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# Investigating the Effect of Alternative Financing on the Performance of Micro, Small and Medium Enterprises in Zambia (MSME): A Case of Lusaka District

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**Abstract**

Micro, Small, and Medium Enterprises (MSMEs) are vital to Zambia's economic growth, especially in urban centres such as Lusaka. According to the Zambia National Statistical Agency (ZNSA), MSMEs account for over 97% of all businesses in Zambia and contribute approximately 30% to the country's Gross Domestic Product (GDP). These enterprises are instrumental in driving job creation, with the World Bank estimating that they provide around 70% of employment opportunities in the private sector. This study aims to investigate the effectiveness of alternative financing mechanisms for Micro, Small, and Medium Enterprises (MSMEs) in Zambia, with a focus on improving their access to capital and mitigating the challenges they face in traditional financing channels. The specific objectives of the study were to evaluate the role of effective alternative finance on the performance of SME in Lusaka district, to evaluate the involvement of effective alternative finance on the performance of SME in Lusaka district and to determine the challenges faced by SME on implementing alternative finance in Lusaka district. The researcher adopted a mixed approach and employed qualitative and quantitative research designs. The study employed Purposive sampling techniques to mobilise the quantitative and qualitative data. The Purposive method was used to identify and select a homogenous sample of 1663 registered SMEs within Lusaka district that met the predetermined criterion of importance. The research comprised of questionnaires, and interview schedules. The questionnaires were used because they are the main means of collecting quantitative primary data. The questionnaires enabled quantitative data collected in a standardized manner, to ensure the data is consistency and coherent for the analysis. From the findings, the study concludes that equal access to alternative finances is important for SME and that 76.4% SME leaders that experience borrowing constraints from institutional banks are seeking AF options to boost their businesses. Furthermore, the study found that 175 respondents representing 62.5% thought that AF methods could provide useful sources of external funding for SMEs, and that 225 respondents representing 80.4% indicated that AF is designed to help their SME in order to successfully raise financial capital. Furthermore, the study found that most respondents (201) representing 71.8% choose flexible debt or equity options when information asymmetry exists, and that 207 respondents representing 73.9% SMEs thought that traditional bank loans remain a dominant source, with banks like ZANACO and FNB Zambia offering credit products tailored to MSME needs. However, the study found that 179 SMEs representing 64% lack the necessary knowledge and skills to effectively navigate alternative financing options and prepare credible business plans. Statistical analysis calculates aggregate level of agreement, and attitudes on all statements with the following conclusions; if equal access to alternative financial capital was important for SME within Lusaka was represent by median 4.00 representing a positive result. Therefore, the study concludes that there is a relationship between effective alternative finance and SME performance. Using thematic analysis, the study found that lack of financial literacy, lack of capital to adopt technological facilities is a major challenge and that many SMEs do not know or lack the knowledge to effectively access these options. Major themes indicated that regulatory constraints, cultural attitudes towards new financial technologies and the nascent state of Zambia's digital financial ecosystem have hindered the widespread adoption of these alternative funding sources.

**Keywords:** Alternative Finance, Financial Technology, Micro, Small, Medium, Enterprises

## 1. Introduction and Background

Micro, Small, and Medium Enterprises (MSMEs) are vital to Zambia's economic growth, especially in urban centres such as Lusaka. According to the Zambia National Statistical Agency (ZNSA), MSMEs account for over 97% of all businesses in Zambia and contribute approximately 30% to the country's Gross Domestic Product (GDP). These enterprises are instrumental in driving job creation, with the World Bank estimating that they provide around 70% of employment opportunities in the private sector (Tembo, 2023). Despite their importance, MSMEs face significant challenges, particularly in accessing traditional financing options, which hampers their growth and sustainability (World Bank, 2018). The lack of adequate financial support often limits their ability to innovate and expand, ultimately affecting their contribution to the economy.

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A survey conducted by the International Finance Corporation (IFC) revealed that approximately 60% of MSMEs in Zambia cite access to finance as a major constraint, with high interest rates and stringent collateral requirements being significant barriers (Aurick et al., 2017). This research proposal seeks to zoom in on alternative financing mechanisms that MSMEs can leverage in Lusaka (Kasonde, 2022). By assessing the effectiveness, accessibility, and impact of these alternative options, the study aims to provide insights that could enhance the financial landscape for these enterprises, facilitating their development and growth (Stein, et al, 2019). This chapter will cover the statement of the problem regarding the financing challenges faced by MSMEs, the aim of the study to explore alternative financing mechanisms, and the research objectives and questions that will guide the investigation. Additionally, it will outline the significance of the study and the methodology to be employed in the research.

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included (World Bank, 2019). International Finance Corporation (2015) in G-20 global partnership for financial inclusion progress addresses those small medium enterprises are critical for job growth, nevertheless, all MSMEs are not equal in job creation. According to (Endris& Kassegn 2022) access to finance is necessary to create an economic environment that enables firms to grow and prosper; SMEs in developing countries face significant barriers to finance. International Finance Corporation (2014) provides statistics on the finance gap is far bigger when considering the micro and informal enterprises 65 to 72 percent of all MSMEs (240315 million) in emerging markets lack access to credit.

In sub-Saharan Africa, MSMEs are just as crucial for economic development, providing job opportunities, reducing poverty, and fostering innovation. The World Bank has noted that the least developed economies face deficiencies in both macroeconomic and microeconomic environments, posing challenges such as high budget deficits, unstable exchange rates, and regulatory barriers that hinder MSMEs' access to finance, particularly for medium- and long-term financing (World Bank, 2016). The Zambian economy is characterized by the existence of many micros, small and medium enterprises which contribute to job and wealth creation. The MSMEs account for 97 percent of all businesses contributing 70 percent to GDP growth and 88 percent to employment creation (Ministry of Small and Medium Enterprise Development, 2023).

Despite these contributions, MSMEs in Zambia struggle to increase GDP impact due to limited access to formal finance, regulatory barriers and market constraints. Removing these obstacles through improved financing and policy support mechanisms can enable MSMEs to further drive Zambia's GDP growth and build economic resilience (Sichone &Mweshi 2023). A thorough understanding of the contribution of MSMEs to GDP is essential to fully appreciate their role and develop targeted interventions, which supports their growth and productivity (Bank of Zambia, 2020). Despite their importance to economic development, MSMEs often face financial constraints that limit their growth potential and sustainability (Muriithi, 2017). In developing countries like Zambia, traditional bank financing remains limited for MSMEs due to strict collateral requirements, high interest rates, and rigid credit assessment criteria that many small businesses struggle to cope with (Chilembo 2021). The situation in Lusaka is no exception, as MSMEs in the region also face significant financing challenges (FSD Zambia, 2018). According to a report by the Bank of Zambia, MSMEs in Lusaka often lack access to formal credit channels, leading them to resort to informal, costly and risky financing methods such as family loans, revolving savings and moneylenders of local money (Bank of Zambia, 2020). These resources are often insufficient to support business expansion or long-term growth.

Alternative financing mechanisms have emerged around the world as potential solutions to address these financing challenges. These mechanisms include, but are not limited to, microfinance, peer-to-peer (P2P) lending, crowdfunding, and fintech solutions such as mobile banking (Kawimbe 2024). Alternative financing methods are generally more accessible to MSMEs because they reduce reliance on traditional credit assessment processes, increase flexibility and often operate through digital platforms that facilitate transactions without the need for a lot of paperwork or physical interaction. Studies have shown that alternative financing has the potential to improve MSMEs' access to capital, encourage entrepreneurial activity and promote sustainable economic growth in underserved markets (Beck & Demirgüç-Kunt, 2006). In Lusaka, although the adoption of alternative financing options has started, many MSMEs do not know or lack the knowledge to effectively access these options. In addition, regulatory constraints, cultural attitudes towards new financial technologies and the nascent state of Zambia's digital financial ecosystem have hindered the widespread adoption of these alternative funding sources (Kalaba, 2021). Given these limitations, a thorough examination of the awareness, accessibility and effectiveness of alternative financing options for MSMEs in Lusaka is essential to formulate strategies that improve the financial inclusion and resilience of these businesses.

## 1.2 Statement of the problem

The Auditor General’s Report stated that Micro, Small and Medium Enterprises (MSMEs) played a major role in most economies, particularly in developing countries. MSMEs accounted for the majority of businesses worldwide and were important contributors to job creation and global economic development. They represented about 90% of businesses and more than 50% of employment worldwide. Formal MSMEs contributed up to 40% of Gross National Income in emerging economies. These numbers were significantly higher when informal MSMEs were included. According to the estimates, about 600 million jobs would be needed by 2030 to absorb the growing global workforce, which makes MSME development a high priority for many governments around the world. However, access to finance was a key constraint to MSME growth and was cited as an obstacle facing MSMEs to grow their businesses in emerging markets and developing countries (GENERAL, 2020). The ability of MSMEs to grow and thrive in this environment depends on adequate access to finance, which remains a significant barrier. Despite their importance, MSMEs in Lusaka face many challenges in accessing traditional forms of financing. According to the Bank of Zambia, less than 10% of MSMEs have access to formal credit, with a significant percentage relying on personal savings or informal lenders (Boz, 2022). The challenges are many, including high interest rates, lack of collateral, stringent credit requirements, and a generally underdeveloped credit infrastructure, which make it difficult for MSMEs to obtain the financial resources they need for their growth and expansion. In addition, many MSMEs in Lusaka operate in the informal sector, which exacerbates their inability to access formal financing options. These challenges were worsened by the economic impact of the COVID-19 pandemic (Chileshe, T. 2021), which has also restricted cash flows for many small businesses and increased the perceived risk for financial institutions. Limited access to capital means that many MSMEs continue to operate at sub-optimal levels, unable to invest in innovation, increase productivity or hire more workers. This stagnation may lead to a reduction in job opportunities, exacerbating the already high unemployment rate, especially among the youth in Lusaka (Kabwe, M. 2020). Furthermore, the inability of MSMEs to develop may hinder the country's broader economic growth and its ability to diversify its activities and develop the economy to free itself from its high dependence on copper exports (Simukonda, B., & Banda, L. 2019). If the financing gap is not addressed, the MSMEs contribution to Zambia's GDP may be limited and the vision of a more inclusive and resilient economy will be at risk. Furthermore, the lack of a robust MSME financing ecosystem may foster greater informality, thereby limiting the tax base and the government's ability to generate revenue for development (UNCTAD). It is against this backdrop that this paper seeks to INVESTIGATE THE ROLE OF ALTERNATIVE FINANCING ON MICRO SMALL AND MEDIUM ENTERPRISES IN ZAMBIA; A CASE OF LUSAKA DISTRICT.

## 2. Literature Review

### 2.1 Previous Studies

The empirical literature surrounding Micro, Small, and Medium Enterprises (MSMEs) and their access to financing reveals a complex phenomenon characterized by significant barriers and emerging solutions. This review synthesizes existing studies and insights that highlight the challenges faced by MSMEs, particularly in Zambia, and the potential of alternative financing mechanisms.

The intricate and diverse landscape surrounding alternative financing options available for Micro, Small, and Medium Enterprises (MSMEs) exhibits substantial variations and discrepancies when analyzed across the multitude of regions that exist around the globe, each of which possesses its own unique economic characteristics and cultural contexts. In this section, an extensive global overview will be presented, which will subsequently be supplemented by an in-depth investigation and thorough analysis of the various alternative financing mechanisms that are operational and prevalent in regions such as the United States and Europe, as well as in Africa and Asia, with a special focus on the unique situation in Zambia (Chisanga, 2022).

Kenya, often hailed as the birthplace of mobile money, has set a global benchmark with M-Pesa. Launched in 2007 by Safaricom, a leading telecommunications company, M-Pesa has revolutionized financial services, particularly in rural areas where traditional banking infrastructure is limited. Its success can be attributed to several key factors (Beck, 2018) M-Pesa boasts a simple and intuitive interface that is easy for users of all ages and backgrounds to understand and navigate. This accessibility has made it widely adopted, even among those with limited financial literacy. Safaricom has built a vast network of agents, such as small businesses and shops, across Kenya (C., 2019). This widespread availability of agents allows users to conveniently deposit, withdraw, and transfer funds without the need for physical bank branches.

M-Pesa offers a wide range of features that cater to the diverse needs of its users. These include person-to-person transfers, bill payments, airtime top-ups, and micro-loans. The ability to send and receive money instantly, even to remote areas, has transformed the way Kenyans conduct financial transactions. M-Pesa has played a pivotal role in promoting financial inclusion in Kenya. Moreover, Beck et al (2021) are of the view that by providing access to financial services to millions of people who were previously unbanked, M-Pesa has empowered individuals and businesses to participate more fully in the economy. One of the most significant impacts of M-Pesa has been on women's empowerment (Beck, 2021). By providing a safe and convenient way to manage finances, M-Pesa has enabled women to gain greater control over their economic lives. Women can now save money, pay bills, and start their own businesses, leading to increased economic independence and improved livelihoods.

In Uganda, mobile money services have played a crucial role in driving economic growth and development. Platforms such as MTN Mobile Money and Airtel Money have facilitated financial inclusion, particularly in rural areas where access to traditional banking services is limited. One of the key benefits of mobile money in Uganda has been the ability to provide SMEs with access to credit (OECD, 2009). Through partnerships with financial institutions, mobile money platforms offer micro-loans and other credit products that can help SMEs expand their businesses and create jobs. This access to financing has been particularly valuable for SMEs operating in rural areas, where traditional lending options are often scarce.

In addition to providing credit, mobile money platforms have also helped SMEs to manage their finances more efficiently (Fernández, 2022). By enabling digital payments and record-keeping, mobile money has reduced the need for cash transactions and improved financial transparency. This has made it easier for SMEs to track their income and expenses, make informed business decisions, and attract investors. Furthermore, mobile money has supported the growth of the digital economy in Uganda (Chilembo, 2021). By enabling e-commerce and digital payments, mobile money has made it easier for businesses to sell their products and services online, reaching a wider customer base. This has been particularly beneficial for SMEs that produce goods or offer services that can be easily sold online.

South Africa, characterized by its advanced telecommunications infrastructure, has a relatively mature mobile money market compared to its neighboring countries. While mobile penetration is high, mobile money adoption has been slower, particularly in comparison to countries like Kenya and Uganda. However, the market presents significant growth potential, especially considering the large unbanked population and the increasing adoption of smartphones. Vodacom's M-Pesa and MTN's Mobile Money have been instrumental in driving mobile money adoption in South Africa. These platforms offer a range of services, including person-to-person transfers, bill payments, airtime top-ups, and financial services like savings and loans (UNCITRAL, 2023). While these services have gained traction, especially in low-income segments of the population, there is still room for expansion and innovation. One key challenge hindering the widespread adoption of mobile money in South Africa is the existing well-developed traditional banking infrastructure. Many South Africans have access to bank accounts, reducing the perceived need for mobile money services. However, mobile money has the potential to complement traditional banking by providing convenient and accessible financial services to underserved populations, such as rural communities and informal sector workers.

Despite its success in mobile money adoption, Kenya's SMEs still face significant challenges in accessing alternative financing. High interest rates, limited access to collateral, and stringent eligibility criteria can be barriers to obtaining loans. For example, many SMEs in Kenya may struggle to meet the collateral requirements set by traditional lenders, which often involve providing tangible assets such as property or vehicles (Ministry of Commerce, Trade and Industry, 2008). Additionally, the interest rates charged on loans can be high, making it difficult for SMEs to repay the debt and remain profitable. Moreover, the eligibility criteria for loans can be stringent, requiring SMEs to have a strong credit history and financial track record, which can be challenging for young or early-stage businesses (Ahmed, 2023). To address these challenges, Kenya has seen a growing number of crowdfunding platforms and peer-to-peer lending platforms emerging. These platforms offer alternative financing options for SMEs that may not qualify for traditional loans. Crowdfunding platforms allow SMEs to raise funds from a large number of individuals, while peer-to-peer lending platforms connect borrowers directly with lenders. These platforms can provide SMEs with access to capital without requiring traditional collateral or meeting stringent eligibility criteria.

In Zambia, the alternative financing landscape for MSMEs is still developing, with significant potential for growth. Despite the critical role that MSMEs play in the economy, access to traditional financing remains limited, with only 10% of MSMEs having access to formal banking services. The emergence of microfinance institutions has provided some respite, offering tailored financial products to small businesses that are often excluded from conventional banking (OECD and World Bank Group, 2015). Additionally, peer-to-peer lending and crowdfunding platforms are beginning to gain traction, although they are not yet widely utilized. Mobile money solutions have also started to play a significant role in enhancing financial inclusion for MSMEs in Zambia (Scott, 2008) .

However, there remains a critical need for financial literacy programs to educate entrepreneurs about available alternative financing options and how to effectively leverage them for growth. The Zambian government has initiated policies, such as the Business Regulatory Act No. 3 of 2014, to create a more conducive environment for entrepreneurship, yet awareness of alternative financing remains low among many MSMEs (Kamfwa, 2018). Addressing these gaps is essential for empowering Zambian entrepreneurs and fostering sustainable economic development in urban centers like Lusaka. In summary, while alternative financing options are gaining momentum globally, the effectiveness and accessibility of these mechanisms vary significantly across regions, with Zambia being at a crucial juncture in its journey towards enhancing financial support for MSMEs (Ayeni, 2015). To bridge this gap, targeted educational programs and workshops can play a pivotal role in informing entrepreneurs about available resources, enabling them to make informed decisions that align with their business goals.

While alternative financing models offer promising avenues for MSMEs in Lusaka, navigating these options can present its own set of challenges. This research will delve into the specific hurdles faced by SMEs in the city when attempting to utilize alternative financing options (Mwiindi, 2014). Existing literature suggests some common obstacles, such as a lack of awareness among SMEs about the various alternative financing models available (Ayeni & Oni, 2015). Limited financial literacy can further hinder MSMEs ' ability to identify and understand the suitability of different financing options for their specific needs. Additionally, complex application processes and stringent eligibility criteria can pose a barrier for SMEs, particularly those operating in the informal sector or with limited financial documentation (Beck et al., 2018). For instance, some crowdfunding platforms may have minimum funding targets or require detailed financial projections, which might be challenging for early-stage businesses to meet.

However, alongside these challenges lie significant opportunities. The growing presence of mobile money platforms in Zambia offers a promising avenue for leveraging technology to promote financial inclusion for MSMEs (World Bank, 2022). These platforms can provide access to microloans, mobile wallets, and digital invoicing solutions, empowering MSMEs to manage their finances more effectively and potentially qualify for alternative financing options in the future (Liu, 2023). Additionally, initiatives that raise awareness and provide training on alternative financing models can equip MSMEs with the knowledge and skills necessary to navigate this evolving landscape. By understanding the challenges and opportunities unique to Lusaka, this research aims to identify the most suitable alternative financing models to foster a more inclusive financial ecosystem for MSMEs in the city.

In South Africa, while the financial sector is relatively advanced, Micro, Small, and Medium Enterprises (MSMEs) still face significant challenges in accessing alternative financing. High interest rates and stringent lending criteria often limit the ability of MSMEs to secure loans (Love, et al, 2023). Many small businesses struggle to meet collateral requirements, which can include tangible assets such as property or vehicles. Additionally, the bureaucratic processes involved in securing funding can be daunting, particularly for entrepreneurs who may lack the financial literacy needed to navigate the complexities of the financing landscape (Safavian, et al, 2016). Despite these challenges, there are notable opportunities for MSMEs in South Africa. The country has seen a rise in crowdfunding platforms and peer-to-peer lending initiatives that provide alternative avenues for financing (Mollick, 2014). These platforms can democratize access to capital, allowing MSMEs to raise funds from a broader pool of investors without the stringent requirements of traditional banks (Mulenga, 2022). Furthermore, government-backed loan programs offer a potential lifeline for small businesses, although they often come with strict eligibility criteria.

Kenya is often recognized as a leader in mobile money adoption, particularly with the success of M-Pesa. However, despite this innovation, MSMEs in Kenya face considerable challenges in accessing alternative financing. High interest rates and limited access to collateral remain significant barriers for many small businesses (Mulenga, 2022). The stringent eligibility criteria set by traditional lenders often exclude younger or less established enterprises that lack a robust credit history. Nonetheless, the Kenyan market also presents substantial opportunities for MSMEs. The proliferation of crowdfunding platforms and peer-to-peer lending services offers alternative financing solutions that bypass traditional banking constraints. These platforms allow entrepreneurs to connect directly with potential investors, facilitating access to capital without the need for extensive collateral (Nuwagaba, 2015). Moreover, mobile money services have empowered MSMEs by providing them with tools to manage finances more effectively and access micro-loans tailored to their needs.

In Uganda, MSMEs encounter various challenges when seeking alternative financing, primarily due to limited access to financial information and a lack of trust in financial institutions (World Bank, 2024). These factors contribute to stringent eligibility criteria for loans, making it difficult for many small businesses to secure the funding they need. However, the rise of mobile money services, such as MTN Mobile Money and Airtel Money, has created significant opportunities for MSMEs in the country. These platforms facilitate financial inclusion by enabling businesses to conduct transactions, manage finances, and access credit more efficiently. Through partnerships with financial institutions, mobile money platforms offer micro-loans that can help SMEs expand their operations and create jobs (OAS, 2023). Additionally, fintech startups are emerging in Uganda, utilizing data analytics to assess creditworthiness and provide financing options for businesses that may not have a traditional credit history.

## 2.2 Theoretical Framework –The Pecking Order Theory

### Background and theoretical foundation

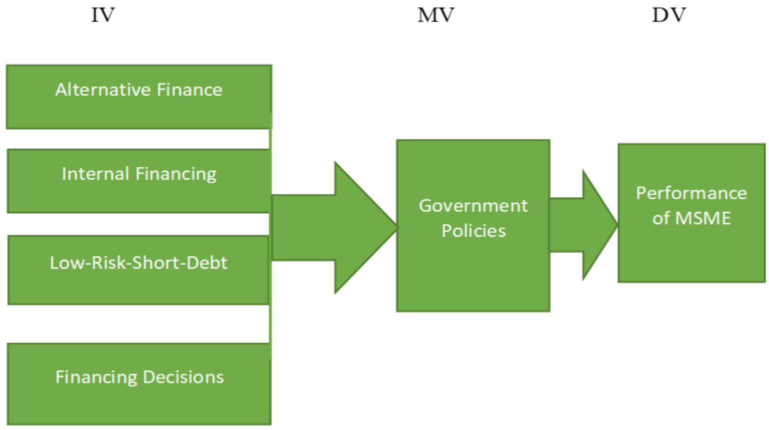
According to the Pecking order theory, firms tend to cover their investment needs by drawing on their own (internal) financial sources rather than applying for external finance (Myers, 2014). After the internal available funds, firms can then go for debts and finally external equity. However, if firms' own resources are insufficient in maintaining "reproduction on a simple scale" at minimum, and their access to formal external finance is limited because of the credit rationing behaviour of lenders, they face the problem of under-investment (Gaisina, 2010). This is particularly imperative for growing firms because to finance growth, they must be able to access loans. Robb and Seamans (2014) show that information asymmetries are especially severe between entrepreneurs (as owner-managers of younger firms) and lenders, and that the problem will be made worse by lack of tangible assets and concurrent reliance of intangibles. Moreover, and in line with transaction cost theory, they find that firm-specific assets as indicated by R&D activities induce a greater likelihood of equity financing relative to debt.

Among external sources of capital, some investors have the potential to increase firm value beyond the provision of financial resources per se, as is strongly emphasized in the literature on angel (Wong et al., 2009) and venture capital (VC) finance (Schwienbacher, 2008). Venture capital will be especially sensitive to signals of innovation potential (Lahr and Mina, 2016). Summarizing the theoretical predictions about information asymmetries and firm characteristics, we expect that the more innovative firms will be less likely to obtain debt relative to equity and risk capital. Innovation decreases the probability of debt financing but increases the probability of equity, and venture capital in particular. Innovation is negatively associated with a standard pecking order characterised by increasing agency costs of external finance. The greater the information asymmetry of innovation activities, the stronger their effects on the pecking order of external finance.

Independently of the above, the theory predicts a hierarchical order in the financing policy of a company. This order begins with those financial sources that are least affected by the costs of information and offer, at the same time, less risk. The preferred source of financing is internally generated funds. This is followed by low-risk short-term debt and then higher risk long term debt. The last option is new capital, and this is the financial source with the highest information costs (Donaldson, 1961; Myers, 1984; Myers and Majluf, 1984). From the perspective of this approach, changes in the level of debt for SME are not motivated by the need to reach a given debt target, but are instead motivated by the need for external financing SME, once internal resources have been exhausted and assuming that opportunities for profitable investment exist. One way of testing this theory is by examining financing decisions made after short-term changes in profits and investments, that is, using the theoretical relationship between changes in the level of debt and a firm's need for funds. We propose the following pecking order model – based on Shyam-Sunder and Myers (1999).

### 2.3 Conceptual Framework

Figure 1 below presents the conceptual framework for the study; The preferred source of financing is internally generated funds. This is followed by low-risk short-term debt and examining financing decisions which alternative financing as Independent Variables (IV) and SME Performance as Dependent Variables.




***Source; Authors (2015)***

Figure 1: Conceptual Framework

## 3 Research Methodology and Design

In order to provide accurate results, the researcher adopted a mixed approach and employed both quantitative and qualitative research designs (Bless, 2002). A population is a complete set of people with specified characteristics, while a sample is a subset of the population (Hulley SB, 2013). A population is a complete set of people with specified characteristics, while a sample is a subset of the population (Hulley SB, 2013). Polit and Hungler (1999) refer to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. According to Zambia's Ministry of Small and Medium Enterprises (MSMEs), (2023), there are 1663 formally registered SMEs in Lusaka District. Therefore, the researcher adopts this number as study population (N). Theorem (CLT). Therefore, sample size of 332 is appropriate for a population of 1663 when aiming for a 95% confidence level and a 5% margin of error. This is a standard approach for quantitative research studies. Yamane (1967) provides a simplified formula to calculate sample sizes. A 95% confidence level and e = 0.0.5 are assumed. $n = N / [1 + N (e )2]$. Where n is the sample size, N is the population size, and e is the level of precision (Yamane, 1967). Therefore, the researcher adopted purposive sampling technique. To calculate the sample size based upon confidence levels, the researcher adopted Yamane formula. The formula is: $n = N / (1 + N * e^2)$.

$n=1663/ (1+1663(0.05)2$

$n=332.44$.

Quantitative data was counter-checked and coded. The quantitative data was being double-checked, cleaned, and then coded. Coding of quantitative data was followed by entering it on statistical package for social sciences software for analysis. The goal is to produce statistics called descriptive, and finally micro soft excel was used where some statistics were manipulated to make figures and graphs. Data was turned into tables, allowing for a variety of graphical presentations. After the statistics are used to create tables, graphs, and figures, objectivity in terms of interpretation, valid conclusions, and recommendations became possible. The data gathered from key informants through in-depth interviews were qualitatively analyzed based on the themes and contents. Content or thematic analysis is beneficial because it groups similar items or themes from a large number of words.

## 4 Research Findings

### 4.1 What is the role of effective alternative finance on the performance of SME in Lusaka district?

The study found that 56.1% indicated that equal access to alternative finances is important for SME and that 76.4% SME leaders that experience borrowing constraints from institutional banks are seeking AF options to boost their businesses. Furthermore, the study found that 175 respondents representing 62.5% thought that AF methods could provide useful sources of external funding for SMEs, and that 225 respondents representing 80.4% indicated that AF is designed to help their SME in order to successfully raise financial capital. These findings agree with Fernández, (2022) in addition to providing credit, alternative finances platforms have also helped SMEs to manage their finances more efficiently. The authors highlighted that many SMEs now increasingly rely on alternative lending platforms that offer more accessible and flexible financing options compared to conventional banks. This shift addresses some of the barriers identified in earlier studies. The study further agrees with Ndubisi (2019) who evaluated the impact of microfinance institutions on SME growth in East Africa. The results indicate that alternative finance institutions play a crucial role in providing necessary financial support, thus facilitating the growth of SMEs. Their findings revealed that enhanced access to alternative financing significantly improved SME productivity and job creation, translating into a measurable GDP increase. However, the findings disagree with Pecking Order Theory employed under this study which confirms that firms tend to cover their investment needs by drawing on their own (internal) financial sources rather than applying for external finance (Myers, 2014). After the internal available funds, firms can then go for debts and finally external equity. However, if firms' own resources are insufficient in maintaining "reproduction on a simple scale" at minimum, and their access to formal external finance is limited because of the credit rationing behaviour of lenders, they face the problem of under-investment.

### 4.2 What is the effect of alternative finance on the performance of MSME in Lusaka district?

In order to establish the means and method through which alternative finance can be made possible, the study presented various technological platforms such as mobile money etch; the study found that that 213 SMEs representing 76.1% SME leaders in Lusaka use mobile application devices and online lending marketplace platforms to access rapid funding approvals. This result agrees with OAS, (2023) who found that the rise of mobile money services, such as MTN Mobile Money and Airtel Money, have created significant opportunities for MSMEs in the country. These platforms facilitate financial inclusion by enabling businesses to conduct transactions, manage finances, and access credit more efficiently. Through partnerships with financial institutions, mobile money platforms offer micro-loans that can help SMEs expand their operations and create jobs. Therefore, statistical outcomes were as follows; on whether SME leaders use mobile application devices and online lending marketplace platforms to access rapid funding approvals was represented by Mode =4 suggesting a positive relationship between mobile money as an alternative finance and MSME performance. The result agrees with the assumption developed on the conceptual framework under figure 1.1 that there is a direct relationship between internet financial transactions and the performance of SMEs.

However, the study found that 111 SMEs representing 39.65 have not adopted artificial intelligence technologies as means for AF, 30% remained neutral or undecided with 30% integrating artificial intelligence (AI) technologies into their business models, and that 209 SMEs representing 74.6% have not adopted any new technology in financial software applications which provides smart systems programmed with unique AF products, but 20.4% only have implemented new technology. Furthermore, the study found that 173 SMEs representing more than 60% indicated that their banks do not swiftly resolve issues regarding digital transactions. The result agrees with Beck et al., (2018), that while alternative financing models offer exciting possibilities for MSMEs in Zambia, there might be situations where a single model falls short in meeting their specific needs. This is where blended finance emerges as a powerful tool, combining traditional bank loans with alternative financing instruments to create more accessible and flexible financing packages. These packages can address the unique challenges faced by MSMEs, such as limited collateral or a lack of established credit history.

### 4.3 How can access to finance be improved for MSME in Lusaka district?

The study found that 179 SMEs representing 64% lack the necessary knowledge and skills to effectively navigate alternative financing options and prepare credible business plans, and that that 202 SMEs representing 82.1% indicated that there is poor communication which should inform them about the variety of AF options beyond traditional loans. Using thematic analysis, the study found that lack of financial literacy, lack of capital to adopt technological facilities is a major challenge and that many SMEs do not know or lack the knowledge to effectively access these options. Major themes indicated that regulatory constraints, cultural attitudes towards new financial technologies and the nascent state of Zambia's digital financial ecosystem have hindered the widespread adoption of these alternative funding sources. Furthermore, thematic analysis shows that limited access to capital means that many MSMEs continue to operate at sub-optimal levels, unable to invest in innovation, increase productivity or hire more workers. This stagnation may lead to a reduction in job opportunities, exacerbating the already high unemployment rate, especially among the youth in Lusaka. Reduced financial access for households, MSMES, and informal services.

### 4.4 Regression analysis

Table 1: Regression Analysis

ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .270 | 1 | .270 | .311 | .578[b] |
| | Residual | 267.665 | 308 | .869 | | |
| | Total | 267.935 | 309 | | | |

a. Dependent Variable: Length of Business Operation

b. Predictors: (Constant), SME leaders rely on access to capital for sustainability and growth

Field Data (2025)

Table 2: Residual Statistics

Residuals Statistics

| | Minimum | Maximum | Mean | Std. Deviation | N |
|---|---|---|---|---|---|
| Predicted Value | 2.81 | 2.91 | 2.84 | .030 | 310 |
| Std. Predicted Value | -.968 | 2.497 | .000 | 1.000 | 310 |
| Standard Error of Predicted Value | .053 | .143 | .072 | .020 | 310 |
| Adjusted Predicted Value | 2.81 | 2.94 | 2.84 | .033 | 310 |
| Residual | -1.901 | 1.156 | .000 | .931 | 310 |
| Std. Residual | -2.039 | 1.240 | .000 | .998 | 310 |
| Stud. Residual | -2.058 | 1.242 | .000 | 1.003 | 310 |
| Deleted Residual | -1.935 | 1.160 | -.001 | .940 | 310 |
| Stud. Deleted Residual | -2.069 | 1.243 | -.001 | 1.005 | 310 |
| Mahal. Distance | .000 | 6.236 | .997 | 1.302 | 310 |
| Cook's Distance | .000 | .038 | .005 | .009 | 310 |
| Centered Leverage Value | .000 | .020 | .003 | .004 | 310 |

a. Dependent Variable: Length of Business Operation

Field Data (2025)

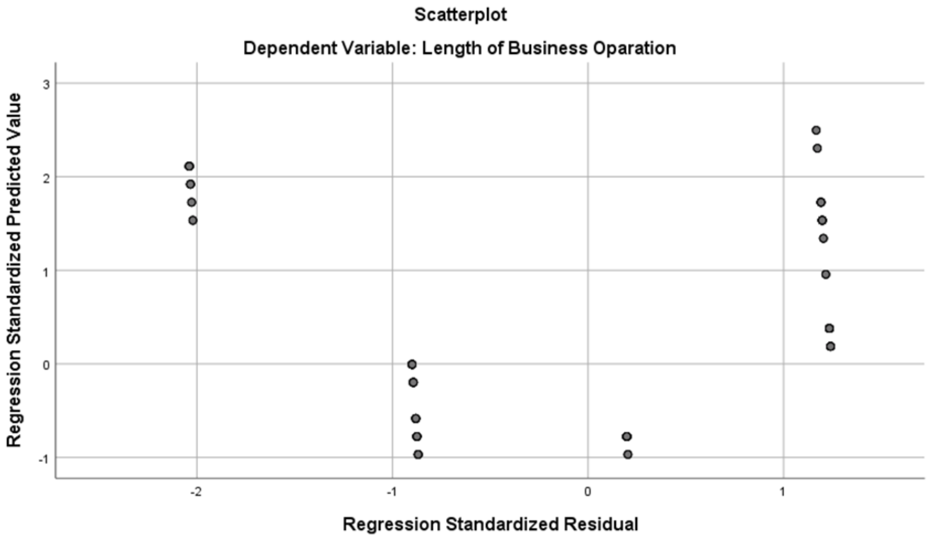



Figure 2: Scatter Plot; Length of Business Operations; Field Data (2025)

Table 1 and 2 shows a simple linear regression analysis conducted with Length of Business Operation as the dependent variable and SME leaders' reliance on access to capital for sustainability and growth as the predictor. The ANOVA results indicate that the regression model is not statistically significant: F (1, 308) = 0.311 p = 0.578 Since the p-value is greater than the conventional significance level of 0.05, the null hypothesis cannot be rejected. This implies that reliance on access to capital does not significantly explain variations in the length of business operation among SMEs. Furthermore, the regression sum of squares (0.270) is extremely small relative to the total sum of squares (267.935), indicating that the model explains less than 1% of the variance in business longevity. This confirms the very weak explanatory power of the predictor.

The result shows the scatterplot of standardized residuals versus standardized predicted values shows, No clear linear pattern or trend. Residuals are randomly dispersed around zero. No evidence of funnelling or curvature. This scatterplot pattern confirms that no meaningful linear relationship exists between reliance on access to capital and length of business operation. The absence of a systematic pattern aligns with the non-significant ANOVA results and supports the conclusion that the predictor has negligible influence on the dependent variable.

Normality and Independence the mean of residuals is approximately zero, satisfying the normality assumption. Standardized residuals range from −2.039 to 1.240, which falls within acceptable limits (±3), indicating no extreme outliers. Homoscedasticity found that the residuals are evenly spread across predicted values, suggesting constant variance, implying that the scatterplot does not show clustering or systematic spread.

Influence and Multicollinearity finds that Cook's Distance (Max = 0.038) is far below the critical threshold of 1, indicating no influential observations. Cantered leverage values are very low (Max = 0.020), suggesting no high-leverage cases. Mahalanobis distance values are within acceptable limits, confirming the absence of multivariate outliers. generally, the regression model meets key statistical assumptions, reinforcing confidence in the validity of the findings despite the lack of significance.

Table 3: Level of Education: Field Data (2026)

ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 24.025 | 1 | 24.025 | 27.575 | .000[b] |
| | Residual | 268.349 | 308 | .871 | | |
| | Total | 292.374 | 309 | | | |

a. Dependent Variable: Level of Education

b. Predictors: (Constant), AF is designed to help my SME successfully raise financial capital

Table 4: Residuals Statistics; Field Data (2025)

Residuals Statistics[a]

| | Minimum | Maximum | Mean | Std. Deviation | N |
|---|---|---|---|---|---|
| Predicted Value | 3.15 | 4.00 | 3.65 | .279 | 310 |
| Std. Predicted Value | -1.802 | 1.263 | .000 | 1.000 | 310 |
| Standard Error of Predicted Value | .053 | .109 | .073 | .017 | 310 |
| Adjusted Predicted Value | 3.15 | 4.00 | 3.65 | .278 | 310 |
| Residual | -2.149 | 1.756 | .000 | .932 | 310 |
| Std. Residual | -2.302 | 1.881 | .000 | .998 | 310 |
| Stud. Residual | -2.318 | 1.891 | .000 | 1.002 | 310 |
| Deleted Residual | -2.179 | 1.774 | -.001 | .939 | 310 |
| Stud. Deleted Residual | -2.335 | 1.899 | .000 | 1.005 | 310 |
| Mahal. Distance | .005 | 3.247 | .997 | .964 | 310 |
| Cook's Distance | .000 | .037 | .004 | .008 | 310 |
| Centred Leverage Value | .000 | .011 | .003 | .003 | 310 |

a. Dependent Variable: Level of Education

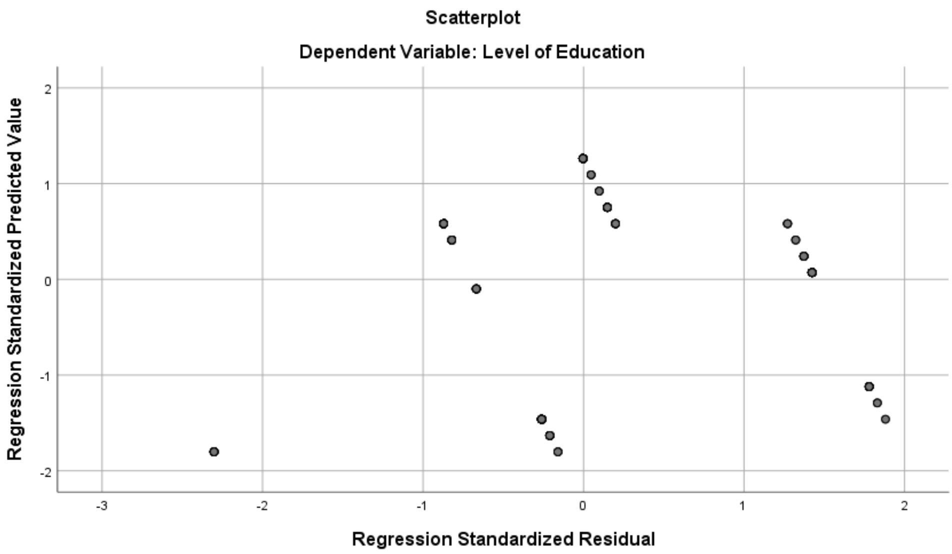



Figure 3: Scatter Plot; Field Data (2025)

Table 3 and 4 shows a simple linear regression analysis which conducted to examine whether Alternative Financing (AF) designed to help SMEs raise financial capital significantly predicts the Level of Education of SME leaders. The ANOVA results indicate that the regression model is statistically significant: $F(1, 308) = 27.575$ $p < .001$ implying that the predictor variable (AF is designed to help my SME successfully raise financial capital) explains a statistically significant proportion of variance in the dependent variable (Level of Education). The regression model fits the data significantly better than a model with no predictors. Therefore, Alternative Financing perceptions are significantly associated with the education level of SME leaders. Linearity and Homoscedasticity the scatterplot of standardized residuals versus standardized predicted values shows that: Residuals are randomly scattered around zero, no clear funnel shape or curved pattern is observed, which shows that the assumptions of linearity and homoscedasticity are satisfactorily met.

Normality of Residuals From the residual statistics: Mean of residuals = 0.000 Standardized residuals range from −2.302 to 1.881, Since standardized residuals fall within the acceptable range of ±3, the assumption of normality of errors is not violated. Independence and Outliers Key diagnostic indicators show: Cook’s Distance (Max = 0.037) well below the critical value of 1 Mahalanobis Distance (Max = 3.247) within acceptable limits Centred Leverage Values (Max = 0.011) very low influence, there are no influential outliers or high-leverage cases that threaten the validity of the regression model.

The residual statistics further confirm model stability: Residual standard deviation = 0.932 Standard error of predicted values is small (Mean = 0.073) Adjusted predicted values closely match predicted values. This indicates consistent prediction accuracy across observations.

### 4.5 Inferential Statistics: Person's coefficient correlation

The Pearson Correlation tested an extremely weak and negligible negative relationship between length of business operation and SME leaders seeking alternative financing due to borrowing constraints from institutional banks, this relationship suggests that the length of time an SME has been in operation does not meaningfully influence whether its leaders seek alternative financing when faced with borrowing constraints from institutional banks, also both younger and more established SMEs are equally likely to experience institutional borrowing constraints and to pursue alternative financing options. Which might mean that the decision to seek alternative financing appears to be driven by structural barriers within the formal banking sector, rather than firm age or business maturity, a clear indication that alternative financing demand cuts across all stages of business development, similar to the findings of Mwale & Banda (2023).

This result is largely consistent with the Pecking Order Theory (Donaldson, 1961; Myers, 1984; Myers & Majluf, 1984), which posits that firms follow a hierarchical financing preference based on information asymmetry and transaction costs rather than firm age or the pursuit of an optimal capital structure. According to this theory, SMEs primarily rely on internal funds, and only seek external financing starting with debt and later equity when internal resources are insufficient. The theory does not predict that firm age necessarily improves access to bank finance or reduces financing constraints, particularly in environments where structural credit rationing exists.

The correlation analysis tested a strong positive relationship between the presence of a department or section dedicated to sourcing alternative financing and the tendency of SME leaders who experience borrowing constraints from institutional banks to seek alternative financing options in line with the findings of Beck et al. (2021) the results suggests that SMEs that have institutionalized alternative financing functions are significantly more likely to pursue non-traditional financing when access to bank credit is limited. A clear indication that organizational readiness (through dedicated departments) and financial awareness significantly influence SMEs' ability to respond to borrowing constraints by adopting alternative financing methods. These results support the argument that strengthening internal financial management structures and improving knowledge of alternative financing can enhance SME financial resilience.

Additionally, the results are consistent with the Trade-off Theory perspective, which suggests that SMEs are not necessarily optimizing toward a target capital structure. Instead, they are adjusting their financing choices in response to constraints and opportunities. The presence of a dedicated financing department does not imply a deliberate balance between the tax advantages and costs of debt, but rather a pragmatic response to external financing frictions. This reinforces Myers' (1984) critique that trade-off models are less applicable to SMEs, whose financing behaviour is often driven by availability rather than optimization.

The correlation analysis tested a very weak positive relationship between SMEs' ability to generate internal and external funds and leaders' reliance on access to capital for sustainability and growth. The findings suggests that the practical effect is negligible meaning SMEs that are better at generating internal and external funds are only marginally more likely to rely on access to capital for sustainability and growth. In practical terms, fund generation capacity does not meaningfully influence dependence on capital access, which proves that reliance on access to capital is a widespread concern across SMEs, regardless of their ability to generate funds internally or externally, a vivid sign that access to finance challenges are systemic rather than firm-specific, as such even SMEs with some internal or external funding capacity still perceive access to capital as critical for sustainability and growth.

Furthermore Pearson correlation analysis was conducted to examine the relationships between Revolutionary Quantum Financial System (QFS) blockchain technology improving and accelerating SMEs and SME financial decision-makers choosing flexible debt or equity options under information asymmetry, the test found a relationship that is very weak and statistically insignificant, indicating that perceptions of QFS blockchain technology adoption are not strongly associated with SME leaders' preference for flexible financing options when information asymmetry exists. This suggests that emerging financial technologies alone may not directly influence financing decisions in SMEs without complementary institutional support and awareness.

Also, a weak positive correlation was observed between Level of Education and MSME owners' lack of knowledge and skills to navigate alternative financing and prepare credible business plans. The very weak and statistically insignificant, relationship implyies that higher levels of formal education do not necessarily translate into better practical knowledge or skills in alternative financing, similar to the findings of Srivastava et al. (2019). The results highlight a skills application gap, where formal education may not adequately equip SME owners with specialized financial competencies required for alternative finance markets.

Additionally a also weak and negative correlation between simplifying loan application and processing procedures and SME leaders' reliance on access to capital for sustainability and growth was observed, This negligible relationship indicates that simplifying loan procedures alone may not be sufficient to significantly improve access to capital for SMEs. Structural barriers such as collateral requirements, risk assessment practices, and limited financial literacy may play a more dominant role than procedural simplicity Kawimbe (2024).

The above correlation tests align with the Pecking Order Theory, which emphasizes the role of information asymmetry and internal financing constraints over technological or procedural enhancements (Myers, 1984; Myers & Majluf, 1984). The weak correlations suggest that innovations in financial systems, higher education levels, or simplified procedures do not automatically alter SME financing behaviour unless accompanied by institutional trust, financial capability, and effective integration into SME operations.

On the other hand, the tests align with the Trade-off Theory because, the lack of strong associations further supports the argument that SMEs do not actively optimize their capital structures in response to technological or procedural improvements. Instead, financing decisions appear to be driven by immediate constraints and financing availability rather than strategic balancing of debt and equity.

### 4.6 Inferential Statistical Analysis: Regression Results

A simple linear regression analysis was conducted with Length of Business Operation as the dependent variable and SME leaders' reliance on access to capital for sustainability and growth as the predictor. The ANOVA results indicate that the regression model is not statistically significant: Since the p-value is greater than the conventional significance level of 0.05, the null hypothesis cannot be rejected. The implication of the results are that reliance on access to capital does not significantly explain variations in the length of business operation among SMEs. Furthermore, the scatterplot of standardized residuals versus standardized predicted values shows that no meaningful linear relationship exists between reliance on access to capital and length of business operation. The absence of a systematic pattern aligns with the non-significant ANOVA results and supports the conclusion that the predictor has negligible influence on the dependent variable.

The findings suggest that reliance on access to capital for sustainability and growth does not significantly determine how long SMEs remain in operation. Meaning that Business longevity among SMEs is likely influenced by other factors such as managerial capability, market conditions, regulatory environment, innovation, and business strategy. Access to capital, while important for growth, does not on its own explain survival or longevity of SMEs. SMEs across different operational ages face similar financing challenges, supporting earlier correlation results that showed no relationship between firm age and pursuit of alternative financing. Overall, while the regression model satisfies all key statistical assumptions including normality, linearity, homoscedasticity, and absence of influential observations it fails to demonstrate a statistically significant relationship between SME leaders' reliance on access to capital and length of business operation. This indicates that reliance on access to capital has negligible explanatory power in determining SME longevity. The findings suggest that other factors, such as managerial capability, market conditions, institutional support, and operational efficiency, may play a more substantial role in explaining variations in SME survival.

A simple linear regression analysis was conducted to examine whether Alternative Financing (AF) designed to help SMEs raise financial capital significantly predicts the Level of Education of SME leaders. The ANOVA results indicate that the regression model is statistically significant, which implies that the predictor variable (AF is designed to help my SME successfully raise financial capital) explains a statistically significant proportion of variance in the dependent variable Level of Education, thus the regression model fits the data significantly better than a model with no predictors. Also, an examination of the scatterplot of standardized residuals against standardized predicted values shows that residuals are randomly distributed around zero, with no observable funnelling or curvature. This pattern confirms that the assumptions of linearity and homoscedasticity are satisfactorily met. This result suggests that SME leaders' perceptions of alternative financing as a viable mechanism for raising capital are significantly associated with their level of education, clear evidence that that SME leaders' perceptions of Alternative Financing as a tool for raising capital vary significantly by level of education, the findings also suggest that higher levels of education may be associated with greater awareness, understanding, or appreciation of alternative financing mechanisms. It underscores the role of human capital and financial literacy in shaping SME leaders' financing perceptions and decision-making behaviour.

### 4.7 Qualitative Discussion

According to thematic analysis, many SMEs lack the financial literacy and business acumen required to prepare compelling investment pitches or navigate the complex world of venture capital. Additionally, the regulatory environment for alternative financing can be complex and uncertain, which can discourage investors and make it difficult for SMEs to raise funds.

Entrepreneurs' lack of knowledge on available alternative financing: The Zambian government has initiated policies, such as the Business Regulatory Act No. 3 of 2014, to create a more conducive environment for entrepreneurship, yet awareness of alternative financing remains low among many MSMEs. According to thematic analysis, stringent lending criteria often include the need for substantial collateral, a proven credit history, and detailed financial records. Many MSMEs, particularly newer and smaller ones, struggle to meet these requirements due to limited assets and a lack of formalized financial practices.

Furthermore, interest rates on loans in Zambia can be quite high, reflecting the perceived risk of lending to smaller enterprises. Additionally, banks may impose various fees that further increase the overall cost of obtaining a loan, and complex and time-consuming application processes serve as a significant deterrent. Many SMEs lack the resources or expertise to navigate these procedures effectively, which often require comprehensive business plans, financial projections, and other documentation that small business owners may find difficult to produce. These findings agree with Safavian, et al, (2016) who found that the bureaucratic processes involved in securing funding can be daunting, particularly for entrepreneurs who may lack the financial literacy needed to navigate the complexities of the financing landscape. The findings, further agree with Pecking Order Theory employed under theoretical framework that if firms' own resources are insufficient in maintaining "reproduction on a simple scale" at minimum, and their access to formal external finance is limited because of the credit rationing behaviour of lenders, they face the problem of under-investment (Gaisina, 2010). This is particularly imperative for growing firms because to finance growth, they must be able to access loans. Robb and Seamans (2014) show that information asymmetries are especially severe between entrepreneurs (as owner-managers of younger firms) and lenders, and that the problem will be made worse by lack of tangible assets and concurrent reliance of intangibles.

## 5 Conclusion and Recommendations

Form the foregoing discussion, this chapter concludes that there is a link between financial technology and the performance of SME. Alternative financing methods are generally more accessible to MSMEs because they reduce reliance on traditional credit assessment processes, increase flexibility and often operate through digital platforms that facilitate transactions without the need for a lot of paperwork or physical interaction. However, the discussion identified various challenges facing SMEs on implementing alternative finances, and consequently the study provided answers to the three specific research questions discussed under this chapter.

### Declaration of Competing Interests

The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

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### Ethical considerations

The article followed all ethical standards appropriate for this kind of research.

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