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Analyzing the Influence of SME Financing on Economic Growth in Zambia – A Case of Lusaka CBD

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Abstract**—***This study investigated the impact of Small and Medium Enterprise (SME) financing on economic growth in Zambia, with a specific focus on Lusaka's Central Business District (CBD). The aim was to explore the financing challenges faced by SMEs and how these challenges influence their contribution to economic growth. A quantitative approach was employed, utilizing primary data collected from surveys of 200 SME owners and secondary data from institutions like the Zambia Statistics Agency (ZamStats) and the World Bank. The study utilized regression models and correlation analysis to assess the relationship between SME financing and economic growth. The findings indicated that government programs, microfinance institutions, and venture capital were the primary sources of financing, while traditional bank loans were accessed by only 53.5% of SMEs. The regression model showed a significant positive relationship between SME financing and economic growth ($p < 0.05$), with the coefficient for financing access indicating a 0.32 increase in GDP growth for every 1% increase in SME financing. However, challenges such as lack of credit history (88.4%), low financial literacy (81.4%), and stringent collateral requirements (55.8%) constrained access to financing. The correlation analysis revealed a strong positive correlation ($r = 0.75$) between government expenditure and SME growth, suggesting that increased public spending supports SME development. Additionally, trade openness ($r = 0.65$) was found to positively influence access to financing and SME growth. Despite these positive correlations, the impact of SME financing on broader economic growth was limited by misallocation of funds and inefficiencies in utilization, with only 25% of loan applications being approved by commercial banks. The study concluded that policy reforms are necessary, particularly to reduce collateral requirements, enhance financial literacy, and promote alternative financing models such as fintech. Further research should explore the impact of digital financial services on SME financing and the sector-specific needs of SMEs in Zambia.*

Keywords**—** *SME Financing, Economic Growth, Financial Inclusion, Regression Analysis, Correlation Analysis.*

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are crucial drivers of economic growth, particularly in developing countries like Zambia, where they account for over 90% of registered businesses and employ a significant portion of the workforce (ZDA, 2022). Despite their importance, SMEs in Zambia face considerable challenges in accessing adequate financing, which stifles their ability to expand, innovate, and contribute to sustainable economic growth. Historically, Zambia's economy has relied heavily on mining and agriculture, sectors that have limited opportunities for SME growth. Although initiatives like the National Enterprise Development Strategy (NEDS) have aimed to improve access to finance, many SMEs still depend on costly and inflexible informal financing sources (Mulenga, 2021).

This study sought to address the knowledge gap on how SME financing impacts broader economic indicators in Zambia. While existing literature highlights the importance of financial access for SME development, there is limited empirical evidence on the direct effects of financing on economic performance (Lungu, 2023). The research underscored the need for more effective policies to enhance access to finance, as limited funding has led to stagnation and reduced competitiveness for many SMEs (Ayyagari et al., 2011). With over 60% of SMEs reporting inadequate access to finance and a low loan approval rate of just 25%, addressing these financial constraints is critical to unlocking the full potential of SMEs and promoting long-term economic growth in Zambia (Bank of Zambia, 2022).

1.1 Problem Statement

SMEs are recognized as vital drivers of economic growth in Zambia, yet their potential remains constrained by persistent challenges in accessing finance (Mwaba & Sichinsambwe, 2017; ZDA, 2020). Despite various financial inclusion initiatives, limited empirical evidence exists on how financing gaps specifically affect SME growth and their contribution to the national economy. Existing research highlights general obstacles such as high-interest rates, collateral requirements, and complex loan processes (Chirwa, 2018; IFC, 2021), but there is insufficient analysis of how these barriers impact broader economic indicators like GDP growth. This study aimed to address this gap by examining the relationship between SME financing and economic growth in Zambia, providing insights that could inform policy and enhance financial support for SMEs.

1.2 Research Objectives and Questions.

Based on these research questions, the specific objectives of the study were:

i) To establish the main sources of financing for SMEs in Zambia.
ii) To assess the challenges faced by SMEs in obtaining financing in Lusaka's CBD.

iii) To examine the extent of SME financing on economic growth (Trade Openness and Government expenditure) in Zambia from 1994 to 2023.

1.3 Research Question

Emanating from the research objectives, below are the research questions:

i) What are the main sources of financing for SMEs in Zambia?
ii) What challenges do SMEs face in obtaining financing in Lusaka's CBD?
iii) What is the extent of SME financing on economic growth (Trade Openness and Government expenditure) in Zambia from 1994 to 2023?

1.4 Previous Studies

Several empirical studies have explored various dimensions of SME financing, shedding light on its impact on economic growth and the challenges faced by SMEs, particularly in Zambia and similar contexts. For instance, Allen, Qian, and Xie (2019) explored alternative financing methods, including peer-to-peer (P2P) lending and crowdfunding, as emerging solutions for SME financing in the digital era. Adopting a mixed-methods approach, the researchers combined quantitative data analysis with qualitative case studies of SMEs utilizing alternative financing platforms. Their findings indicated that these methods have become critical for SMEs in regions where traditional financial institutions are inaccessible. Higher adoption rates were observed in countries with robust digital infrastructure and favorable regulatory environments. While the study demonstrated the growing importance of alternative financing, it did not examine its application within Zambia. The rapid evolution of Zambia's digital financial landscape, characterized by platforms like MTN MoMo and Airtel Money, was not addressed. Furthermore, the study overlooked the infrastructural and regulatory challenges that limit alternative financing adoption in developing countries like Zambia. These gaps point to the necessity of research focused on the localized context of alternative financing in Zambia.

Kumar et al. (2023) conducted a study on the financing patterns of small and medium enterprises (SMEs) in developing countries, emphasizing the evolving landscape of financing strategies. The study utilized a sample size of 500 SMEs across several nations, revealing that while traditional funding sources remain crucial, there is a marked shift towards innovative financing mechanisms, particularly fintech solutions. 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, including those by Beck et al. (2005), where small firms were shown to depend heavily on internal financing and informal sources due to challenges in accessing formal financial markets. While Kumar et al. acknowledged the significant role of fintech in expanding financing options for SMEs, they also pointed out a gap in understanding the regulatory and infrastructural challenges that still hinder the widespread adoption of these innovative solutions. This gap was particularly relevant to the current study, as a deeper understanding of these challenges can provide valuable insights into improving the financing landscape for SMEs globally.

Ayyagari et al. (2011) assessed the contributions of small and young firms to employment and economic growth worldwide, utilizing a sample size of 47,745 firms from 99 countries. Through econometric analysis using enterprise surveys, the authors revealed that these firms significantly contribute to job creation and overall economic development. Their findings highlight the vital role that small and young firms play in driving growth, suggesting that policy interventions aimed at enhancing their access to finance could yield substantial economic benefits. However, the study indicated a need for more country-specific research to understand contextual differences, which is critical for developing targeted financing strategies. This need aligned with the objectives of the current study, emphasizing the importance of localized research in understanding the unique financing challenges faced by SMEs in Zambia.

Regionally, Ndubisi (2019) evaluated the impact of microfinance institutions on SME growth in East Africa through surveys and interviews with 500 SME owners and 30 microfinance providers. The results indicate that microfinance institutions play a crucial role in providing necessary financial support, thus facilitating the growth of SMEs. However, the study also noted a limited exploration of the sustainability and scalability of microfinance models. This gap was significant for the current study, as understanding the effectiveness and long-term viability of microfinance solutions in Zambia can inform strategies to enhance SME financing.

Munyaneza (2020) explored the relationship between financial inclusion and SME growth in Southern Africa, employing statistical analysis using regional financial data from 25 countries. The results indicated a positive correlation between higher levels of financial inclusion and increased SME growth, highlighting the critical role of access to finance in promoting business expansion. However, the research pointed to a gap in understanding specific policy interventions that can enhance financial inclusion for SMEs. This gap was relevant for the current study, as exploring effective policies and programs can contribute to improving the financing environment for SMEs in Zambia.

Furthermore, Mensah and Iddrisu (2023) explored the financing constraints faced by SMEs across Africa, with a particular focus on structural and institutional barriers that impede their access to credit. The study aimed to assess the role of policy reforms and alternative financing mechanisms in improving SME access to financial resources. Utilizing a cross-sectional survey, the researchers analyzed policy frameworks and their effectiveness in addressing SME financing challenges in sub-Saharan Africa. The findings revealed several key barriers, including inadequate regulatory frameworks, high-interest rates, and overly complicated loan application processes, which discourage SME participation in formal financial markets. The study also noted that government-led initiatives, combined with partnerships with microfinance institutions, have had some success in mitigating these challenges, though the improvements were described as moderate. Mensah and Iddrisu (2023) pointed out the necessity for country-specific studies to address unique contextual factors and provide tailored strategies, as current research tends to generalize findings across diverse regions without accounting for local nuances. This gap underscored the need for more targeted and detailed investigations to optimize SME financing strategies across various African contexts.

From a local perspective, Mwenda and Chisanga (2022) explored the relationship between SME financing and economic growth in Zambia, with a focus on how financial institutions influence SME contributions to GDP. Using a quantitative methodology, the authors analyzed secondary data from the Bank of Zambia, SMEs' financial statements, and national GDP reports covering the period 2015 to 2021. Their findings revealed that enhanced access to financing significantly improved SME productivity and job creation, translating into a measurable GDP increase. However, the study highlighted geographical disparities, noting that rural SMEs experienced slower growth compared to urban counterparts due to limited access to financial services. The research emphasized the importance of addressing these inequities to fully harness the economic potential of SMEs across the country. Despite its robust analysis, the study identified a critical gap in sector-specific research and advocated for further exploration into SME financing in agriculture and manufacturing.

Additionally, Banda and Mulenga (2023) investigated the role of SME financing in supporting Zambia's economic diversification efforts, particularly in non-traditional sectors such as tourism and renewable energy. Adopting a case study approach, the authors gathered data through interviews and government reports to analyze SME performance in these emerging industries. Their findings underscored the positive impact of targeted financing initiatives by the Development Bank of Zambia, which enabled SMEs to increase their contributions to GDP diversification. Nonetheless, the study identified persistent challenges, including high-interest rates and the scarcity of long-term financing options, which constrained the growth potential of SMEs. Banda and Mulenga called for longitudinal studies to better understand the financing challenges faced by SMEs in emerging industries, providing a basis for more tailored financial interventions.

Mwale and Zulu (2022) examined the contribution of SME financing to poverty reduction in Zambia, focusing on its impact on social and economic development. By employing panel data analysis, the study assessed SMEs' financial performance alongside national poverty statistics from 2010 to 2020. The results indicated that financing enabled SMEs to expand their market reach, increase revenue, and create employment opportunities, all of which contributed to poverty alleviation. However, the research also identified barriers such as low financial literacy among SME owners, which limited their ability to effectively utilize funds. Mwale and Zulu recommended further studies to explore strategies for integrating informal SMEs into formal financial systems, thereby enhancing their economic contributions.

Chirwa (2018) identified the challenges and opportunities SMEs in Zambia face in accessing finance, utilizing interviews with 120 SME owners and 10 financial institutions. The findings reveal that high-interest rates and stringent collateral requirements pose major barriers to financing, while government programs present potential opportunities. However, the study indicated a need for quantitative analysis to measure the extent of these challenges, emphasizing the importance of empirical data to inform policy and practice. Addressing this research gap was vital for the current study, as it seeks to provide a comprehensive understanding of the financing landscape for Zambian SMEs.

Zimba (2021) assessed the impact of government policies on SME financing in Zambia through policy analysis and surveys of 150 SMEs. The results indicated that government policies have a mixed effect, with some initiatives successfully improving access to finance, while others remain ineffective. This study underscores the need for a comprehensive evaluation of policy effectiveness over time, which is critical for informing future interventions. The relevance of this research to the current study lies in the necessity of analyzing existing government policies and their impact on SME financing in Zambia to identify areas for improvement.

II. Materials and Methods

2.1 Research Philosophy and Design

This study adopted a positivist research philosophy due to its focus on objective analysis and quantifiable data. Positivism is rooted in the belief that knowledge is best obtained through observable and measurable phenomena, making it ideal for studies that rely on empirical evidence. This philosophical stance is appropriate for the current research because it sought to analyze the influence of SME financing on economic growth in Zambia using historical data spanning from 1994 to 2023. To align with the positivist philosophy, the study utilized the explanatory research design to analyze the influence of SME financing on economic growth in Zambia. An explanatory research design was deemed appropriate as it aimed to investigate and clarify the underlying relationships between variables by identifying causal links through statistical analysis (Creswell & Creswell, 2018). Given that the study examined the impact of SME financing on economic growth from 1994 to 2023, it integrated both primary and secondary data to assess historical trends and their economic implications.

2.2 Sampling Technique and Sample Size

The study utilized stratified random sampling for primary data collection to ensure proportional representation of SMEs in Lusaka's CBD across sectors like manufacturing, services, agriculture, and retail. This approach helped capture sector-specific financing challenges and opportunities, ensuring a comprehensive and unbiased view. A sample size of 297 SMEs was calculated using Krejcie and Morgan's formula to achieve a 95% confidence level and a 5% margin of error, ensuring the findings were statistically reliable and applicable to a broader population. For secondary data, simple random sampling was applied to select time-series data (1994–2023), reducing selection bias and ensuring a balanced representation of economic trends. This method was suitable for analyzing macroeconomic indicators, such as GDP growth, financial inclusion, and SME loan disbursement rates from sources like the World Bank and the Zambia Statistics Agency. The use of random selection enhanced objectivity and supported robust causal-comparative analysis, aligning with the positivist research design and ensuring the validity of the findings.

2.3 Data Collection

This study used both primary and secondary data collection methods to examine the impact of SME financing on economic growth in Zambia. Primary data was collected through a structured questionnaire with closed-ended questions administered to SME owners and financial institutions in Lusaka's CBD. The questionnaire covered topics such as sources of financing, challenges in accessing finance, and financial performance indicators. This approach ensured consistency, objectivity, and minimized response bias, facilitating systematic data analysis.

Secondary data was gathered from reputable sources, including the Bank of Zambia, Zambia Statistics Agency, and the World Bank, which provided macroeconomic data on GDP growth, SME loans, and employment. Additional reports from the Zambia Development Agency and Zambia Association of Chambers of Commerce and Industry were examined to understand SME financing trends and policy frameworks. By combining primary data with credible secondary sources, the study provided a comprehensive and data-driven analysis of SME financing's role in Zambia's economic growth.

2.4 Conceptual Model and Data Analysis

The Pecking Order Theory (Myers & Majluf, 1984) provides a robust framework for understanding the relationship between SME financing and economic growth in Zambia. According to this theory, SMEs prioritize internal financing (retained earnings) over external financing (debt or equity), largely due to asymmetric information and high perceived risks. This aligned with the study's objectives by explaining SMEs' financing preferences and the constraints they face, such as stringent collateral requirements and high borrowing costs. The theory further supports the research's examination of how limited access to finance can hinder SME growth, employment creation, and broader economic development, as well as the challenges in accessing external finance, including credit rationing and high borrowing costs. This conceptual model in Figure 1 below integrates these ideas, with SMEs financing (SMEF) as an independent variable influencing economic growth (ECOG), while government expenditure and trade act as control variables in the framework.

Data analysis for this study was conducted using SPSS and EViews, which allowed for efficient processing and analysis of the collected data. Primary data from closed-ended questionnaires were coded and entered into SPSS, where descriptive statistics summarized key features such as central tendency and dispersion. Visual tools like frequency tables, pie charts, and histograms were used to illustrate the distribution of variables, such as financing sources, challenges, and financial performance. Further analysis involved correlation and regression techniques to explore the relationships between SME financing and economic growth indicators, helping to understand how different financing sources impact outcomes like revenue growth and profitability. This approach provided a comprehensive analysis of SME financing and its role in Zambia's economic growth.

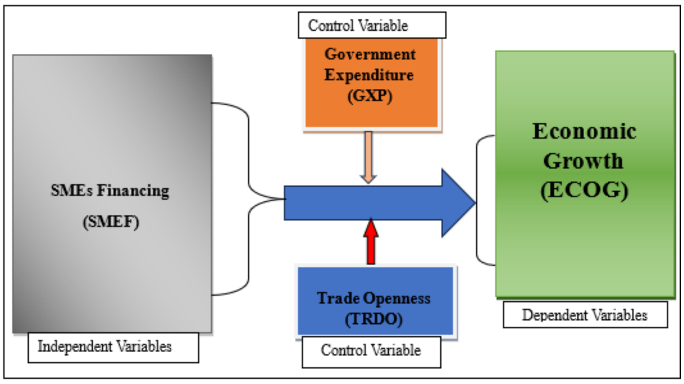

Figure 1: Conceptual Model
Source: Author's Computation, 2025

2.5 Ethical Considerations

Ethical considerations were central to this study, ensuring the integrity and credibility of the research. Informed consent was prioritized, with participants fully informed about the study's purpose and objectives, and written consent obtained voluntarily. Participants were treated with respect, had the right to withdraw at any time without penalty, and their privacy was protected through anonymity and secure data storage. The findings were presented in aggregate form to safeguard confidentiality. Ethical clearance was obtained from the University of Zambia Ethics Committee, ensuring compliance with ethical standards on participant protection, data security, and responsible dissemination of results.

III. Results

3.1 Background Information to SMEs Surveyed

Figure 2 below provided insights into the characteristics of businesses that participated in the study. The analysis covered the nature of business, length of business operation, size of business, and annual turnover, offering a clearer understanding of the SME landscape in Lusaka CBD. The distribution of businesses by sector showed that most SMEs operate in the services sector (32.6%), followed closely by retail businesses (30.2%). Manufacturing accounts for 23.3%, while agriculture represented the smallest proportion (13.9%). In terms of business longevity, 37.2% of businesses had been in operation for more than seven years, indicating a significant presence of well-established SMEs. 32.6% of businesses have been operating for 1 to 3 years, while 27.9% have been active for 4 to 7 years. Only 2.3% of businesses existed for less than one year, suggesting that most SMEs in Lusaka CBD are relatively stable and have survived the initial challenges of business operations. Regarding business size, the findings revealed that 37.2% of SMEs employ between 1 and 5 employees, making micro-enterprises the most common category. 23.3% of businesses have 11 to 50 employees, while 20.9% employ 6 to 10 workers. Additionally, 18.6% of SMEs had more than 50 employees, indicating that a smaller proportion of SMEs had successfully scaled up.

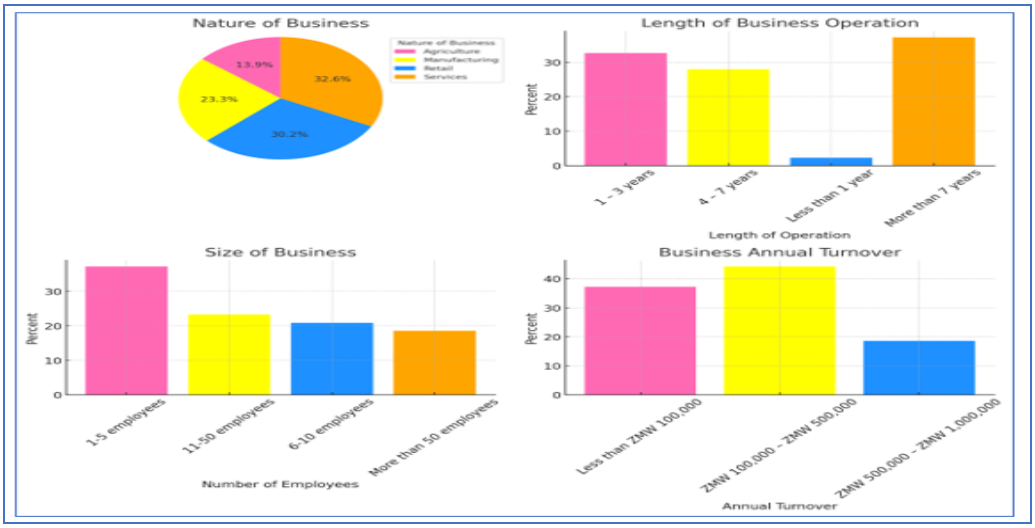

Figure 2: Business Background Information

Source: Author's Compilation from Field Data, 2025

TABLE 1: Main Sources of Financing for the Business

		N (Out of 200)	Percent of Cases (Yes)	N (Out of 200)	Percent of Cases (No)
	Personal savings	132	66.0%	68	34.0%
	Family and friends	59	29.5%	141	70.5%
Main Sources of Business Financing	Bank loans	91	45.5%	119	54.5%
	Microfinance institutions	56	28.0%	144	82.0%
	Government programs	46	23.0%	154	77.0%
	Venture capital	62	31.0%	138	69.0%

Source; Author's Compilation from Survey Data as Generated by SPSS 25, 2025

TABLE 2: Faced Difficulties in Obtaining Financing

		N (Out of 200)	Percent of Cases (Yes)	N (Out of 200)	Percent of Cases (No)
	High-interest rates	135	36.1%	65	63.9%
	Stringent collateral requirements	87	23.3%	123	76.7%
Faced Difficulties in Obtaining Financing[a]	Complex loan approval processes	93	24.9%	107	74.1%
	Lack of financial literacy	36	9.6%	164	89.4%
	Lack of credit history	23	6.1%	177	93.9%

Source; Author's Compilation from Survey Data, 2025

3.2 Main Sources of Financing Utilized by SMEs

Table 1. above presents the sources of financing utilized by SMEs in Lusaka's CBD, showing that personal savings were the most common, with 66% of respondents using their own funds. Other sources included family and friends (29.5%), bank loans (45.5%), microfinance institutions (28%), government programs (23%), and venture capital (31%). The findings highlight the diverse range of financing options accessed by SMEs, with personal savings and bank loans being the most prevalent.

3.3 Challenges Faced by SMEs in Obtaining Financing

In addressing objective two of this study, the results in Table 2 below presents the difficulties businesses faced in obtaining financing, highlighting various challenges encountered by respondents. The data reveals that high-interest rates were the most significant obstacle, with 135 responses, accounting for 67.5% of total responses. Stringent collateral requirements followed closely, with 87 responses, representing 43.5% of total responses. Another common difficulty was the complex loan approval process, cited by 93 responses, which made up 46.5% of total responses. On the other hand, lack of financial literacy was reported by 36 responses accounting for 18.0% of total responses. Finally, lack of credit history was the least reported challenge, with only 23 responses, representing 11.5% of total responses.

3.4 Extent of SME Financing on Economic Growth in Zambia (Trade Openness and Government Expenditure) from 1994 To 2023

In addressing objective 3 of this study, this section examined the effect of SME financing on economic growth in Zambia from 1994 to 2023 using inferential statistics.

Descriptive statistics summarized key variables. Correlation analysis explored the relationships between ECOG, SMEF, and control variables, while multiple regression analysis identified the cause-and-effect dynamics between SME financing, control variables, and economic growth during the study period.

Descriptive Statistics

The descriptive statistics summarized key variables, revealing that the average values for Economic Growth (ECOG), SME Financing (SMEF), Government Expenditure (GEXP), and Trade Openness (TRDO) were 4.656, 9.370, 24.560, and 68.345, respectively. The distributions were relatively symmetric, with median values close to the means. However, significant variation was observed in all variables, with ECOG ranging from -8.625 to 10.298, indicating periods of growth and downturn. Standard deviation values showed that ECOG had the highest variability, followed by TRDO, SMEF, and GEXP. Skewness values indicated different distribution shapes, with ECOG showing a negative skew and the others displaying slight positive skew. Kurtosis values indicated that ECOG had a peaked distribution, while SMEF, GEXP, and TRDO exhibited more moderate peaks. The Jarque-Bera test revealed that ECOG deviated significantly from a normal distribution, while the other variables did not.

TABLE 3: Descriptive Statistics

Statistic	ECOG	SMEF	GEXP	TRDO
Mean	4.656	9.370	24.560	68.345
Median	5.134	9.386	24.176	67.721
Maximum	10.298	15.678	34.031	86.209
Minimum	-8.625	5.299	17.807	56.121
Std. Dev.	3.702	2.802	4.343	8.097
Skewness	-1.703	0.256	0.174	0.289
Kurtosis	7.027	2.005	2.195	2.153
Jarque-Bera	34.767	1.564	0.770	1.315
Probability	0.000	0.458	0.681	0.518

Source; Author's Compilation from EViews, 2025

Correlation Analysis

Correlation analysis revealed a weak negative correlation ($r = -0.23$) between SME financing and economic growth, suggesting that increased SME financing does not directly lead to economic growth in Zambia, possibly due to factors like inefficient public expenditure or lack of technological adoption. A strong negative correlation ($r = -0.47$) between government expenditure and economic growth indicates that higher government spending is linked to lower economic growth, likely due to inefficiencies. In contrast, a moderate positive correlation ($r = 0.35$) between trade openness and economic growth highlights that increased trade activity benefits economic growth and SMEs by providing access to new markets and financial resources. Trade openness also showed a moderate positive correlation with SME financing, emphasizing the role of international trade in improving financial access for SMEs.

3.3 Multiple Regression Analysis

Table 4.3 below presents the results of a multiple regression analysis examining the influence of SME Financing (SMEF), Government Expenditure (GEXP), and Trade Openness (TRDO) on Economic Growth (ECOG) using the Least Squares Method. And based on the adopted variables, the overall regression model is constructed as shown below:

$$\mathrm{ECOG} = 17.499 - 0.361\mathrm{SMEF} - 0.510\mathrm{GEXP} + 0.059\mathrm{TRDO}$$

TABLE 4: Pearson's Correlational Matrix

VARIABLES	ECOG	SMEF	GEXP	TRDO
Economic growth	1.000			
SME Financing	-0.377	1.000		
Govt. Expenditure	-0.757	0.140	1.000	
Trade openness	-0.478	0.536	0.571	1.000

Source; Author's Compilation from EViews, 2025

The regression analysis revealed that the constant (intercept) value of 17.499 indicated the predicted economic growth when all independent variables (SME financing, government expenditure, and trade openness) were set to zero, with a statistically significant p-value of 0.000. The coefficient for SME financing (SMEF) was -0.361, showing a negative relationship with economic growth, which was statistically significant at $p = 0.036$. Government expenditure (GEXP) had a coefficient of -0.510, indicating a strong negative relationship with economic growth, also statistically significant ($p = 0.000$). Trade openness (TRDO) showed a weak positive relationship with economic growth (coefficient = 0.059), but this was not statistically significant ($p = 0.375$). The model explained 66.2% of the variance in economic growth (R-squared = 0.662), and the overall regression model was statistically significant (F-statistic = 13.077, $p = 0.000$). The Durbin-Watson statistic of 1.929 indicated no serious autocorrelation in the residuals, confirming the model's reliability.

TABLE 5: The Multiple Regression Model Results

Dependent Variable: ECOG
Method: Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Constant (C)	17.499	3.139	5.574	0.000
SME Financing (SMEF)	-0.361	0.160	-2.252	0.036
Gov't Expenditure (GEXP)	-0.510	0.103	-4.949	0.000
Trade Openness (TRDO)	0.059	0.065	0.908	0.375
R-squared	0.662	Mean dependent var	5.463	
Adjusted R-squared	0.612	S.D. dependent var	2.748	
S.E. of regression	1.713	Akaike info criterion	4.065	
Sum squared resid	58.653	Schwarz criterion	4.261	
Log likelihood	-44.778	Hannan-Quinn criter.	4.117	
F-statistic	13.077	Durbin-Watson stat	1.929	
Prob(F-statistic)	0.000			

Source; Author's Compilation from EViews, 2025

IV. Discussion

The study revealed that SMEs in Zambia primarily rely on a mix of formal and informal financing sources. Government-backed programs were the most common source, with 76.7% of respondents utilizing such initiatives, followed by microfinance institutions (72.1%), which provide smaller loans with more flexible terms. In contrast, traditional bank loans were accessed by only 53.5% of SMEs, reflecting the challenges of high collateral requirements and lengthy approval processes. Informal sources like personal savings (66.0%) and loans from family and friends (29.5%) were also widely used, highlighting the limited access to formal credit.

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Venture capital, though still limited, was used by 31.0% of respondents. These findings underscore the increasing reliance on alternative financing options and the need for continued policy support to address financing constraints.

The study identified several barriers that hinder SMEs in Zambia from accessing financing, with the most significant being the lack of credit history, cited by 88.4% of respondents. Financial literacy was another major barrier, affecting 81.4% of SMEs, preventing them from understanding loan structures and application processes. Collateral requirements (55.8%) and complex loan approval procedures (53.5%) also posed significant obstacles. These barriers limit SMEs' ability to access formal credit, emphasizing the need for policy interventions such as credit guarantee schemes and financial literacy programs to improve SMEs' ability to secure funding and contribute to economic growth.

The study found a negative correlation between SME financing and economic growth in Zambia, with a coefficient of -0.361, suggesting that increased SME financing might be associated with a slight decline in economic growth. This could be due to inefficient fund utilization or the high cost of capital, which reduces SME productivity. Government expenditure also showed a strong negative correlation with economic growth (coefficient = -0.510), indicating that higher government spending may not effectively stimulate growth due to inefficiencies. While trade openness had a positive correlation with economic growth, it was not statistically significant, suggesting that trade liberalization alone may not drive growth without improvements in infrastructure and institutional support. Despite these challenges, the model explained 66.2% of the variance in economic growth, highlighting the importance of policy adjustments to improve SME financing efficiency and government spending.

V. CONCLUSION

This study reinforces the critical role of SME financing in fostering economic growth in Zambia, aligning with the study's objectives to assess how financing influences the growth of SMEs and their contribution to the national economy. The findings highlighted that, while financing contributes to business expansion, employment generation, and innovation, its broader impact on economic growth is hindered by several inefficiencies, including the misallocation of funds and structural challenges within SMEs. These issues are consistent with existing literature, which underscores that SMEs in developing countries often struggle to access financing due to barriers such as limited collateral, high interest rates, and insufficient financial literacy (Beck & Demirguc-Kunt, 2006; Ayyagari et al., 2011). The study's findings suggest that, in order for SME financing to make a significant contribution to economic growth, it must be accompanied by improvements in business management practices, efficient fund utilization, and capacity-building programs. Addressing these areas is essential to ensure that the financing SMEs receive translates into sustainable growth and broader economic benefits.

The implications of these findings are critical for policymakers in Zambia. To optimize the impact of SME financing, there is a clear need for targeted interventions that address the barriers to accessing finance, such as simplifying loan approval processes, reducing collateral requirements, and enhancing financial literacy. Additionally, the study underscores the importance of integrating improved business management practices and capacity-building initiatives as part of the financing process. By investing in training and development programs for SME owners, the government can ensure that SMEs are better equipped to manage the funds they receive, leading to more efficient utilization and greater economic impact. Furthermore, the study identified the influence of control variables, such as government expenditure and trade openness, which play a significant role in shaping the economic environment for SMEs. The findings suggest that government expenditure, especially in sectors that support business development, and trade openness, which provides greater market access for SMEs, are vital in fostering a conducive environment for SME growth and, by extension, economic growth. These insights point to the need for comprehensive policy reforms that enhance access to financing and create a more supportive ecosystem for SMEs to thrive.

Policy Recommendations

Based on the findings, the study proposes the following recommendations:

- ✓ Enhancing SME Financial Literacy: Government and financial institutions should implement training programs to improve SME owners' understanding of financial management, credit access, and investment strategies.
- ✓ Encouraging Alternative Financing Models: The government should foster the growth of alternative financing models, including venture capital, crowdfunding, and digital financial services, to provide more accessible funding sources for SMEs.
- ✓ Easing Collateral Requirements: Financial institutions should adopt more flexible collateral policies, including asset-based lending and credit guarantee schemes, to improve access to financing for SMEs.
- ✓ Streamlining Loan Approval Processes: Regulatory bodies should work with financial institutions to streamline loan approval processes, potentially incorporating technology-driven solutions to improve efficiency.
- ✓ Strengthening Government Support Programs: Ongoing review and adjustments to government programs designed to support SME financing are necessary to ensure their continued effectiveness in addressing financing gaps.

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