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Enhancing Financial Inclusion and Financial Literacy for Small and Medium Enterprises (SMEs) in Zambia: Challenges, Opportunities and Strategies for Growth

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Abstract

The study aims to assess the range of FI among SME managers. Financial Inclusion (FI) ensures that every individual, especially the marginalized, has adequate access to financial services. The main objective of this study is to analyze the extent of SME managers' access to financial schemes and policies in Zambia, Africa. The study describes the budget provided by the Zambian government for SMEs, which will help in examining the level of financial literacy (FL) of SME managers regarding budgeting. Despite their potential, SMEs face many challenges, including limited access to finance, inadequate financial literacy among entrepreneurs, and a fragmented regulatory environment. The study identifies opportunities to improve financial inclusion through targeted strategies. The study emphasizes the need to enhance financial literacy programs tailored to SME owners' needs to empower them. The study also highlights the importance of collaborative efforts between government agencies, financial institutions, and development partners to create an enabling ecosystem. The study proposes actionable strategies that Zambia can implement to improve access to finance and enhance financial literacy. The study findings show that most entrepreneurs agree that financial accessibility is important for SME development and that inclusive policies should be implemented to expand the reach of financial services.

Keywords

Financial Inclusion; Financial Literacy; Access to finance; SMEs; Economic growth

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1. INTRODUCTION

1.1. Background of the study

Small and medium enterprises (SMEs) are privately owned organizations. SMEs help improve the nation's economic state by creating jobs and meeting people's basic needs through various services. Importantly, they help improve the lives of disabled, uneducated people, women, households, and rural people. It supports sustainable economic growth by aligning with the United Nations Sustainable Development Goals. Developing countries face major obstacles to obtaining financing for SMEs because conventional financial institutions are hesitant to extend loans, thereby impeding economic growth.

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Nevertheless, the emergence of digital finance in Africa is striving to enhance financial access for SMEs and individual (Agelyne & Musau, 2021). Recently, Sub-Saharan Africa has been facing challenges such as high unemployment rates, low productivity, and inequality. This has led to the implementation of various measures to reduce unemployment (Rasche, 2020). Investing in start-ups can help stimulate economic growth and reduce unemployment, leading companies, particularly SMEs, to seek creative strategies to achieve sustainable growth and enhance their relationships with customers and communities (Gherghina, Botezatu, Hosszu, & Simionescu, 2020).

The Ministry of Small and Medium Enterprise Development (MSMED) in Zambia was founded on September 21, 2021, to boost SMEs' growth, increase job opportunities, and improve the country's economic status. However, SMEs in Zambia encounter challenges such as limited market reach, lack of affordable financing, inadequate collaboration, and insufficient innovation and technology. In response to these challenges, MSMED has introduced several policies to align with Zambia's Sustainable Development Goals (SDGs), as detailed in eight documents that outline a strategy for SME advancement. Nevertheless, the effectiveness of these policies is often hindered by implementation gaps, underscoring the need to ensure they are accessible and practical for entrepreneurs while also encouraging collaboration among various stakeholders to create a more conducive environment for SME development (Elias Mubanga, 2023a).

Also, SMEs in Zambia can be defined based on annual turnover, legal status, number of employees, and total fixed investment (Elias Mubanga, 2023b). According to the 2019 report, SMEs in Zambia increased to 110,508 enterprises, indicating growth of about 27% from the 2012 report. Among these SMEs, 47% are in retail and wholesale trade, motorcycle and vehicle repair, 5% are in the construction sector, 4% are in the fishing, agriculture, and forestry sectors, 2% are in the manufacturing sector, 1.1% are in the financial and insurance-based enterprises, and 1.6% of SMEs are based on the scientific, technical, and professional activities (Elias Mubanga, 2023b).

Thus, SMEs in Zambia are essential to the nation's economic growth (Stoica, Roman, & Rusu, 2020). Nonetheless, SMEs face various issues that affect their growth and the nation’s. Thus, the Ministry of Zambia formulated various policies in 2023 to develop SMEs (Elias Mubanga, 2023a). Increasing individuals' understanding of financial activities and programs through financial literacy (FL) is essential for improving FI and security, ultimately benefiting their economic status (Lyons & Kass-Hanna, 2021). Having FL is crucial for making informed financial choices that can affect a person's financial situation. It helps individuals handle financial risks better and improve the performance of their investments (Hasan, Le, & Hoque, 2021). Financial illiteracy is the reason behind the various economic crises in society and the family (Chatterjee, Gupta, & Upadhyay, 2020). During the pandemic, financial illiteracy is also one reason behind the global economic crisis(Lusardi, Hasler, & Yakoboski,

2021). FL is also significant for buy-and-hold trading strategies and for justifying investors' investment behavior (Raut, 2020).

The African Development Bank Group (AfDB) is committed to alleviating poverty and financing development projects. AfDB aims to tackle these structural issues by strategically investing in digital financial solutions to empower economically underserved populations and promote their inclusion (Cicchiello, Kazemikhasragh, Monferrá, & Girón, 2021). Mobile phones are crucial to improving financial accessibility by enabling users to conduct various banking transactions, such as deposits, payments, loans, and money transfers. In Zambia, mobile financial services have grown significantly, thanks to various digital platforms that have empowered low-income families. These services help promote financial inclusion by making it easier for underserved populations to access banking and manage their finances (Kawimbe, 2020).

Zambia has made progress in promoting FI, but certain groups, especially women and youth in rural areas, remain underserved despite efforts to include them in the formal economy. Research suggests that countries with lower GDP per capita often face challenges such as limited networking opportunities and low literacy rates, which contribute to their economic exclusion relative to nations with higher GDP per capita. (Evans, 2016) Studies that have analyzed panel data have identified important factors that influence FI in Africa, including income per capita, the ratio of broad money to GDP, literacy levels, internet accessibility, and the presence of Islamic banking services (Oyelami, Saibu, & Adekunle, 2017). Furthermore, examining the determinants of financial inclusion in Sub-Saharan Africa has shown that demand-side factors such as income and literacy, and supply-side factors such as interest rates and ATM usage, significantly impact FI (Makoetje, 2018).

Hence, FI is considered access to financial services that can aid in improving economic status through credit, savings, loans, insurance, and equity. Thus, effective FI is essential for the SME sector because SMEs play a vital role in the nation's economic growth (Drach, 2024). Nonetheless, the lack of awareness and the inability to make effective financial decisions hinder the growth of SMEs. Thus, the current study analyzes the FI of SMEs, especially in Zambia. The study also evaluates SMEs' access to finance in Zambia.

1.2. Significance of the study

Compared with other regions, Africa has lagged in providing access to financial schemes for SMEs. Hence, FI is significant for the country's economic growth because it provides access to finance to all communities. Nonetheless, FI has not provided financial access to every African individual (Bidang, (Oshora, Desalegn, Gorgenyi-Hegyes, Fekete-Farkas, & Zeman, 2021). Most prevailing studies focused on the FI of SMEs and their economic growth in major parts of Africa. Only a few studies have focused on the role of FL in SMEs' access to financial services in Zambia, Africa. The current study will evaluate

the FI among SMEs and its impact on the economic growth of the organization (Drach, 2024).

Financial Literacy (FL) is important for improving economic growth and minimizing poverty in the country (Morgan & Long, 2020). The understanding of the financial impacts of savings patterns of both private and public financial institutions (Adetunji & David-West, 2019). The FL is defined as an individual's ability to process economic information and make decisions regarding debt, financial investment, and pension (Morgan & Long, 2020). Understanding financial aspects is vital for enhancing the FL rate in the country. Therefore, a lack of financial knowledge is a significant reason for the high rate of financial illiteracy in emerging countries (Prasad & John, 2021). This results in low financial investment and poor financial decisions. The individual lacks adequate knowledge of how to plan and utilize financial resources, resulting in poor circulation or flow of money (Prasad & John, 2022).

1.3. Problem identification

Though SMEs play a significant role in enhancing economic growth, especially in developing countries, they face challenges accessing financial services offered through government schemes. The SME administration faces several internal and external issues that impact the utilization of certain financial services (Rasheed, Siddiqui, Mahmood, & Khan, 2019)—FL among SME managers for accessing various policies and programs, which impacts the organization's growth. The low FL level is a major concern in financial policy access (Buchdadi, Sholeha, & Ahmad, 2020). Hence, FL aids in deciding on financial activities (Prasad & John, 2021). Apart from FL, inefficient credit markets and a lack of financial support for accessing appropriate financial schemes are major financial setbacks. These financial issues affect the growth of SMEs (Bakhtiari, Breunig, Magnani, & Zhang, 2020). Hence, the current study will assess SME managers' FL level to evaluate the range of access to financial services. The study will analyze the FI of SMEs, which impacts the economic growth of the organization (Morelli, Ottonello, & Perez, 2022).

1.4. Research Hypothesis

The research hypothesis of the present study is given below.

Null hypothesis

$H_{0}1$: FI is not significant for SMEs' growth.

$H_{0}2$: There is no significant role of SME managers at a financial literacy level

$H_{0}3$: FL level does not impact access to SMEs' finance.

$H_{0}4$: There is no association between the accessibility level of financial services and the economic growth of SMEs.

Alternative hypothesis

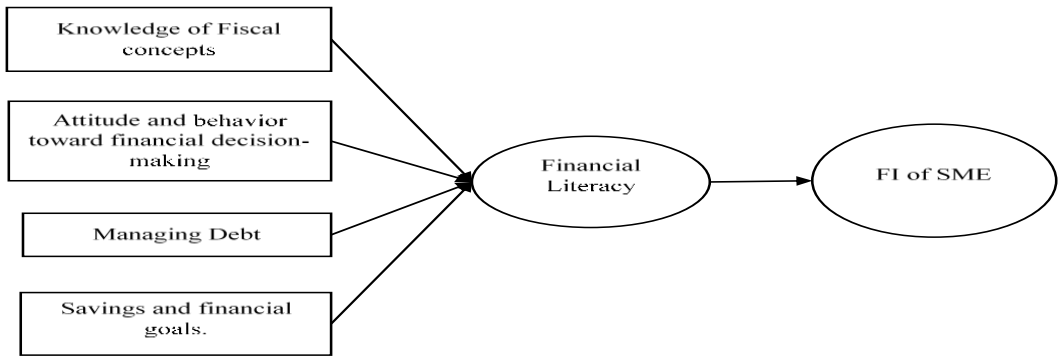
$H_{1}1$: FI is significant for SMEs' growth.

$H_{1}2$: There is a significant role of SME managers' financial literacy level

H_i3: FL level impacts access to SMEs' finance.

H_i4: There is an association between the accessibility level of financial services and the economic growth of SMEs.

Conceptual framework



The study examined factors such as knowledge, attitude, and behavior with financial concepts and financial decisions. Additionally, the ability to manage debt and the SMEs' financial goals were analyzed to demonstrate the FL level of SMEs, particularly in Zambia, Africa. The FL level signifies the FI of SMEs. Therefore, the study evaluates the FL level to determine SMEs' access to finance, particularly in Zambia, Africa.

Most businesses in Zambia are SMEs, accounting for 97% of the business sector's contribution. Since SMEs contribute more to the industrial sector, they contribute to Zambia's economy, which is considered to have low revenue compared to other African countries. The existing study by KASUMPA (2022) aimed to investigate and understand financial institutions, particularly the impact of microfinance on SMEs in Lusaka's Chainda area. Data were collected using a questionnaire administered via Google Forms and physical forms from participants. Also, the implemented descriptive study method was applied for determination. The prevailing study concludes that entrepreneurs with large populations could not access external investment through institutions. FI made a significant contribution to the improvement of industry.

2. METHODS

2.1. Research design

The research methodology for the study on FI and access to finance for SMEs in Zambia employs a mixed-methods approach, using structured questionnaires administered to 25 SME owners and managers in Lusaka and the Copperbelt provinces. Mixed methods combine various research methods. The researcher can combine observations with an emphasis on interviews or focus groups. This mixed methodology enables the identification of significant relationships among variables such as FL,

managerial experience, and access to financial resources, thereby providing valuable insights into the challenges SMEs face.

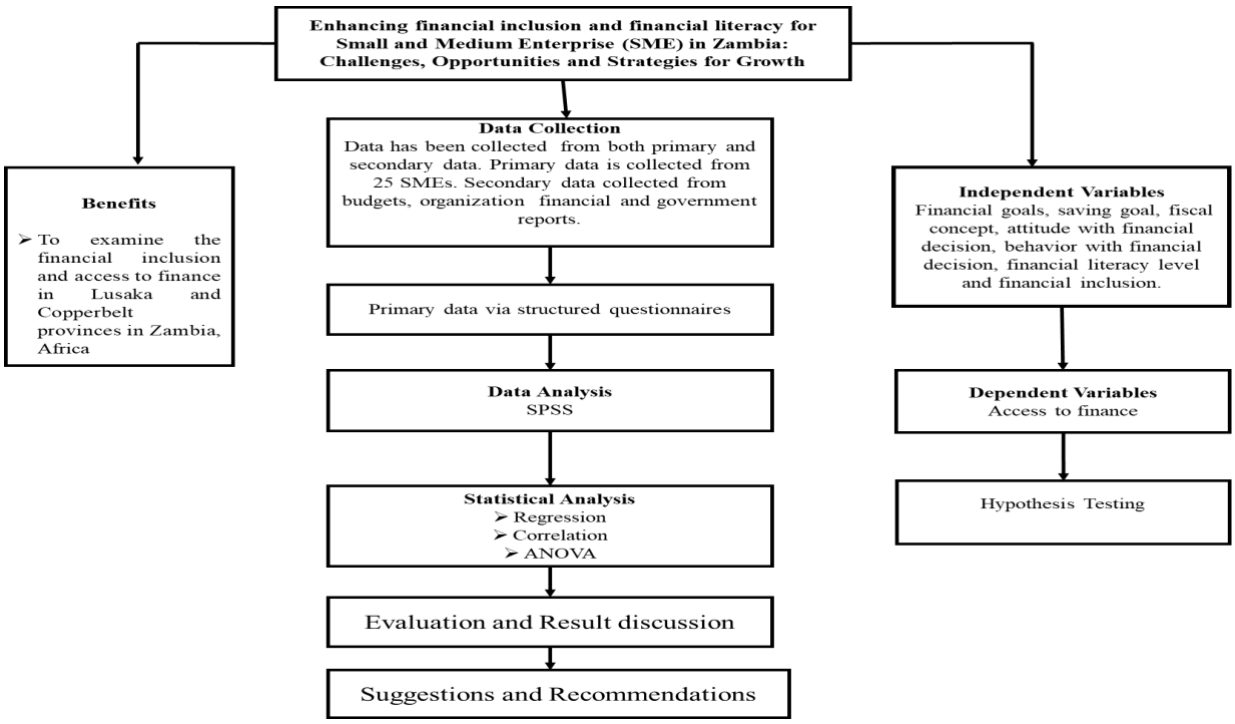
2.2. Study Area

The study is being conducted among SME owners and managers in Lusaka and Copperbelt provinces in Zambia, Africa, who are eager to participate in the survey. This helps with the successful completion of the current research. The survey is being carried out with the assistance of a researcher. SME owners and managers are being surveyed as part of the research sample. This increases the importance of the research's goal. As a result, this simplifies the data collection process.

2.3. Sample size and population

The sample size for any study should be determined after thorough analysis to ensure both accurate and generalizable results. For the present study, the appropriate number of participants will be determined to gather data regarding the FL of SME managers in Zambia. The collected data for the quantitative technique depends on the chosen sample size, which aids in proving the research objectives (Lakens, 2022). The study includes 25 SME managers to analyze the association between the accessibility level of financial services and the economic growth of SMEs and determine the results.

Research Framework



2.4. Sampling Techniques

The sampling technique is crucial for gathering data from a specific population rather than focusing on the entire available population (Sarker & AL-Muaalemi, 2022). The study uses purposive

sampling to collect information relevant to its objective and motive. Additionally, it is used to analyze data sets to classify patterns, enabling the assessment of FI and access to finance in Zambia, Africa.

2.5. Research Instruments

The research study employs a structured survey questionnaire to gather participant data. The survey questionnaire has been subjected to a reliability test, and the Cronbach alpha value was calculated. If the value is greater than or equal to 0.7, it indicates that the selected items are reliable for calculating the constructs. The research instruments were checked with the finance experts for content validity. Then, construct validity was assessed using exploratory factor analysis in SPSS. The factor loadings should be greater than 0.5 to indicate good construct validity. The reliability and validity reported in the methodology section enhance the credibility of the findings linking FI to access to finance for SMEs in Zambia.

2.6. Data Collection

The data collection process is a crucial phase in research that impacts the ability to achieve accurate outcomes by reducing potential errors that may occur during the research process (Taherdoost, 2022). In this study, primary data are collected from SME managers through a structured questionnaire, and secondary data are obtained from the Zambian government's budget report on FI for SMEs. The current study has considered the factors contributing to and enhancing the SME's manager range of access to financial schemes and policies in Zambia as the dependent variables. The current study considers knowledge of fiscal concepts, attitudes and behavior towards financial decisions, debt management, and financial and savings goals, as well as the level of FL and FI, as the independent variables.

2.7. Data Analysis

The quantitative research approach systematically collects data and utilizes computational, statistical, and mathematical methods (Jung, 2019). This approach is used to gather data from respondents and communicate the findings to the intended audience (Dzwigol, 2022). The quantitative method produces numerical results, which are analyzed to draw an appropriate conclusion. The SPSS software tool analyses the quantitative data obtained from a structured questionnaire. The collected information is transferred to an MS Excel spreadsheet for transparent analysis of the variables. The qualitative technique utilizes secondary data and performs situational analysis.

2.8. Ethical considerations

The present research adheres to ethical guidelines in conducting the analysis. The demographic details refer to the address, name, contact number, and location, which will be kept confidential by each respondent participating in the survey. In this survey, participants are not required to disclose their responses. The current study contains no false data, and all data will be kept strictly confidential.

Finally, these are the ethical considerations the researcher uses in the analysis, which are more specific to the scholar's knowledge of the present study.

3. FINDINGS AND DISCUSSION

3.1. Demographic data

The SME managers in the Lusaka and Copper Belt provinces of Zambia, Africa, are considered in this research study, which comprises 25 respondents. The demographic data of the respondents are listed below:

Table 1. Demographic factors of respondents

Demographic factor	Parameter	Frequency	%
Age	20-30 years	3	12
	31-40 years	3	32
	41-50 years	12	48
	Above 50 years	2	8
Gender	Male	18	72
	Female	7	28
Marital status	Married	17	68
	Single	8	32
Education	Upto grade 12	10	40
	Under Graduate	5	20
	Post Graduate	10	40
Business form	Sole proprietorship	17	68
	Partnership	1	4
	Private ltd	7	28
Business experience	Less than 5 years	6	24
	6 to 10 years	3	12
	More than 10 years	16	64

Table 1 illustrates the demographic characteristics of the participants. By age category, 48% of respondents are 41-50 years old, 32% are 31-40 years old, 12% are 20-30 years old, and 8% are over 50 years old. Males comprise 72% of the sample, while females represent 28%. 32% of the participants are single, while 68% are married. Regarding education, 40% have completed up to grade 12 and are enrolled in postgraduate programs, 20% are enrolled in undergraduate programs, and the remainder are not enrolled in any program. 68% were sole owners of the business, 28% were private

businesspeople, and 4% were shareholders in the commercial population. Upon analyzing the work experience, 64% of the participants had more than 10 years of service, 24% had less than 5 years, and 12% had 6 to 10 years of service. The knowledge of professional people is significant for the growth of the business. Overall, the varied demographics imply SME managers' viewpoints on FI, highlighting the importance of considering these factors in the study's analysis.

3.2. Statistical Analysis

Reliability Analysis

Table 2. Reliability Statistics

Reliability Statistics	
Cronbach's α	N
.801	25

Table 2 presents the reliability statistics for the data set used in the study to test the hypothesis. An alpha value of 0.801 suggests strong reliability of the dataset.

Quantitative analysis

HYPOTHESIS 1

$H_1$1: FI is significant for SMEs' growth

$H_0$1: FI is not significant for SMEs' growth

One-way ANOVA

This statistical assessment is used to examine the difference between the means of two or more groups. This technique uses one independent variable and one dependent variable. Hence, the present study applied ANOVA to determine the significance of FI in the development of SMEs.

Table 3 Descriptives

		N	Mean (M)	St. D	Std. Error(St.E)	95% Confidence Interval for Mean (CI for M)		Min(Minimum)	Max(Maximum)
						Lower Bound(LB)	Upper Bound(UB)		
The degree of FI/literacy is impacted by the types of affordable current accounts, savings accounts, and loans	SA	8	2.13	.354	.125	1.83	2.42	2	3
	A	8	2.63	.744	.263	2.00	3.25	2	4
	N	5	2.60	.548	.245	1.92	3.28	2	3
	D	3	2.67	1.528	.882	1.13	6.46	1	4
	SD	1	5.00	.401	.721	.19	.345	5	5
	T	25	2.56	.870	.174	2.20	2.92	1	5
Sales and promotion activities by online, social media, and PR initiatives have an impact on the degree of FI/literacy	SA	8	2.25	.707	.250	1.66	2.84	2	4
	A	8	1.50	.535	.189	1.05	1.95	1	2
	N	5	1.80	.837	.374	.76	2.84	1	3
	D	3	3.00	1.732	1.000	1.30	7.30	1	4
	SD	1	5.00	.623	.210	.023	.981	5	5
	T	25	2.12	1.092	.218	1.67	2.57	1	5

Table 4 ANOVA

		Sum of Squares (SOS)	**Degrees of freedom**	**Mean Square(M^2)**	**Frequency(F)**	**Significance (S)**
The degree of FI/literacy is impacted by the types of affordable current accounts, savings accounts, and loans	Between Groups(BG)	7.543	5	1.886	3.553	.024
	Within Groups(WG)	10.617	20	.531		
	T	18.160	25			
Sales and promotion activities by online, social media, and PR initiatives have an impact on the degree of FI/literacy	BG	14.340	5	3.585	5.014	.006
	WG	14.300	20	.715		
	T	28.640	25			

Tables 3 and 4 present the impact of FI (the independent variable) on SME growth (the dependent variable). The p-value results are 0.024 and 0.006. The results of the one-way ANOVA show that the maximum number of businesspeople agreed that financial accessibility is significant for SME development. The level of monetary flow and financial capability is influenced by factors such as reasonable loans, savings and current accounts, and sales and promotional activities on social media, which increase awareness of financial knowledge and services. FI is the mutual objective of several central banks in developing countries. Most of the evidence has proven that a lack of confidence in women makes them financially dependent on others. This table also shows that the degree of monetary accessibility and literacy is significant for the development of SMEs. Thus, the outcome is the opposite of the null hypothesis, and H11 is correct based on the above examination.

Hence, **the above analysis proves that H_11: FI is significant for SMEs' growth**.

HYPOTHESIS 2

$H_1$2: There is a significant role of SME managers at a financial literacy level

$H_0$2: There is no significant role of SME managers at a financial literacy level

Regression

The regression method is used to determine the numerical values of the variables. The trial is implemented to measure the association between the study variables. Hence, the study applied regression tests to examine the significance of FL levels for SME managers.

Table 5 Model Summary

Mod	R	R^2	Adj R^2	St. E of Est
1	.649[a]	.521	.368	.965
a. Pre: (Con), 26. The kind of industry sector and demographic parameters in which SMEs operate influence how they interact with banks/financial institutions; through FI/literacy, the central bank's monetary policies have an impact on SMEs' dealings with banks/financial institutions, Through FI/literacy, tax evasion impacts SMEs' dealings with banks/financial institutions				

Table 6 ANOVA[a]

Mod		SOS	df	M^2	F	S
1	Reg	14.206	4	4.735	5.085	.008[b]
	Res	19.554	21	.931		
	T	33.760	25			
a. Dep Var: The amount of FI/literacy is measured by the percentage of SMEs understanding financial accounting and bookkeeping of records.						
b. Pre: (Con), The kind of industry sector and demographic parameters in which SMEs operate influence how they interact with banks/financial institutions; through FI/literacy, the central bank's monetary policies have an impact on SMEs' dealings with banks/financial institutions. Through FI/literacy, tax evasion impacts SMEs' dealings with banks/financial institutions						

Table 7 Coefficients[a]

Model		Unstandardized Coeff		Standardized Coeff	t	Significance
		B	**(Standard Error)**	**Beta**		
1	(Con)	.165	.720		.229	.021
	Through FI/literacy, the central bank's monetary policies have an impact on SMEs' dealings with banks/financial institutions	.497	.237	.349	2.099	.048
	Through FI/literacy, tax evasion impacts SMEs' dealings with banks/financial institutions	.531	.190	.474	2.790	.011
	The kind of industry sector and demographic parameters in which SMEs operate influence how they interact with banks/financial institutions	.223	.190	.199	1.171	**.025**
a. Dep Var: The amount of FI/literacy is measured by the percentage of SMEs understanding financial accounting and bookkeeping of records.						

Table 7 shows the associations between FL-level and SME managers. The independent variable (FL) impacts the dependent variable (SME growth). The model summary table shows the regression test results, with an R^2 of 0.521, whereas the appropriate R-square value for rejecting the null hypothesis must be above 50%. A p-value less than 0.05 indicates significant variance among the variables. The p-value is .008, which shows that the FL level is significant for managers of SMEs. The results of the regression test demonstrate an association between FL and SME managers. In addition, the outcomes are the opposite of those predicted by the null hypothesis.

Hence, **$H_1$2: The above analysis has demonstrated the significant role of SME managers in financial**

literacy.

Hypothesis 3

$H_0$3: FL level does not impact access to SMEs' finance.

$H_1$3: FL level impacts access to SMEs' finance.

Bivariate Correlations

Bivariate correlation is generally used to assess whether two or more phenomena occur simultaneously and are therefore associated.

Table 8 Bivariate correlations

		Through FI/literacy, exports and foreign transactions influence SMES" interactions with banks/financial institutions	Through FI/literacy, the lower taxes increase SMEs' transactions with Banks/financial institutions
Through FI/literacy, exports and foreign transactions influence SMES" interactions with banks/financial institutions	Pea Corr	1	.238
	S (2-t)		.031
	N	25	25
Through FI/literacy, the lower taxes increase SMEs' transactions with Banks/financial institutions	Pea Corr	.238	1
	S (2-t)	.031	
	N	25	25

Table 8 presents the results of the correlation test for the association between FL (the independent variable) and access to SME financing (the dependent variable). The Pearson correlation test p-value is .031, and the correlation is 1, a positive value indicating that FL and access to SME financing are correlated. Hence, the correlation test contradicts the null hypothesis.

HYPOTHESIS 4

$H_1$4: There is an association between the accessibility of financial services and the economic growth of SMEs.

$H_0$4: There is no association between the accessibility level of financial services and the economic growth of SMEs.

T Test

A t-test is a numerical test applied to compare the means of two data groups. It is commonly used to test hypotheses about mean values of dependent and independent variables.

Table 9 One-Sample Statistics

	N	M	St. D	St. EM
Lack of capital impacts the growth of SMEs.	25	1.36	.638	.128
Knowledge of finance impacts the accessibility of credit/loans.	25	2.00	.957	.191
The level of collateral is significant for accessing the loan	25	1.80	.764	.153
The high interest rate for the loan affects the accessibility of financial services.	25	1.76	1.052	.210

Table 10 One-Sample Test

	Test Val = 0					
					95% C I of Diff	
	t	**df**	**S(2-t)**	**M Diff**	L	U
Lack of capital impacts the growth of SMEs.	10.663	24	.000	1.360	1.10	1.62
Knowledge of finance impacts the accessibility of credit/loans.	10.445	24	.000	2.000	1.60	2.40
The level of collateral is significant for accessing the loan	11.784	24	.000	1.800	1.48	2.12
The high interest rate for the loan affects the accessibility of financial services.	8.365	24	.000	1.760	1.33	2.19

The table above presents the results of a one-sample test assessing the association between the

accessibility level of financial services and the economic growth of SMEs. The t-test showed a p-value of .000. This section highlights the independent variable (financial services) and the dependent variable (SMEs' economic growth) in the hypotheses. The value determines the association between the variables. External financing surely affects the balance of payments (BOP), as reflected in the labor and organizational productivity of SMEs in emerging and developed countries. Economic constraints hinder productivity and pose significant challenges to efficient business operations. Hence, the test results contradict the null hypothesis and support hypothesis H1.

Hence, **H_14: There is an association between the accessibility of financial services and the economic growth of SMEs** has been proved from the above analysis.

Qualitative analysis

To assess the impact of FL level and FI on the access to financing of SMEs

MSMEs are key drivers of socioeconomic development. In Zambia's case, a myriad of policies and strategies have been associated with MSME development. These efforts have aimed to enhance MSMEs' participation in industrial development by fostering linkages between MSMEs and large firms.

Table 11 Budget of enterprises

Policy Measure	Activities	Indicators	Budget (ZMW)
Promote MSME growth in non-traditional sectors	Integrate Smallholder farmers into commercial value chains	Number of Smallholder farmers integrated into commercial value chains	1,000,000
	Facilitate access to FISP by Small Scale Farmers	Number of Small Scale Farmers accessing FISP	500,000
	Link Artisanal Miners with Mining Investors	Number of Artisanal Miners linked with Mining Investors	500,000
	Providing Empowerment funds to MSMEs through the Citizens' Economic Empowerment Commission (CEEC) to support empowerment products	Number of MSMEs empowered with funds to support empowerment products	2,500,000,000

	Support the implementation of the MSME Supply Chain Programme in the Mines	Number of MSMEs participating in the Mining Supply Chain Programme	100,000
	Facilitate participation of MSMEs in the tourism sector	Number of MSMEs operating in the tourism sector	100,000
	Facilitate participation of MSMEs in the Energy sector	Number of MSMEs operating in the Energy sector	100,000
	Facilitate MSME participation in the Construction Sector.	Number of MSMEs engaged in the Construction Sector	100,000

In the case of Zambia, according to the Financial Scoping Survey Report by the Bank of Zambia and ILO for 2021, MSMEs account for 70% of GDP and 88% of employment and explain nearly 97% of all businesses, constituting a substantial share of local and export salaries and providing a large share of proceeds to the mainstream of the functioning populace in Zambia.

These constraints include limited access to affordable financing, limited access to local and foreign markets, low technology uptake, limited innovation, a weak entrepreneurial culture, inadequate decentralization of services supporting MSMEs, poor collaboration among businesses, and fragmented MSME development interventions due to overlapping institutional mandates.

To assess the impact of FI in MSMEs

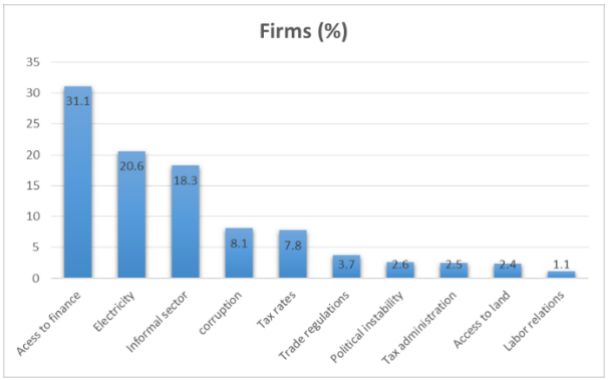


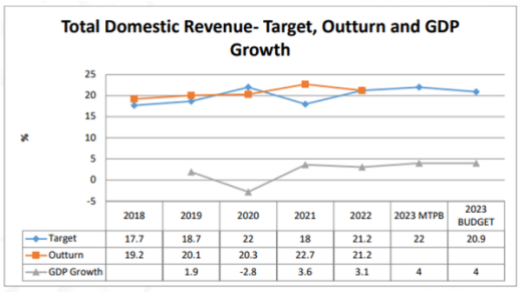
Figure 3 Challenges of MSME firms

Figure 3 illustrates the percentage of firms reporting various issues affecting their operations. Access to

finance is the most significant issue, with 31.1% of firms identifying it as a concern. Financial access and electricity supply are the most critical barriers for firms, indicating a need for improvements in financial systems and infrastructure.

To evaluate the association between the accessibility level of financial services and the economic growth of SMEs

The Zambian economy is characterized by numerous MSMEs that contribute to job and wealth creation. MSMEs account for 97 percent of all businesses, contributing 70 percent to gross domestic product (GDP) growth and 88 percent to employment creation. The full potential of MSMEs has yet to be tapped. According to the 2020 Labor Force Survey, the combined national unemployment rate for males and females was 37.3%, down from 41.2% in 2018. It was higher for females at 44.1 percent and for males at 31.8 percent.



	2018	2019	2020	2021	2022	2023 MTPB	2023 BUDGET
Target	17.7	18.7	22	18	21.2	22	20.9
Outturn	19.2	20.1	20.3	22.7	21.2		
GDP Growth		1.9	-2.8	3.6	3.1	4	4

Figure 4 Total domestic revenue and GDP growth

From the figure above, it is clear that when frugality decreased by 2.8% in 2020, revenue underperformed and fell below target. It could also be perceived that, when frugality increased in 2021, income was set as an overhead target of 22.7% of GDP.

3.3. Discussions

The existing research on Bidang (Abbasi, Alam, Brohi, Brohi, & Nasim, 2021) has implications for executives and policymakers in SMEs. SME managers stressed about increasing debt investment might use P2P (purchase-to-pay) lending fintech to meet their needs. In collaboration with policymakers, the outcomes endorse consolidating the country's organizations that could support P2P lending fintech start-ups, thereby improving access to SME finance. Similarly, the present study illustrated FI in Zambia, which would help people access and use a wide range of quality, affordable financial products and services. It also opens up prospects for improved support and revenue sources.

The prevailing study (Eton et al., 2021) found that economic inclusion is important for supporting the growth of SMEs. It also discovered that the cost of obtaining and using economic services is high. There is a struggle in accessing certain economic amenities, and the way financial workers treat economic users requires a certain degree of esteem and self-respect. Digital economic service providers must encourage their customers to adopt digital economic services that are risk-averse, secure, and cost-

effective. Similarly, the current research identified the significance of FI in enhancing the accessibility of financial services because economic services are critical to frugality. Without them, people with money to protect may have concerns about discovering those who want to steal. The study also found that without financial services, people may be so determined to save money on asset protection that they forgo purchasing additional goods and amenities.

The findings of the preceding study by Ye & Kulathunga (2019) revealed consistent positive effects of economic literacy, access to investment, and economic risk attitude on sustainability. Economic literacy was also developed as an analyst of access to investment and economic risk attitude. Furthermore, access to investment and economic risk attitude were identified as limited mediators in the association between economic literacy and sustainability in SMEs. Likewise, the present study considered FI as access to financial services that could aid in building economic status through credit, savings, loans, insurance, and equity. Thus, effective FI is essential to the SME sector, as SMEs play a vital role in the nation's economic growth.

However, there are some limitations to the research study. It lacks generalizability due to a small sample size that could not represent the entire population of SMEs in Zambia. Furthermore, there could be a response bias, as SME managers might provide desirable answers out of fear of repercussions.

4. CONCLUSION

FI and FL are critical components for enhancing access to finance for SMEs in Zambia. The study highlights that while financial inclusion initiatives aim to provide SMEs with access to essential financial services, their effectiveness is significantly influenced by entrepreneurs' FL. Enhanced FL equips business owners with the knowledge and skills to navigate financial products, manage their finances effectively, and make informed borrowing decisions, ultimately improving business performance and sustainability.

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