of under-capitalized environments, Poppe *et al.*, (2023) postulate that lack of access to formal credit tends to challenge business continuity as occurred in many developing countries globally. Finnegan and Morales, (2024) observed that Commercial banks usually have stringent loaning conditions, and this locks out many SMEs into the mainstream financial services. In their turn, Batrancea *et al.* (2022) noted that microfinance institutions

(MFIs) have become the alternative source of credit.

According to OECD (2023), financial problems intrude on the profitability of SMEs, while Khursheed (2022) notes that loan repayments take up much of business finances, reducing re-investment and revitalization. Finnegan & Morales (2024) emphasize that high default risks and stability concerns make access to credits even more difficult. Jalil *et al.* (2022) guided government departments, banks, and policymakers to model dynamic solutions that align microfinance facilities with small and medium business growth and survival factors.

Ahmed (2022) pointed out that the effective working capital management significantly improves financial performance. According to Nuwamanya (2021), financial literacy combined with working capital management has a substantial impact on business performance, explaining 78.3% of the variation in performance. Nicolas (2022) found that short-term credit constraints are as important as long-term ones in SMEs' investment decisions. Abebe (2022) emphasizes the importance of effective asset-liability management for microfinance institutions to ensure financial sustainability and provide financial services to SMEs. Mwangi (2016) and Nawai (2018) found that microfinance services have a positive impact on SMEs' growth and profitability.

Fachri *et al.* (2023) conduct a study to examine the impact of MSME working capital financing, MSME investment financing, and non-performing financing (NPF) on the profit growth of Islamic Commercial Banks in Indonesia from 2015 to 2021. the study found that the working capital financing increased SMEs profit growth, while managing their non-performing financing effectively (Fachri *et al.*, 2023). Abebe (2022) concluded that adequate attention needs to be paid to loan portfolio quality, borrowing, and deposits to enable effective asset-liability management. According to the study, effective asset-liability management is critical for MFIs to ensure financial sustainability and provide financial services to SMEs. Mwangi (2016) recommended that MFIs should prioritize providing financial services to SMEs, particularly in rural areas where access to traditional banking services is limited.

Kamara (2023) investigated the Impact of Microfinance Institution (MFIs) funding on the development of SMEs (Small and Medium Enterprises) in Freetown, Sierra Leone. The data revealed that a substantial number of SMEs profit from MFI loans, despite the fact that few of them have adequate ability to secure the required amount. According to Sari and Anggara (2022), Islamic financing models can help reduce operational costs by eliminating interest rates. Coronel-Pangol *et al.* (2023), found that MSME working capital financing and MSME investment financing have a positive and significant effect on profit growth. Rosyadah *et al.* (2022) emphasize the importance of effective working capital management for SMEs' financial performance and sustainability. Nuwamanya (2021) recommends improving financial literacy through education and training for SME owners/managers.

In Zambia, research on the impact of microfinance on SMEs is limited, but Chikalipah (2017) found that financial inclusion is a significant predictor of SME growth in sub-Saharan Africa, including Zambia. Musonda (2020) found that microfinance services have a positive impact on SMEs' growth and profitability. Chanda (2024) emphasizes the importance of access to finance, business information, infrastructure, and government policy and regulations for SME growth. Nyirenda *et al.* (2024) recommend diversifying funding sources, tailored financial literacy initiatives, operational efficiency optimization, and enhanced community engagement for the success of MFIs in Zambia. Taranhike and Bwalya (2025) emphasize the need for more inclusive financial products, flexible credit terms, and comprehensive financial literacy programs for SMEs in the food processing industry.

Chikwira *et al.* (2022) found in Zambia that the performance of SMEs that used microfinance capital were better than that of organizations that used their personal savings. Finnegan & Morales (2024) Conversely, noted that companies that utilize the funds on the microfinance towards fixed assets instead of operative liquidity did not satisfy their working capital requirements. Olufolahan *et al.* (2023) found that the present level of efficiency of microfinance banks has an insignificant impact on the performance of MSMEs, suggesting a negligible role in the activities of MSMEs. Taranhike, and Bwalya (2025) SMEs that accessed microfinance credit reported enhanced production capacity, increased revenue, and market expansion. These results indicate that microfinance performance is influenced by loan design, the financial literacy of the lender and the purpose. The factor is institutional flexibility and the capacity of SMEs to utilize financing in operation processes.

2.2. Effect of microfinance capital financing on the operating costs of SMEs

Microfinance institutions (MFIs) have been introduced to aid small and medium enterprises (SMEs) in managing their operating costs, including wages, utilities, inventory purchases, and administrative activities. According to Ketani-Mwanakatwe *et al.* (2024), SMEs in Lusaka District face significant financial challenges due to limited liquidity. Onyeiwu *et al.* (2021) found that microfinance bank credit and debt servicing deteriorate the profitability of SMEs in Nigeria. Yurttadur and Kaya (2012) noted that SMEs with strong capital structures, financial prudence, and profit retention tend to grow faster. Ibrahim and Ibrahim (2015) found that SMEs' cost of capital has an insignificant effect on their financial performance. Nautwima and Asa (2021) emphasized the importance of microfinance support for SME development and competitiveness.

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According to Chikwira *et al.* (2022); Udall, (2023) a

complementary theory of Transaction Cost Economics provides theoretical complementary insights into the existence of a potential indirect cost of perceiving institutional barriers. The majority of it understood as either - complicated application requirements, compliance needs, and lack of borrower protection to SMEs. These further compound SMEs situations are due to not only impoverished financial literacy abilities, a low bargaining power, but also due to desperate internal organizations.

Financial intermediation theory suggests that MFIs bridge the gap between those who have capital and the borrowers who are credit-constrained. According to Lwesya *et al.* (2023) and Finnegan and Morales (2024), the loans provided by MFIs may add to the financial pressure of SMEs due to fees, mandatory savings or insurance, and high-interest rates. Chikwira *et al.* (2022) and Udall (2023) noted that institutional barriers, such as complicated application requirements and lack of borrower protection, can further compound SMEs' situations. However, some studies have reported positive results, including improved supplier payments and reduced overheads (Chikwira *et al.*, 2022; Ugorji, 2024). According to OECD (2015), broadened access to finance for SMEs leads to improved survival rates and growth. Atmadja *et al.* (2016) emphasized the importance of financial capital for business development, while Kisaka and Mwewa (2014) noted that training offered by MFIs in Kenya has an inverse relation to SME performance. Further research is needed to explore the impact of microfinance on SMEs' operating costs and to identify effective strategies for enhancing the performance of MFIs.

Chikwira *et al.* (2022) found that two-thirds of the Zambian SMEs that financed with MFIs expressed that their business operations were more-steady since they received improved supplier payments and were more adept at restock. According to Ugorji (2024), those SMEs which have been under credit not only, but also technical advice services have been experiencing an immeasurable reduction in overheads. According to Quirk *et al.* (2023), Monde *et al.* (2024) Some of the reasons that have contributed to a decrease in costs because of digitization of lending are also a move toward automation of transactions, better financial monitoring and streamlining the operations). According to Kiva (2022); Masaka, (2022), Despite these benefits, the risks of operations implied are nevertheless still there. Many of the small to medium enterprises complain that the repayment schedules interfere with the SMEs. Administrative expenses are too high and interest rates higher than 25 percent have the risk of destabilizing the working capital and even escalating the level of economic anxiety (Kiva, 2022; Masaka, 2022). Beck and Cull (2023); Fungai (2024) Additionally, irregular use of capital and the inability to keep records may diminish the potential of costs that access to microfinance offers.

In conclusion, it is possible that microfinance capital financing helps to maintain the operating costs within a reasonable range in the event that the structure, repayment rates, and consulting services are to be adapted to the realities of operating an SME. Without such synchronization, however, the availability of loans actually can reinforce the pre-existing economic issues. The responsiveness of the institutions and the financial products feasibility are two factors associated with the performance of the microfinance in controlling the operating costs rather than the availability of the capital.

2.3. Impact of microfinance capital financing on the profitability of SMEs

Microfinance institutions (MFIs) play a crucial role in providing capital to small and medium-sized enterprises (SMEs) (Thapa *et al.*, 2024), bridging the gap between lenders and businesses without formal credit (Samineni *et al.*, 2023). According to Allen and Santomero (1998), MFIs assist SMEs in dealing with financial shortages, while Barney (1991) notes that MFIs provide loans that can boost business revenue. Finnegan & Morales (2024) and Kawimbe *et al.* (2024) found that SMEs' profit margins increased by up to 132% when interest rates were less than 15%. However, high interest rates above 25% can lead to financial pressure and reduced profits (Kar, 2014; Mutegi *et al.*, 2015). Lack of profit planning and loan mis-timings can also negatively impact SME profitability.

The impact of microfinance on SMEs' profitability varies depending on the type of business and loan structure. According to Coronel-Pangol *et al.* (2023), Nyirenda *et al.* (2024), and Musonda & Hapompwe (2024), flexible loan terms, grace periods, and sector reimbursement elements can help contain defaults and promote reinvestment. Monde *et al.* (2024) found that farm businesses tend to have higher returns than retail businesses. Onyeiwu *et al.* (2021) emphasized the importance of microfinance bank credit and debt servicing for SME profitability. Wirawan (2024) found that People's Business Credit (KUR) significantly enhances income across various sectors in Indonesia.

Allen and Santomero (1998) Microfinance institutions (MFIs) assist small and medium size enterprises (SMEs) in getting the capital. They unite lenders and businesses that do not have formal credit. This position decreases deficiencies in the market, and assists the companies to deal with financial shortages. Barney (1991) The MFI is providing loans which can boost business revenue. Their influence is signified by the closeness to business concerns in terms of loans. It is also possible to view financial capital as a growth supporting resource. This is held when it is cheap and used in the right manner.

Microfinance services, including microloans, micro-savings, and training, play a crucial role in promoting SME growth and profitability. According to Thapa *et al.* (2024), microfinance services have a positive and significant impact on SME performance, measured by profit, sales growth, and employment creation. Jalil *et al.* (2022) found that microfinance services, including micro-credit, micro-savings, micro-insurance, and training, promote MSE growth in Pakistan. Merroun and Hamiche (2023) emphasized the importance of evaluating the impact of credit on SME performance. Ugorji (2024), Bika *et al.* (2022), and the World Bank (2022) noted that loan repayment terms and conditions can significantly impact SME profitability. The literature highlights the importance of microfinance in supporting SME development and growth. However, the impact of microfinance on SMEs' profitability depends on various factors, including loan structure, interest rates, and business management. According to Quirk *et al.* (2023) and Chiumya (2006), tight regulations and borrower education are essential

for ensuring the effectiveness of microfinance services. Ledgerwood (2013) and Banerjee *et al.* (2015) emphasized the need for better financial tracking and monitoring of SME performance. By understanding the impact of microfinance on SMEs' profitability, policymakers and MFIs can design more effective financial products and services to support SME growth and development.

The rates influence profitability. Profits Margin in SMEs incurring loans in Lusaka were increased by up to 132 percent when the interest rate lent to them was less than fifteen percent. The individuals whose rates were higher than 25 percent stated that they did not make as much money due to the pressure to reimburse the loans (Finnegan & Morales, 2024; Kawimbe *et al.*, 2024). Lack of profit planning and loan mis-timings makes profits go down as well (Kar, 2014). Most of the SMEs are unable to provide collaterals. This is the reason why in Sub-Saharan Africa, more than 60 percent of potential borrowers are excluded (Mutegi *et al.*, 2015). This restricts the investment on the tools and growth. There are also MFIs providing flexible guarantees, although these are not so commonly applied and documented (Msimuko, 2025).

It is important how the loans are molded. The seasonal businesses in terms of SMEs fail with invariable repayment schedules. The extra advantage of the less severe conditions, grace periods, and sector reimbursement elements serves to contain defaults and helps in reinvestment (Coronel-Pangol *et al.*, 2023; Nyirenda *et al.*, 2024; Musonda & Hapompwe, 2024). The levels of profits also differ according to the type of business. The returns experienced by farms are usually higher than what is experienced by a retail business (Monde *et al.*, 2024). There is a role of gender. The female-owned SMEs have less access to credit with positive repayment histories (Kabeer, 2020).

3. METHODOLOGY

3.1. Research design

The case study employed both qualitative and quantitative study; hence, a mixed methodology. This created an opportunity to assess the microfinance effect on Lusaka District SMEs in a detailed manner. To address the qualitative component, various stakeholders were part of respondents for semi-structured interviews. While for quantitative, Likert-scale questionnaire were distributed to the owners of small medium enterprises and financial experts who responded and gave their positions. This assisted in focusing on the problems of borrowing and decision-making, including limitations in the financial resources.

3.2. Target population

For the study population, this research sought the small and medium entrepreneurs and micro credit institutions that are available in Lusaka District. The study targeted and focused on the businesses where the microfinance funds are accessed; and/or where the businesses need to be approached to financial access so that they can settle and grow their investments.

3.3. Sampling design

The study utilized Purposive sampling technique selecting direct experiences on microfinance accessibility derived by people who own the SMEs and those who are in charge of financing the SMEs. This technique, was used obtain responses within the sample frame from willing respondents and also their availability for the study.

3.4. Sample size determination

The sample size of the 60 respondents was used during data collection. The sample size was intended to provide statistically valid data for quantitative analysis. Qualitative interviews supplement quantitative findings by providing depth and contextual understanding, while resource and time constraints are considered when determining feasible sample sizes.

3.5. Data collection methods

This study collected primary data for analysis. Primary data was collected using self-administered questionnaires and focused groups. The semi-structured questionnaire with both close ended and open-ended questions were used.

3.6. Data analysis

The study employed both qualitative and quantitative data analysis methods. Quantitative data were analysed using Megastat, generating graphs and charts, while qualitative data from interviews were analysed thematically, grouping similar responses into themes (Bika *et al.,* 2022). Questionnaire responses were coded, categorized, and assigned numbers before analysis. This approach allowed for a comprehensive understanding of the data, facilitating aggregation and trend identification.

3.7. Triangulation

The study employed triangulation to ensure the validity and reliability of the findings, using multiple data sources and methods, including surveys, interviews, and focus group discussions (Coronel-Pangol *et al.*, 2023; Finnegan & Morales, 2024). This mixed-methods approach, combining quantitative and qualitative data, provided a comprehensive understanding of the research phenomenon and increased confidence in the results (Braun & Clarke, 2024). By cross-checking and verifying data through different methods, the study aimed to confirm the findings and enhance the validity of the results.

4. RESULTS AND DISCUSSION

4.1. Background characteristics of SMEs in Lusaka District

4.1.1. The current role in business (SMEs)

As shown in Table 1 below, the majority of respondents (40.0%) identified as Business Development Officers, indicating a strong representation of individuals directly involved in financial management. Finance/accounting Officers comprised 30.7% of the sample, reflecting a significant strategic and growth-oriented presence. Owners accounted for 16.7%, suggesting that a notable portion of the sample included decision-makers with overarching control of business operations. The remaining 6.7% fell under the "*Other*" category, which may include roles such as operations managers, marketing specialists, or administrative personnel.

Table 1. Distribution of participants by business role

What is your current role in SME?		
	frequency	**percent**
Owner	10	16.7
Finance/Accounting Officer	22	36.7
Business Development Officer	24	40.0
Other (please specify)	4	6.7
	60	100.0

4.1.2. Years of operation of SMEs

As shown in Table 2 below, the data shows that the majority of SMEs have been operating in Lusaka district for over a year, with 36.7% operating for 4-6 years, 33.3% for 1-3 years, and 20% for over 6 years. Only 10% are relatively new, operating for less than 1 year.

Table 2. Distribution of SMEs by Years of Operation.

How long has your SME been operating in lusaka district?		
	frequency	**percent**
Less than 1 year	6	10.0
1–3 years	20	33.3
4–6 years	22	36.7
Over 6 years	12	20.0
	60	100.0

4.1.3. Sector of operation of SMEs

As shown in table 3 below, the largest proportion of SMEs operate in the manufacturing sector with 17 SMEs representing 31.7%, followed by Retail Sector with 17 SMEs representing 28.3%, Agriculture with 16 SMEs representing 26.7%, while service industry with 7 SMEs representing 11.7% , and 1 SME indicated other sectors representing1.7%.

Table 3. Sectoral Distribution of SMEs in Lusaka District

In which sector does your SME Primarily operate?		
	frequency	**percent**
Retail	17	28.3
Agriculture	16	26.7
Manufacturing	19	31.7
Service Industry	7	11.7
Other (please specify)	1	1.7
	60	100.0

4.2. Effect of microfinance capital financing on the working capital growth of SMEs in Lusaka

4.2.1. Microfinance on working capital growth

As shown in Table 4, the data shows that 83.4% (26.7% + 56.7%) of respondents agree that microfinance has helped increase their SME's working capital, with 56.7% (34 respondents) strongly agreeing and 26.7% (16 respondents) agreeing. Only 5% (3.3% + 1.7%) disagree or strongly disagree, while 11.7% (7 respondents) remain neutral.

Table 4. Effect of microfinance on working capital growth.

Microfinance has help me increased my SME''s Working capital		
	frequency	**percent**
Strongly Disagree	2	3.3
Disagree	1	1.7
Neutral	7	11.7
Agree	16	26.7
Strongly Agree	34	56.7
	60	100.0

4.2.2. Maintenance of financial liquidity for daily operations

To assess whether microfinance has enabled SMEs to maintain financial liquidity for daily operations, respondents were asked to rate their agreement with the statement: “Microfinance financing has helped me maintain financial liquidity for daily operations.” The data in table 5 shows a significant majority (88.4%) of respondents believe microfinance financing helps maintain financial liquidity for daily operations, with 61.7% strongly agreeing and 26.7% agreeing. A small percentage (8.3%) disagree, while 3.3% were neutral, indicating microfinance financing's positive impact on SMEs' financial liquidity.

Table 5. Effect of microfinance on financial liquidity maintenance

Is microfinance financing enables us to maintain financial liduidity for daily operations?		
	frequency	**percent**
Strongly Disagree	0	0.0
Disagree	5	8.3
Neutral	2	3.3
Agree	16	26.7
Strongly Agree	37	61.7
	60	100.0

4.2.3. Increasement after accessing microfinance capital

The results in Table 5 shows a significant increase in working capital for SMEs after accessing microfinance capital. A substantial 86.6% of respondents reported an increase in working capital, with 55% indicating an increase between ZMK 10,001 and 25,000, 18.3% between ZMK 5,000 and 10,000, 13.3% above ZMK 25,000, and 11.7% less than ZMK 5,000. Only 1.7% reported no increase. This suggests that microfinance capital has been effective in boosting working capital for the majority of SMEs, with the most significant impact seen in the ZMK 10,001-25,000 range.

Table 6. Working capital increase after accessing microfinance

Average, SME's working Capital increase after accessing microfinace capital		
	frequency	**percent**
No Increase	1	1.7
Less than ZMK 5,000	7	11.7
ZMK 5,000 – 10,000	11	18.3
ZMK 10,001 – 25,000	33	55.0
Above ZMK 25,000	8	13.3
	60	100.0

Table 7. Main challenges faced by SMEs in using microfinance

Have you faced in using microfinance for working capital growth?		
	frequency	**percent**
High interest rates	20	33.3
Loan size too small	6	10.0
Inflexible repayment terms	13	21.7
Bureaucracy in accessing funds	7	11.7
High interest rates and Loan size too small	14	23.3
Other (please specify)	0	0.0
	60	100.0

4.2.4. Main challenges in using microfinance for working capital

Respondents identified key challenges encountered when using microfinance to support working capital growth. The data in Table 2 highlights significant challenges SMEs face in using microfinance for working capital growth. High interest rates are a major concern, cited by 33.3% of respondents, while 21.7% mention inflexible repayment terms. Additionally, 23.3% of respondents face a combination of high interest rates and loan size being too small. Smaller percentages cite loan size too small (10.0%) and bureaucracy in accessing funds (11.7%).

4.2.5. Significance testing of microfinance effect on working capital growth

The regression analysis in table 8 below shows a significant positive relationship between microfinance and SME's working capital growth. The correlation coefficient (r = 0.534) indicates a moderate positive correlation between the variables. The R-squared value (0.286) suggests that 28.6% of the variation in working capital increase can be explained by the perceived impact of microfinance. The regression coefficient (0.4972) indicates that for every unit increase in microfinance's perceived impact, working capital increases by 0.4972 units. The hypothesis test (F-statistic = 23.18, p-value = 0.00) confirms a statistically significant relationship, allowing us to reject the null hypothesis. The 95% confidence interval for the coefficient (0.2905 to 0.7039) further supports the significance of this relationship, indicating that microfinance has a positive and substantial impact on SME's working capital growth.

Table 8. Regression analysis

Regression Analysis						
	r^2	0.286	**n**	60		
	r	0.534	**k**	1		
	Std. Error	0.780	**Dep. Var.**	Average SME's working Capital increase after accessing microfinace capital		
ANOVA table						
Source	**SS**	**df**	**MS**	**F**	**p-value**	
Regression	14.0879	1	14.0879	23.18	0.00	
Residual	35.2454	58	0.6077			
Total	49.3333	59				
Regression output					**confidence interval**	
variables	coefficients	std. error	t (df=58)	p-value	95% lower	95% upper
Intercept	1.5203	0.4570	3.327	.0015	0.6056	2.4351
SME's Working capital	0.4972	0.1033	4.815	0.00	0.2905	0.7039

4.3. Effect of microfinance capital financing on the operating costs of smes in lusaka district

4.3.1. Effect of microfinance on SMEs operating expenses

The data suggests a mixed impact of microfinance on reducing or stabilizing operational costs for SMEs. While 43.3% of respondents agree that microfinance had helped, with 35% agree, 8.3% strongly agree. A significant proportion of 45% remain neutral, indicating uncertainty or limited impact. Meanwhile,

11.7% disagree with 10% disagree, and 1.7% strongly disagree, suggesting that microfinance has not effectively reduced or stabilized operational costs for these SMEs.

Table 9. Microfinance helped reduce or stabilize operational costs

Microfinace has helped reduce or stabilize our operational costs		
	frequency	**percent**
Strongly Disagree	1	1.7
Disagree	6	10.0
Neutral	27	45.0
Agree	21	35.0
Strongly Agree	5	8.3
	60	100.0

4.3.2. Reduction in financial burden of daily business costs

The data in table 10 below indicates that a significant majority of SMEs believe loan accessibility reduces the financial burden of daily business costs. Specifically, 73.4% of respondents agree that loan accessibility has a positive impact with 51.7% agree, and 21.7% strongly agree. In contrast, only 13.3% disagree, while another 13.3% remain neutral. The absence of strong disagreement (0%) further emphasizes the perceived benefits of loan accessibility.

Table 10. Reduction in financial burden of daily business costs

loan accessibility reduces the financial burden of daily business costs		
	frequency	**percent**
Strongly Disagree	0	0.0
Disagree	8	13.3
Neutral	8	13.3
Agree	31	51.7
Strongly Agree	13	21.7
	60	100.0

4.3.3. Average monthly operating cost after receiving microfinance

The data in table 11 below shows that after receiving microfinance support, a significant proportion (61.7%) of SMEs reported an estimated average monthly operating cost above K 10,000. Smaller percentages reported costs in the ranges of K 5,001-10,000 (10%) and K 2,001-5,000 (10%), while 3.3% reported costs less than K 2,000. Additionally, 15% noted no change or applicability.

Table 11. Average monthly operating cost after receiving microfinance

Estimated monthly operating cost of your SME after receiving microfinance support		
	frequency	**percent**
Less than ZMK 2,000	2	3.3
ZMK 2,001 – 5,000	6	10.0
ZMK 5,001 – 10,000	6	10.0
Above ZMK 10,000	38	63.3
Not Applicable / No Change Noted	8	13.3
	60	100.0

4.3.4. Main challenges in using microfinance to manage operating costs

The data in table 12 below highlights several challenges SMEs face in using microfinance to manage operating costs. The most significant issue is difficulty repaying during low seasons, cited by 38.3% of respondents. Additionally, 30% mention misalignment between loan repayment and cost cycles, while 26.7% report that operating costs remain high despite microfinance support. A small percentage (5%) cite other challenges.

Table 12. Main challenges in using microfinance to manage operating costs

Main challenges encountered in using microfinance to manage operating costs		
	frequency	**percent**
Difficulty repaying during low seasons	23	38.3
Operating costs still remain high	16	26.7
Misalignment between loan and cost cycles	18	30.0
Other (please specify)	3	5.0
	60	100.0

4.3.5. Significance testing of microfinance effect on operating expenses

The cross-tabulation findings in table 13 below, suggest a significant relationship between the perceived impact of microfinance on reducing or stabilizing operational costs and the estimated average monthly operating cost of SMEs after receiving microfinance support. The chi-square test (χ^2 = 32.79, df = 16, p = 0.0079) indicates a statistically significant association, suggesting that microfinance has a notable effect on SME operating costs. The data shows that respondents who agree or strongly agree that microfinance has helped reduce or stabilize operational costs tend to have higher operating costs (above K10,000), indicating that microfinance may be more impactful for SMEs with higher operational costs.

Table 13. Estimated average monthly operating cost for SME after receiving microfinance support

A chi-square test Microfinace has helped reduce or stabilize our operational costs	Less than K2,000	K2,001 – 5,000	5,001 – 10,000	Above K10,000	Not Applicable / No Change Noted	Total
Strongly Disagree	0	0	1	0	0	1
Disagree	2	1	1	2	0	6
Neutral	0	4	2	17	4	27
Agree	0	1	1	15	4	21
Strongly Agree	0	0	1	3	1	5
Total	2	6	6	37	9	60
	32.79	chi-square				
	16	df				
	.0079	p-value				

4.4. Impact of Microfinance Capital Financing on the Profitability of SMEs in Lusaka District

4.4.1. Microfinance Capital Improved Profitability for SMEs

Respondents were asked whether microfinance capital financing improved their business profitability. The results in table 14 below shows a significant majority of 81% respondents reported improved profitability due to microfinance capital, with 56.7% strongly agreeing and 25% agreeing. Only 8.3% disagreed, while 10% remained neutral, indicating that microfinance had an effective in enhancing profitability for most SMEs.

Table 14. Perceptions of profitability improvement due to microfinance

Microfinance capital has led to improved profitability for our SME		
	frequency	**percent**
Strongly Disagree	0	0.0
Disagree	5	8.3
Neutral	6	10.0
Agree	15	25.0
Strongly Agree	34	56.7
	60	100.0

4.4.2. Access to microfinance improved financial stability

Respondents were asked whether access to microfinance enhanced their financial stability over time. Responses in table 15 indicate significant agreement that microfinance has improved financial stability with 83.3% believe that access to microfinance had improved their financial stability over time, with 35% strongly agreeing and 48.3% agreeing. A small percentage (5%) disagree, while 11.7% remain neutral.

Table 15. Perceived Financial Stability Improvement

Overall, access to microfinance has improved our financial stability overtime		
	frequency	**percent**
Strongly Disagree	0	0.0
Disagree	3	5.0
Neutral	7	11.7
Agree	29	48.3
Strongly Agree	21	35.0
	60	100.0

4.4.3. Average monthly profit before and after microfinance financing

Respondents estimated their average monthly profit change after receiving microfinance support. Reported profit increases among a majority of SMEs validate the perceived benefits noted in Table 16. The majority of SMEs (72.4%) reported an increase in average monthly profit after microfinance financing, with 25% experiencing an increase of more than ZMK 7,000, 15% increasing by ZMK 3,001-7,000, 31.7% increasing by ZMK 1,001-3,000, and 11.7% increasing by less than ZMK 1,000. Only 16.7% reported no noticeable profit change, indicating that microfinance financing had a positive impact on profits for most SMEs.

Table 16. Monthly profit change post-microfinance

SME's average monthly profit before and after microfinance financing		
	frequency	**percent**
No noticeable profit change	10	16.7
Increased by less than ZMK 1,000	7	11.7
Increased by ZMK 1,001 – 3,000	19	31.7
Increased by ZMK 3,001 – 7,000	9	15.0
Increased by more than ZMK 7,000	15	25.0
	60	100.0

4.4.4. Conditions affecting profitability benefits from microfinance

The data in Table 17 below shows that 85% of respondents identified Interest rate too high as the primary condition affecting their ability to benefit from microfinance in terms of profits. Other factors mentioned include short repayment periods represented by 6.7%, while rigid loan conditions 5%, and a combination of short repayment periods and high interest rates 1.7% with also 1 respondent stating other conditions represented by 1.7%.

Table 17. Constraints to profitability gains

Which Conditions affected ability to benefit from microfinance in terms of profits?		
	frequency	**percent**
Short repayment period	4	6.7
Interest rate too high	51	85.0
Loan conditions are too rigid	3	5.0
Short repayment period & Interest rate too high	1	1.7
Other (please specify	1	1.7
	60	100.0

4.4.5. Significance Testing of Microfinance Impact on SME Profitability

The hypothesis test in table 18 below reveals that the mean score for "*microfinance capital has led to improved profitability for our SME*" is 4.300, which is significantly higher than the hypothesized value of 4.000. With a p-value of 0.0188 (less than 0.05), we reject the null hypothesis, indicating that microfinance capital has indeed led to a statistically significant improvement in profitability for SMEs. The positive mean score suggests that respondents generally agree that microfinance capital has enhanced their profitability.

Table 18. Hypothesis Test: Mean vs. Hypothesized Value

Hypothesis Test: Mean vs. Hypothesized Value	
4.000	hypothesized value
4.300	mean microfinance capital has led to improved profitability for our SME
0.962	std. dev.
0.124	std. error
60	n
59	df
2.42	t
.0188	p-value (two-tailed)

4.5. Discussion of research findings

4.5.1. Effect of Microfinance Capital Financing on the Working Capital Growth of SMEs in Lusaka

The study reveals that microfinance has a positive impact on the working capital growth of Small and Medium-sized Enterprises (SMEs). A significant majority (83.4%) of SMEs agree that microfinance has helped increase their working capital, enabling them to better manage their finances, invest in their businesses, and improve their overall financial stability. This finding is consistent with existing literature that emphasizes the role of microfinance in promoting SME growth and development (Bwembya *et al.*, 2022; Coronel-Pangol *et al.*, 2023). The study also shows that microfinance financing enables SMEs to maintain financial liquidity for daily operations, with 88.4% of SMEs agreeing that microfinance has helped them in this regard.

Despite the positive impact of microfinance on working capital growth, the study highlights several challenges faced by SMEs, including high interest rates, inflexible repayment terms, and loan sizes that are too small. These challenges underscore the need for microfinance institutions to design loan products that are more responsive to SMEs' needs and to offer more competitive interest rates. The finding agrees with Adebisi *et al.* (2015) who found that the challenge of interest rate still ranked highest followed by unstable power supply, while micro finance banks were expected to do more to assist the SMEs. The study's findings also suggest that the rigidity of loan conditions can limit SMEs' ability to utilize loan funds for working capital requirements, potentially affecting their growth and sustainability.

The regression analysis shows a significant positive relationship between microfinance and SME's working capital growth, with a correlation coefficient (r = 0.534) and R-squared value (0.286) indicating a moderate positive correlation. The study's findings are consistent with existing literature and highlight the importance of microfinance in promoting SME growth and development (Hossain *et al.*, 2023). Overall, the study demonstrates the effectiveness of microfinance in enhancing SMEs' working capital and financial stability, and underscores the need for microfinance institutions to design loan products that are more responsive to SMEs' needs.

4.5.2. Effect of Microfinance Capital Financing on the Operating Costs of SMEs in Lusaka District

The study reveals that microfinance has a moderate impact on reducing or stabilizing operational costs for Small and Medium-sized Enterprises (SMEs). A significant majority of SMEs agree that loan accessibility reduces the financial burden of daily business costs, enabling them to better manage their daily operations and costs. However, the study also highlights challenges faced by SMEs, including difficulty repaying loans during low seasons, misalignment between loan repayment schedules and their business cost cycles, and high operating costs despite microfinance support. These findings are consistent with existing literature, which emphasizes the importance of financial Bank to lighten the terms of lending including increasing the duration of the loans to ease repayment by SME and also to adopt flexible requirements suitable for small-scale and medium enterprises as pertaining documentation and other specialized services to engender SMEs growth (Onyeiwu *et al.*, 2021)

The study's findings suggest that microfinance institutions need

to develop more flexible and tailored financial products that account for seasonal fluctuations and business cycles, enabling SMEs to better manage their operating costs and improve financial sustainability. The rigidity of loan conditions and high interest rates can limit SMEs' ability to utilize loan funds for working capital requirements, potentially affecting their growth and sustainability. The study's findings are consistent with existing literature, which highlights the importance of financial accessibility and flexibility in promoting SME growth and development (Bwembya *et al.*, 2022; Mwinamo *et al.*, 2021). The study's statistical analysis confirms a statistically significant association between the perceived impact of microfinance on reducing or stabilizing operational costs and the estimated average monthly operating cost of SMEs after receiving microfinance support. The chi-square test (χ^2 = 32.79, df = 16, p = 0.0079) indicates a statistically significant association, suggesting that microfinance has a notable effect on SME operating costs. The study's findings demonstrate the effectiveness of microfinance in enhancing SMEs' financial stability and underscore the need for microfinance institutions to design loan products that are more responsive to SMEs' needs. The findings are in consistent with the findings of Chikwira *et al.* (2022) who found that two-thirds of the Zambian SMEs that financed with MFIs expressed that their business operations were more-steady since they received improved supplier payments and were more adept at restock.

4.5.3. Impact of Microfinance Capital Financing on the Profitability of SMEs in Lusaka District

The study reveals that microfinance has a positive impact on the profitability of Small and Medium-sized Enterprises (SMEs). A significant majority (81.7%) of SMEs agree that microfinance capital has led to improved profitability for their businesses, enabling them to increase their profitability and achieve their business objectives. This finding is consistent with existing literature that emphasizes the role of microfinance in promoting SME growth and development (Bwembya *et al.*, 2022; Coronel-Pangol *et al.*, 2023). The study also shows that microfinance has enabled SMEs to improve their financial stability, with 83.3% of SMEs agreeing that access to microfinance has improved their financial well-being.

Despite the positive impact of microfinance on profitability, the study highlights challenges faced by SMEs, including high interest rates (85%), which limit their ability to reinvest profits into their businesses and achieve financial sustainability. This finding suggests that microfinance institutions need to consider more competitive interest rates or flexible loan terms that enable SMEs to retain more profits and reinvest in their businesses, promoting sustainable growth and development. The study's findings are consistent with existing literature that emphasizes the need for microfinance institutions to balance financial sustainability with borrower needs (Musonda *et al.*, 2023).

The study's statistical analysis confirms a statistically significant positive impact of microfinance on SMEs' profitability, with a mean score of 4.300, which is significantly higher than the hypothesized value of 4.000. The p-value of 0.0188 indicates that the difference between the observed mean and the hypothesized value is statistically significant, suggesting that SMEs generally agree that microfinance capital has led to improved profitability. The study's findings demonstrate the effectiveness of microfinance in enhancing SMEs' financial performance and promoting sustainable business growth, and underscore the need for microfinance institutions to design loan products that are more responsive to SMEs' needs.

5. CONCLUSION

The study employed a mixed-methods approach, combining structured quantitative instruments with qualitative perception analysis. The study's findings provide conclusive evidence that microfinance capital financing has a significant impact on the performance of Small and Medium-sized Enterprises (SMEs) in Lusaka District. The study's findings indicate that microfinance capital financing has a positive impact on SMEs' working capital growth. The regression analysis shows a significant positive relationship between microfinance and SME's working capital growth, with a correlation coefficient (r = 0.534) indicating a moderate positive correlation between the variables. The study's findings also suggest that microfinance capital financing has a notable effect on SME operating expenses. The chi-square test results (χ^2 = 32.79, df = 16, p = 0.0079) indicate a statistically significant association between the perceived impact of microfinance on reducing or stabilizing operational costs and the estimated average monthly operating cost of SMEs after receiving microfinance support. The study's findings provide strong evidence that microfinance capital financing has a positive impact on SMEs' profitability. The hypothesis test results indicate that the mean score for the statement "microfinance capital has led to improved profitability for our SME" is 4.300, which is significantly higher than the hypothesized value of 4.000. With a p-value of 0.0188 (less than 0.05), we reject the null hypothesis, indicating that microfinance capital has indeed led to a statistically significant improvement in profitability for SMEs. The study's findings have important implications for microfinance institutions, policymakers, and SMEs. Microfinance institutions can use the findings to design more responsive and tailored financial products that meet the specific needs of SMEs. Policymakers can use the findings to develop policies that promote financial inclusion and support SME growth. SMEs can benefit from the findings by gaining a better understanding of the potential benefits and challenges of microfinance capital financing.

RECOMMENDATIONS

Based on the research findings, the following recommendations are made:

i. Microfinance institutions should offer more flexible loan repayment terms: Microfinance institutions should consider offering loan repayment terms that are tailored to the specific needs and revenue cycles of SMEs. This can help reduce the financial burden on SMEs and improve their ability to manage loan repayments.

ii. Microfinance institutions should reduce interest rates: High interest rates are a major constraint for SMEs. Microfinance institutions should consider reducing interest rates to make borrowing more affordable for SMEs.

iii. Microfinance institutions should provide larger loan sizes: Some SMEs reported that loan sizes were too small to meet their financial needs. Microfinance institutions should consider providing larger loan sizes to support SME growth and development.

iv. Microfinance institutions should provide financial literacy training: Financial literacy training can help SMEs better manage their finances and make informed decisions about borrowing. Microfinance institutions should consider providing financial literacy training to SMEs.

v. Policymakers should promote financial inclusion: Policymakers should promote financial inclusion by developing policies that support SME growth and development. This can include providing incentives for microfinance institutions to lend to SMEs and promoting financial literacy among SMEs.

vi. SMEs should develop robust financial management systems: SMEs should develop robust financial management systems to better manage their finances and make informed decisions about borrowing. This can include keeping accurate financial records, developing budgets, and monitoring cash flow.

By implementing these recommendations, microfinance institutions, policymakers, and SMEs can work together to promote SME growth and development in Lusaka District.

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