

INNOVATIVE FINANCIAL STRATEGIES FOR RESILIENT MSMES IN ZAMBIA AMID ECONOMIC CHALLENGES

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requirement for the degree of

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DECLARATION

I declare that this thesis is my own unaided work. It is being submitted for the Master of Business Administration - Finance degree at Copperbelt University, Kitwe, through the Directorate of Distance Education and Open Learning. It has not previously been submitted for any degree or examination at any other university.



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DEDICATION

I dedicate this dissertation to my wife, Fridah Nakaundi Sakala, and my three children, Theresa, Jonathan, and David. You have always been an excellent team, providing me with the necessary support and encouragement throughout this long journey. God be glorified for granting me extraordinary mercy, favor, and grace to complete this journey.

ABSTRACT

In the face of economic uncertainty, Zambia's Micro, Small, and Medium Enterprises (MSMEs) face significant challenges that threaten their long-term viability and growth. This paper investigates long-term financial solutions tailored to these businesses' specific needs during turbulent economic times. It looks at how innovative financing mechanisms like microfinance, impact investing, and public-private partnerships can help MSMEs gain access to capital. Furthermore, it emphasizes the importance of financial literacy and capacity building in enabling entrepreneurs to effectively navigate economic fluctuations. The analysis uses case studies and empirical data to demonstrate effective strategies used by MSMEs in Zambia and other comparable economies. Finally, this study aims to provide a comprehensive framework for policymakers and stakeholders to foster resilience.

Keywords: financial management, financial literacy, cashflow management, MSMEs, Microfinance Institutions, economic uncertainty, political cardrism.

LIST OF ACRONYMS

MSME	-	Micro, Small and Medium-sized Enterprises.
GDP	-	Gross domestic product.
CBD	-	Central Business District.
ESG	-	Environmental, Social, and Governance.
ZIPAR	-	Zambia Institute for Policy Analysis and Research
PPPs	-	Public-Private Partnerships
CEEC	-	Citizens Economic Empowerment Commission
MFI	-	Microfinance Institutions
IMF	-	International Monetary Fund
MM	-	Mobile Money

DEFINITION OF KEY TERMS

MSMEs	: Businesses that maintain revenues, assets, or employee counts below a certain threshold.
GDP	: It's a key economic indicator that measures the total market value of all final goods and services produced within a country's borders in a specific period (typically a year). In simpler terms, GDP represents the total size of an economy.
Global Economic Downturns	: Refer to periods of significant economic decline or contraction that affects multiple countries or regions around the world.

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1.0 CHAPTER ONE

1.1 Introduction

Micro, Small and Medium-sized Enterprises (MSMEs) are defined in simple terms as businesses that maintain revenues, assets, or employee counts below a certain threshold. As documented by the World Bank (2015), SMEs represent about 90 percent of businesses in operation generating more than 50 percent employment globally. The World Bank Group (2019), reports that MSMEs contribute up to 40 percent of national income (GDP) in emerging economies and creates 7 out of 10 formal jobs globally. These businesses are considered as propelling engine of any economy contributing to its development via income and wealth redistribution, employment generation, poverty alleviation, rural-urban drift control, export promotion, economic diversification, savings mobilization, and technological innovativeness, among others (Bello et al., 2018).

MSMEs face numerous challenges that have a negative impact on their growth and existence. These challenges include among others leadership skills, capital, financial/profit management, resources, government regulations, technology, human capital, and environmental factors. These firms face unique challenges when it comes to managing their economic affairs, so monetary control is critical to their long-term success. Despite these difficulties, MSMEs are expected to address the challenges of job creation, sustainable economic growth, equitable income distribution, and overall stimulation of economic development (Franco and Haase, 2010: 504; Ismaila, 2011; Fatoki, 2014: 922). The value of financial management in MSMEs cannot be overstated. Efficient financial control is crucial for optimizing resource allocation, ensuring liquidity, and improving overall economic performance of such businesses.

In Zambia, the MSMEs play a significant role in providing job opportunities to communities, bring about innovation as well as contributing to the overall economy growth of the country. According to (The International Trade Centre, 2024), MSMEs in Zambia play an important role in production, employment and income generation for the government and

represents 97 percent of all businesses in the country, contributes 70 percent of gross domestic product (GDP) and 88 percent of employment offered. These businesses are largely in trading (49 percent), followed by simple manufacturing and services with (41 percent) and (10 percent) respectively and are usually in traditional economic sectors that rely on the use of low technology social networks which orientation towards the local and less prosperous segments of the market such as pottery and welding (Mubita A. Kanyamuna V. et al., 2017). Because of the importance of these firms to the country's economy, the government of the Republic of Zambia implemented a number of policies and regulations to encourage the growth and development of such businesses.

Therefore, the purpose of this research paper is to identify potential solutions or the impact of MSMEs' financial stability on their long-term viability and growth. The study was custom-built in response to the financial devastation caused by rising business costs in Zambia amidst the drought caused by the effects of climate change.

1.2 Problem Statement

MSMEs encounter a variety of difficulties that hinder their ability to expand and survive. In Zambia, these MSMEs operate in a vacuum, with MSME supporters such as Business Development Service organizations failing to address the root causes of the SME sector's failures. Many MSMEs face a significant risk of default in Zambia's current economic environment, as evidenced by reported falling sales, increased cost of managing businesses resulting in downsizing, and project postponement due to limited resources. Long trade cycles, insufficient working capital that impedes SME growth, and a lack of access to finance are some of the challenges that MSMEs in Zambia face, all of which have led to their failure (T. Chilembo, 2021).

Environmental concerns are becoming a more important factor affecting businesses worldwide. For example, El Niño weather patterns and climate change have intensified Zambia's ongoing drought, which has had disastrous effects, especially on MSMEs. Because of

the low economic resilience, vulnerable countries like Zambia are particularly affected by environmental pollution (Arndt et al., 2019). K. Gannon and D. Conway's (2018) research in Zambia and Botswana found that the 2015/2016 El Niño event caused significant disruptions to businesses, including drought-related water supply disruptions in Gaborone and hydroelectricity supply disruptions in Lusaka. When the country is facing difficult economic conditions, such as the one we are currently experiencing, the task posed by MSMEs becomes much more difficult, as they are caught between a rock and a hard place.

The debt crisis, which is the result of accumulated debt stock and difficulty servicing, has imposed a number of burdens on the Zambian economy, as evidenced by a drop in real growth rates, investment rates, and export earnings, which has clearly hampered the country's economic recovery, growth, and development. This has not spared the MSMEs in the country. As we are aware, a debt crisis can cause economic instability, such as inflation, interest rate hikes, and currency devaluation, all of which can harm MSMEs by increasing operational costs and decreasing profitability. Not to mention that debt crisis management frequently involves government spending cuts to ensure debt repayment, which can have an indirect impact on MSMEs by restricting business opportunities and potential markets. OECD (2009), in their report provided evidence that MSMEs in most countries facing debt crisis are confronted with a clear downturn in demand for goods and services if not a demand slump.

Political instability can harm MSMEs by creating an uncertain business environment. Changes in government policies and regulations such as monetary policy and reserve ratio, not forgetting monthly review of fuel may have an impact on SME operations, making long-term planning difficult. Fluctuating exchange rates and high inflation rates erode consumers' purchasing power, limiting their ability to afford goods and services from MSMEs. According to a study conducted by the Bank of Zambia (2021), annual inflation in Zambia has consistently been above the target range of 6-8 percent, making it difficult for MSMEs to maintain profitability and sustainability. The Zambian Kwacha also has been highly volatile due to the

country's reliance on copper exports, making the economy vulnerable to changes in global commodity prices. This situation causes uncertainty for MSMEs, particularly those that import raw materials or export finished goods, as they struggle to maintain consistent pricing and revenue streams (World Bank, 2022).

1.3 Purpose of the Study

The primary goal of sustainable financial solutions for MSMEs in Zambia during the current economic uncertainty is to develop and implement financial strategies that not only ensure the survival of these businesses, but also promote long-term growth and profitability while positively contributing to the country's social, environmental, and economic development.

This master's thesis first examined the current economic challenges that MSMEs in Zambia face, followed by an analysis of the importance of financial security for MSMEs. The potential solutions for financial security was also analyzed, such as strengthening financial literacy and management, which includes budgeting, financial planning, and cost management, improving MSMEs' access to diverse and affordable financial services, including credit, savings, insurance, and investments, by forming partnerships between financial institutions, government agencies, and development organizations, and encouraging MSMEs promoters to adopt sustainable business practices and promote innovation through policy reforms, business development services, and networking opportunities.

1.3.1 General Objective

The general objective of this research topic is to identify and analyze long-term financial solutions that can assist Zambian MSMEs in navigating and thriving during times of economic uncertainty.

1.3.2 Specific Objectives

- To understand the current business environment in Zambia as well as policies implemented by the government that support MSMEs.

- Understand the specific challenges faced by MSMEs in Zambia during economic uncertainty.
- Explore and evaluate existing and potential financial solutions that can address these challenges.
- Develop recommendations for policymakers, financial institutions, and MSMEs themselves.

1.3.3 Research Questions

1. What is the current business environment in Zambia as well as policies implemented by the government that support MSMEs?
2. What challenges are faced by MSMEs in Zambia during economic uncertainty?
3. What are the essential success criteria for putting into practice long-term financing solutions that are suited to Zambia's MSMEs' needs in an uncertain economic climate?
4. What recommendations can be developed by policy makers that stops Zambian MSMEs from implementing sustainable financing solutions in the face of uncertain economic times?

1.4 Research Hypothesis

MSMEs are particularly vulnerable to economic shocks, like the ones that are occurring right now, which have disrupted industries and put a strain on financial resources. Numerous studies on long-term financial solutions for MSMEs have already been done, and they all emphasize the significance of capital access and financial literacy as critical components of their success. For instance, a study conducted in (2018) by Beck et al. discovered that MSMEs with greater financial literacy had a greater chance of enduring economic downturns and expanding their enterprises over time. Similarly, Mookerjee et al.'s (2020) study demonstrated how government-backed lending programs improve MSMEs' capacity to navigate through the economic challenges.

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The goal of the research hypothesis is to explore innovative and long-lasting financial

solutions that can support MSMEs in enduring economic turbulence and long-term success.

These actions may consist of:

- **Grants and Subsidies:** Outright financial support for specific costs, like rent and wages, or for operating expenses. Government-backed loan guarantees are used as a tool to encourage banks to make lower-risk loans to MSMEs.
- **Tax Deferrals and Reliefs:** Short-term tax relief strategies to relieve cash flow constraints, such as postponed payments or lower tax rates.
- **Regulatory Flexibility:** Temporary modifications to regulations to lessen administrative burdens, such as extending filing deadlines or easing record-keeping requirements.
- **Training:** Free resources made available to help businesses become more proficient at handling their finances and adjust to the changing landscape.

1.5 The rationale of the study

The study's rationale is to provide long-term financial solutions for Zambian MSMEs during periods of economic uncertainty. MSMEs are an important driver of economic growth and job creation in Zambia. They contribute significantly to the country's GDP and employ a sizable proportion of the workforce. Economic uncertainty is a major threat to the survival and growth of MSMEs. This is especially true in developing countries like Zambia, where MSMEs regularly lack access to sufficient financial resources and support.

This study therefore aims to identify potential financial strategies that can assist MSMEs in maintaining operations and ensuring long-term viability. The study has highlighted the challenges that Zambian MSMEs face, as well as identify effective long-term financial solutions. The findings could help to shape policy decisions and guide the development of programs and initiatives to help small and medium-sized businesses grow. The paper could also help Zambia's financial sector become more inclusive and sustainable by examining both local and international best practices to provide a comprehensive understanding of the challenges that

Zambian MSMEs face, as well as actionable recommendations to address them.

1.6 Gaps in Sustainable Financial Solutions

MSMEs in Zambia have fewer options when looking for affordable and customized financial products due to the lack of microfinance institutions that specialize in serving their needs. Furthermore, the difficulties faced by MSMEs are made worse by the lack of risk-sharing arrangements between financial institutions and these businesses, which makes it challenging for lenders to provide credit during unpredictable economic times. The government of Zambia is working to encourage financial inclusion, but more resources are still needed to provide underprivileged people, especially MSMEs, with greater access to financial services. To help create a more favorable environment for sustainable financial solutions, it may be necessary to strengthen the regulatory framework that governs financial services for MSMEs.

A multifaceted strategy is needed to address the gaps in sustainable financial solutions for MSMEs in Zambia during economic uncertainty. This strategy should include increasing financial literacy, expanding government support channels, encouraging stakeholder partnerships, and putting in place laws and regulations that are specifically designed to meet the needs of MSMEs.

2.0 CHAPTER TWO

2.1 Literature Review.

This literature review aims to provide a comprehensive and in-depth analysis of the challenges faced by Small and Medium-sized Enterprises (MSMEs) in Zambia during economic uncertainty and the potential strategies that can enhance their financial resilience and long-term viability. By examining authoritative and scholarly sources, including printed books, government websites, .edu websites, top university websites, and other reputable online resources, this review offered a comprehensive understanding of the specific challenges faced by MSMEs, the potential strategies that can address these challenges, the effectiveness and impact of these strategies, the role of government policies and regulations, and lessons learned from successful case studies. This analysis contributed to a better understanding of the challenges faced by MSMEs in Zambia and the potential solutions that can help them overcome these challenges and achieve long-term financial stability.

2.1.1 Financial Challenges Faced by MSMEs

Our local, regional, and global economies are all shaped by the growth, innovation, and sustainability of small and medium-sized businesses as well as start-ups. MSMEs represent 90% of all companies and are responsible for close to 70% of jobs and GDP globally, and yet, as a result of their smaller size, they are often the most affected by economic shocks and turbulence that hinder their development and sustainability (World Economic Forum, 2020). This literature review explores the key financial challenges faced by MSMEs globally and locally in Zambia, drawing insights from relevant research and studies.

2.1.1.1 Global Financial Challenges

The global landscape for MSMEs is characterized by a complex interplay of economic factors that can have a significant impact on financial stability. MSMEs around the world face a variety of financial challenges that can hinder their growth, profitability, and overall sustainability. These challenges, which have been frequently magnified by economic

downturns, trade wars, climate change and technological disruptions, can create a difficult environment for MSMEs to navigate. MSMEs face a number of similar financial difficulties worldwide:

- **Limited Access to Finance:** Limited access to credit is one of the biggest issues MSMEs confront globally. The World Bank (2018) and Deressa (2014) cite a number of reasons for this, including high borrowing rates, strict collateral requirements, a lack of financial history, and knowledge unevenness between MSMEs and financial institutions.
- **Economic Uncertainty:** Trade disputes, political unrest, and global economic downturns can all lead to uncertainty and lower demand for MSME goods and services, which can have an adverse effect on their performance (IMF, 2019).
- **Rising Costs:** Increased input costs, such as raw materials, energy, and labor, can erode profit margins and reduce the financial viability of MSMEs (World Bank, 2020).
- **Technological Disruption:** Rapid technological advancements can disrupt traditional business models and require MSMEs to invest in new technologies to remain competitive (World Economic Forum, 2020).
- **Regulatory Challenges:** Regulations that are costly and complicated can raise operating expenses and make it more difficult for MSMEs to innovate and adjust to shifting market conditions (World Bank, 2020).
- **Climate Change:** Because of their reliance on the communities in which they operate and their localized supply networks, MSMEs are more vulnerable to the adverse impacts of climate change. Weather-related catastrophes like hurricanes, wildfires, and flooding grow increasingly common and severe as global temperatures rise. For MSMEs, these occurrences can cause severe financial losses in addition to disrupting business and damaging infrastructure.

2.1.1.2 Financial Challenges in Zambia

MSMEs play a crucial role in the Zambian economy, contributing significantly to job

creation, economic growth, and poverty alleviation. However, these businesses often face a countless number of challenges, particularly in the realm of finance, which can hinder their growth and development. This literature review explores the key financial challenges faced by MSMEs in Zambia, drawing insights from relevant research and studies.

The most common challenge faced by MSMEs in Zambia is limited access to finance. Many MSMEs struggle to obtain adequate funding from traditional financial institutions due to various factors, including:

- **High Interest Rates:** The high interest rates charged by banks and other financial institutions can make it difficult for MSMEs to afford loans and repay them on time (Pandula, 2015).
- **Collateral Requirements:** Many financial institutions require substantial collateral for loans, which can be a challenge for MSMEs that may not have sufficient assets to pledge (Deressa, 2014).
- **Lack of Financial History:** MSMEs, especially those that are newly established, may lack the financial history and creditworthiness required by banks to qualify for loans (World Bank, 2018).
- **Information Asymmetry:** There may be information asymmetry between MSMEs and financial institutions, with MSMEs having limited access to financial information and knowledge, while financial institutions may lack information about the creditworthiness and future prospects of MSMEs (World Bank, 2018).

In addition to limited access to finance, MSMEs in Zambia also face challenges related to financial management. Many MSMEs lack the necessary financial skills and knowledge to effectively manage their finances, leading to poor financial decision-making, inadequate cash flow management, and increased risk of financial distress (Ministry of Small and Medium Enterprise Development, 2021).

Furthermore, MSMEs in Zambia may be affected by economic uncertainty and

fluctuating market conditions. These factors can lead to decreased demand for their products and services, increased costs, and reduced profitability (IMF, 2019). In addition to the above challenges, MSMEs in Zambia face specific financial challenges such as:

- **High Interest Rates:** The high interest rates charged by financial institutions in Zambia can make it difficult for MSMEs to afford loans and repay them on time (Pandula, 2015).
- **Limited Financial Literacy:** Many MSME owners and managers in Zambia lack the necessary financial skills and knowledge to effectively manage their finances, leading to poor financial decision-making and increased risk of financial distress (Ministry of Small and Medium Enterprise Development, 2021).
- **Infrastructure Constraints:** Inadequate infrastructure, such as unreliable electricity supply and poor transportation networks, can increase operational costs and hinder the growth of MSMEs in Zambia (World Bank, 2018).
- **Corruption:** Corruption can create an unfavorable business environment for MSMEs in Zambia, increasing costs, reducing transparency, and hindering access to government contracts and support (Transparency International, 2020).

The challenges faced by MSMEs in Zambia are multifaceted and can significantly hinder their growth and development. Addressing these challenges requires a combination of government support, financial innovation, and enhanced financial literacy. By providing access to affordable finance, improving financial management skills, and creating a supportive business environment, it is possible to help MSMEs overcome these challenges and contribute to the sustainable economic development of Zambia.

2.1.2 Under economic uncertainty

The financial stability of MSMEs has been impacted by fluctuations in Zambia's economy (World Bank, 2020). Unstable exchange rate with major convertible currencies, inflation, global economic downturns (IMF, 2019), and political instability are a few of the factors that contribute to economic uncertainty. These problems were made worse by the COVID-19

pandemic, which increased economic instability. The World Bank (2021) reports that the pandemic's effects on trade and investment caused Zambia's economy to contract by 3% in 2020.

According to research, MSMEs in Zambia face a number of obstacles when the economy is weak. Under economic uncertainty, MSMEs in Zambia encounter various obstacles such as restricted financial resources, high interest rates, and inadequate collateral (Ministry of Small and Medium Enterprise Development, 2021). These difficulties hinder their expansion and progress, which has a negative impact on their long-term viability and economic impact. A study by the Zambia Institute for Policy Analysis and Research (ZIPAR) found that economic uncertainty significantly impacts the survival and growth of MSMEs (ZIPAR, 2017). Many MSMEs rely on unofficial financing sources, which are frequently unsustainable and insufficient for growth.

In his research, T. Chilembo (2021) emphasized the significance of MSMEs to Zambia's economy. He continued by reviewing the fact that MSMEs' ability to obtain financing is still essential to their development and success. The majority of MSMEs, despite their acknowledged significance, struggle to secure financing from financial institutions (Pandula, 2015). The inability of MSMEs to obtain financing was acknowledged by Kumar and Rao (2015) as a hindrance to their success. Access to financing plays a major role in MSMEs' ability to realize their potential (Pandula, 2015).

I also reviewed N. Mbatha and M Ngibe's (2017) research, which was submitted to the faculty of Accounting and Informatics at Durban University of Technology in South Africa, to gain a better understanding of the challenges that MSMEs in South Africa face. The paper found that MSMEs in South Africa, just like in Zambia, face both internal and external challenges such as accounting skills, risk management, general management, professionalism, and green business.

2.1.3 Access to Sustainable financial solutions

Sustainable financial solutions for MSMEs during economic uncertainty in Zambia include access to affordable credit, financial literacy, and business development services (World Bank, 2021). These solutions promote the sustainability and growth of MSMEs, enabling them to contribute to the economy. Ministry of Small and Medium Enterprise Development, (2021) report reviews how most MSMEs typically use informal financing options like village banking because of high levels of informality, borrowing costs, and collateral requirements. Another study by the University of Zambia found that these platforms can increase access to finance for MSMEs while promoting financial inclusion (University of Zambia, 2019).

Access to affordable credit is a significant challenge for MSMEs in Zambia. The high interest rates and limited access to finance hinder the growth and development of MSMEs (Ministry of Small and Medium Enterprise Development, 2021). Only 5 percent of MSMEs in Zambia have access to bank loans, according to World Bank research (2018), which significantly restricts their capacity to invest, innovate, and expand. Of these few businesses that access bank loans, many find it challenging to obtain loans due to the average lending rate, which is approximately 25 percent (Bank of Zambia, 2020). The financial vulnerability of MSMEs is made worse by this environment of high interest rates, especially during recessions. Sustainable financial solutions for MSMEs during economic uncertainty should focus on providing access to affordable credit. This can be achieved through government initiatives, such as the Development Bank of Zambia, which provides affordable credit to MSMEs (Dbz.org.zm, 2021).

According to Deressa (2014), many small businesses struggle to obtain funding due to insufficient collateral and low financial literacy among owners. Commercial banks frequently regard MSMEs as high-risk borrowers due to their lack of experience in this sector. This lack of trust between financial institutions and MSME owners worsens the problem, causing banks to be reluctant to provide necessary financial support.

2.1.4 Government policies and regulations

Although there are many different government policies that support MSMEs, they are all focused on creating an atmosphere that allows small businesses to prosper. Following the pandemic, as the world's economies continue to change, policymakers will need to continuously adjust their plans in light of new developments like the digital transformation and sustainability concerns.

Governments have responded to the demands of the MSME sector by enacting a number of laws and regulations. For example, the government of Ghana has implemented policies and programs to support the expansion of the MSME sector. To support MSMEs in thriving, these services include offering credit support and non-financial business support. Similar to this, the Indian government has launched a number of programs aimed at the growth of MSME's, but the outcomes have been uneven and the manufacturing sector's share of the country's GDP has remained low. (Chaudhary & Rana, 2019).

While support for MSMEs is shared by many nations, particular policies differ greatly depending on regional economic circumstances and cultural contexts: Research and development (R&D) grants are a common means of supporting innovation in developed economies such as Canada and Germany. Policies in emerging economies, such as Brazil or India, may place greater emphasis on financing access because small businesses face more obstacles. Governments may give formalization initiatives and financial inclusion strategies equal priority in areas like Africa, where the informal sector is the dominant economic sector.

In Zambia, the policy framework MSMEs aims to promote entrepreneurship, economic growth, and job creation. The government recognizes the importance of this sector and has implemented a number of policies to promote the growth and sustainability of MSMEs. One notable policy is the Micro, Small, and Medium Enterprise Development Policy, which aims to create an enabling environment for MSMEs by focusing on three key areas: capacity building, access to finance, and improving the operating environment.

Examples of policy framework implemented includes:

- **National Policy on Micro, Small and Medium Enterprises (2017):** Provides guidelines for MSME development, focusing on business environment, access to finance, technology, and market access.
- **Eighth National Development Plan (8NDP) (2022-2026):** Emphasizes MSME growth as a key strategy for economic development.
- **Private Sector Development Reform Programme (PSDRP):** Aims to improve the business environment and enhance competitiveness.

Other supportive Initiatives introduced by government are:

- **Citizen Economic Empowerment Commission (CEEC):** Provides financing, training, and business support services.
- **Zambia Development Agency (ZDA):** Offers investment promotion, business registration, and licensing services.
- **Small and Medium Enterprises Development Agency (SMEDA):** Provides business development services, training, and mentorship.
- **Ministry of Small-Scale Industries and Entrepreneurship Development:** Coordinates MSME policy implementation.

2.1.5 Sustainable Financial Solutions

The incorporation of sustainable financial solutions is critical for empowering MSMEs to thrive while positively impacting society and the environment. By implementing innovative financing models, MSMEs can overcome traditional barriers and achieve long-term growth while addressing critical sustainability issues. There are several effective ways to accomplish this goal, including impact investing, digital financial services, public-private partnerships, government initiatives, and microfinance organizations. Further investigation is required to assess the enduring efficacy of these remedies and their capacity to adjust to evolving economic 22 circumstances.

2.1.5.1 Microfinance Institutions (MFIs)

MFIs have emerged as a vital source of funding for Zambian MSMEs. They provide tailored financial products that are designed specifically for the needs of small businesses. According to Muposhi et al. (2022), MFIs offer not only loans but also training programs to help entrepreneurs improve their financial literacy.

2.1.5.2 Government Initiatives

The Zambian government has implemented various policies aimed at supporting MSMEs during economic uncertainty. For instance, the establishment of the Citizens Economic Empowerment Commission (CEEC) provides funding and capacity-building initiatives for local businesses (Zambia Development Agency, 2020). Research conducted shows that government-backed loans have improved business sustainability among MSMEs.

2.1.5.3 Public-Private Partnerships (PPPs)

Collaborations between the government and private sector can enhance resource mobilization for MSMEs. A study by Banda et al. (2021) emphasizes that PPPs can facilitate access to technology and markets while providing financial support through shared risk mechanisms.

2.1.5.4 Digital Financial Services

The digital transformation of the financial services industry has far-reaching implications for social sustainability and financial inclusion (Alexander and Karametaxas, 2021). Digital financial services have the potential to increase access to financial services, particularly for underserved groups such as women, those with lower levels of education, and rural residents. The digital revolution in finance can help address the ongoing challenge of the "unbanked" and "underbanked" by leveraging innovative technologies to deliver financial products and services more efficiently and at a lower cost.

The rise of digital platforms has transformed how MSMEs access finance in Zambia.

Mobile banking services like Airtel Money and MTN Mobile Money have made it easier for

small businesses to conduct transactions and obtain microloans without traditional banking barriers (Kafunda & Chanda, 2022). Research indicates that digital financial services can significantly reduce transaction costs and improve cash flow management for MSMEs.

2.1.5.5 Impact Investing.

Impact investing has emerged as a promising approach for addressing societal and environmental challenges through long-term financial solutions. The literature review emphasizes the growing importance of incorporating environmental, social, and governance factors into financial decisions (S. Mujiani, 2023). Sustainable finance encompasses a variety of approaches, including impact investing, green finance, and socially responsible investing, all of which seek to generate positive social and environmental impact as well as financial returns.

There is growing interest in impact investing as a sustainable financing solution for MSMEs in Zambia. Investors are increasingly looking at social returns alongside financial returns when funding businesses (Chileshe & Mweemba, 2021). This approach encourages responsible business practices while ensuring profitability.

2.1.6 Financial literacy, knowledge sharing and business development

Financial literacy is crucial for the sustainability and growth of MSMEs in Zambia. Financial literacy enables MSMEs to manage their finances effectively, make informed financial decisions, and access financial services (World Bank, 2021). Sustainable financial solutions for MSMEs during economic uncertainty should focus on promoting financial literacy. This can be achieved through financial education programs, such as those provided by the Bank of Zambia (Bankofzambia.com, 2021).

Knowledge sharing is essential for MSMEs' innovation and competitiveness. According to Tembo (2021), many Zambian MSMEs do not receive training in knowledge sharing. Furthermore, a lack of management support and insufficient reward systems discourage employees from participating in knowledge-sharing initiatives. The lack of empirical research on this topic complicates understanding of how knowledge sharing can be optimized within

Zambian MSMEs. According to Razmerita et al. (2016), despite the fact that technology can promote knowledge exchange and boost operational effectiveness, a lack of training and usability problems prevent many small businesses from implementing it.

Business development services are essential for the sustainability and growth of MSMEs in Zambia. Business development services provide MSMEs with the necessary skills and knowledge to manage and grow their businesses (Government of the Republic of Zambia, 2021). Sustainable financial solutions for MSMEs during economic uncertainty should focus on providing business development services. This can be achieved through government initiatives, such as the Small and Medium Enterprises Development Institute (SMEDI), which provides business development services to MSMEs (Smedti.org.zm, 2021).

Access to affordable credit, financial literacy, and business development services are all long-term financial solutions for Zambian MSMEs during times of economic uncertainty. These solutions support the sustainability and growth of MSMEs, allowing them to contribute to the economy. The government and financial institutions in Zambia should prioritize providing these solutions to MSMEs in order to promote long-term financial solutions during economic uncertainty.

2.2 Conceptual Framework

For MSMEs in Zambia that are facing economic uncertainty, a strong conceptual framework is necessary to direct research and implementation tactics. This framework ought to include a number of components that tackle the particular difficulties MSMEs encounter in managing risks, obtaining funding, and continuing to operate in periods of unstable economic conditions. The conceptual framework was based on the following key concepts:

- **Economic uncertainty:** This refers to the unpredictable nature of economic conditions, including factors such as inflation, currency fluctuations, and political instability.
- **Sustainable finance:** This refers to financial practices that consider environmental, social, and governance (ESG) factors, promoting long-term value creation and

responsible investment.

- **Financial solutions for MSMEs:** This include a range of financial products and services designed to meet the specific needs of MSMEs, such as loans, grants, equity financing, and technical assistance.

The framework explored the relationship between these concepts and their impact on MSMEs in Zambia during economic uncertainty. Stakeholders can create focused interventions that support the financial sustainability of MSMEs during uncertain economic times by combining these elements into an all-encompassing conceptual framework.

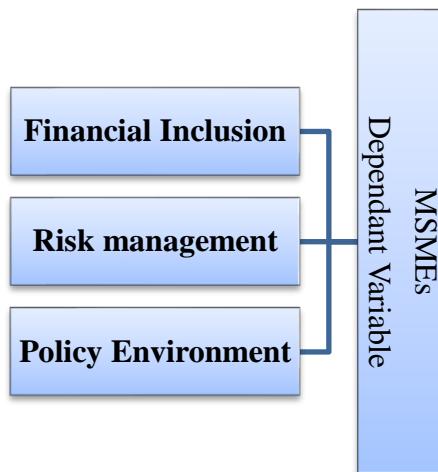
2.3 Theoretical Framework

Establishing a strong theoretical framework to direct the research was essential. The research was based on a theoretical framework that offers an organized method for comprehending the complicated dynamics of financial solutions for MSMEs during periods of economic instability. The framework was crucial because it supports the development of hypotheses, directs the procedures for gathering and analyzing data, and helped to conceptualize the issue at hand. It also helped identify pertinent variables and establish relationships between these variables. The theoretical framework allowed me to investigate factors influencing the efficacy of sustainable financial solutions for MSMEs in Zambia during economic uncertainty and offer useful suggestions for stakeholders and policymakers.

In this research, three important elements were taken into account when examining sustainable financing options for MSMEs in Zambia amid economic uncertainty. These include:

- **Financial Inclusion:** It's important to know how financially included MSMEs are in Zambia. Examining accessibility to official financial services, including insurance, savings, credit, and payment services, was part of this.
- **Risk management:** It's critical to evaluate how MSMEs reduce financial risks in times of economic uncertainty. Investigating risk assessment methods, diversification strategies, and backup plans were included.

- **Policy Environment:** Understanding how supportive or restrictive policies affect small businesses' access to financing was gained by examining the regulatory landscape and governmental policies pertaining to MSME financing.



2.4 Expected Outcomes

The research has produced the following outcomes:

- A comprehensive understanding of the challenges faced by MSMEs in Zambia during economic uncertainty.
- A framework for sustainable financial solutions that can address these challenges and promote the resilience and growth of MSMEs.
- Recommendations for policymakers, financial institutions, and MSMEs on how to implement these solutions.

The findings of this research contribute to the development of more effective and sustainable financial solutions for MSMEs in Zambia, enhancing their ability to navigate economic uncertainty and contribute to the country's economic growth.

3.0 CHAPTER THREE

3.1 Research Methodology

To find patterns, trends, and insights, the gathered data was examined using suitable statistical and qualitative research techniques. A mixed-methods approach was used for this research, combining the collection and analysis of both qualitative and quantitative data. By combining quantitative and qualitative data, the study provided a comprehensive understanding of the financial challenges faced by MSMEs and the effectiveness of various financial solutions in mitigating these challenges (Creswell, J. W., 2014). According to Creswell and Plano Clark (2011), pragmatism allows researchers to use multiple methods to address their research questions effectively. This philosophical framework highlights the need of employing a variety of data sources to acquire a deeper understanding of the study subject.

Quantitative research method was used to gather data on the financial performance of MSMEs during economic uncertainty, through surveys and financial reports analysis. This method yielded numerical data that was statistically analyzed to find trends and patterns. On the other hand, to learn more about the perspectives and experiences of MSME owners and financial experts regarding sustainable financial solutions during economic uncertainty, qualitative research techniques like interviews were used.

Qualitative data was collected through:

- **Interviews:** Conduct semi-structured interviews with key stakeholders including MSME owners, financial institutions, and government officials. This helped gather insights into the challenges faced by MSMEs and the effectiveness of current financial strategies.
- **Focus Groups:** Organize focus group discussions with MSME representatives to explore collective experiences and perceptions regarding innovative financial practices. This method allowed for interactive dialogue, which reveals group experiences, perceptions, and attitudes toward financial strategies.

Quantitative data was collected through:

- Surveys and questionnaires to the MSMEs in Zambia to gather information on their financial performance, access to finance, and challenges faced during economic uncertainty.
- Analysis of secondary data, such as financial reports, economic indicators, and government statistics.

3.2 Reason for adopting mixed methodology

The mixed-methods approach to research is becoming more popular because it allows for a more comprehensive understanding of complex phenomena by combining quantitative and qualitative data. By combining the best features of both approaches, this methodology enabled researcher to improve the validity of the findings, triangulate findings, and obtain a deeper understanding of the research questions.

3.2.1 Surveys and Questionnaires

Questionnaires and surveys are crucial instruments for gathering quantitative data from a number of respondents. These tools can be created to collect data on the financial tactics that companies are currently using, their difficulties, and the effectiveness of different financial innovations in the context of MSMEs in Zambia. Both open-ended and closed-ended questions were included in the survey to enable more thorough feedback and to quantified responses.

3.2.2 Interviews

Structured or semi-structured interviews with key stakeholders such as MSME owners, financial experts, and policymakers yielded qualitative insights into the innovative financial strategies being used. These interviews provided insightful perspectives on the economic challenges that MSMEs face, as well as the effectiveness of various resilience-building strategies.

3.2.3 Focused groups

The focus groups consisted of guided discussions with a small group of target population

participants (MSME owners or employees). This method facilitated interactive dialogue, revealing collective experiences, perceptions, and attitudes toward financial strategies. It was especially useful when investigating complex issues where group dynamics lead to deeper insights of the challenges and possible solutions.

3.2.4 Observations and Secondary data.

The observation method provided insights into how businesses actually implement financial strategies, as well as potential barriers that self-reported data may not capture.

Existing data sources on MSME performance in Zambia, such as government reports, industry publications, academic journals, and databases, were used to supplement primary data collection efforts. This method assisted in interpreting findings within broader economic trends. The authoritative secondary data sources that were analyzed included:

- The World Bank conducts extensive research and data on global economic development issues, including reports focusing on MSMEs in developing countries such as Zambia.
- Academic Journals and Research Papers examine peer-reviewed academic journals covering finance, economics, and entrepreneurship. These papers provided empirical evidence and theoretical frameworks to help develop resilient financial strategies in challenging economic environments.
- Government publications from Zambia's Ministry of Finance and the Zambia Development Agency (ZDA) were critical in understanding the regulatory environment affecting MSMEs. These documents detailed government initiatives to help MSMEs through financial assistance programs, tax breaks, and capacity-building efforts.

Analyzing these reports assisted in identifying existing support mechanisms that MSMEs can take advantage of during economic downturns.

- Reports from Zambian banks and microfinance institutions helped to shed light on the availability of financial products tailored to MSMEs. Understanding the various types of loans, grants, and investment opportunities available helped to shape the discussion

about innovative financing options for these businesses.

3.3 Population Size

The population of MSMEs in the target region of Lusaka Central Business District (CBD) as well as the resources available for the study was taken into consideration when choosing the study's sample size. To guarantee that the results can be applied to the larger population of MSMEs dealing with economic uncertainty, a representative sample of two hundred MSMEs was selected. To guarantee diversity in the sample, a combination of purposive and random sampling methods was used to choose the participants.

Sample size is critical for ensuring the validity and reliability of research findings. A well-defined sample size improves the generalizability of results while reducing sampling error. According to Cochran (1977), an adequate sample size is critical for obtaining statistically significant results, especially when dealing with heterogeneous populations like MSMEs. In Zambia, where economic disparities exist between regions and sectors, selecting an appropriate sample size is critical for gathering a representative cross-section of MSMEs.

3.4 Data Collection

- **Sampling Method:** A stratified random sampling technique was employed to ensure representation from different sectors (e.g., agriculture, manufacturing, services) and regions within Lusaka's CBD.
- **Data Sources:** Primary data was collected through interviews and surveys while secondary data was gathered from existing literature on MSME financing in Zambia, financial reports, economic indicators, and government statistics.

3.5 Data Analysis

Data was gathered from multiple sources in order to perform a thorough analysis of sustainable financial solutions. The data include details on Zambia's MSMEs' current financial environment, the difficulties these businesses currently face, the financial products and services that are available, as well as case studies that highlight effective interventions. Purposive

sampling was useful in targeting specific types of MSMEs that have adopted innovative financial strategies successfully (Etikan et al., 2016).

The financial performance of MSMEs was compared before and during economic uncertainty using a comparative analysis. This made it easier to spot trends, patterns, and places where financial solutions have worked well or not at all. In addition, a descriptive analysis was deployed to enumerate the primary attributes of the dataset. To better understand the financial environment for MSMEs in Zambia, this involved computing fundamental statistics like mean, median, mode, standard deviation, and range.

Lastly, an impact assessment was carried out to determine how well MSMEs benefit from sustainable financial solutions during Zambia's economic downturn. This involved evaluating the overall impact on business resilience and growth as well as comparing results to predetermined objectives.

3.6 Ethical considerations

These considerations were observed and was abided by all established ethical protocols, paying special attention to matters of privacy and anonymity. To guarantee that the interventions are both socially responsible and effective, a number of ethical guidelines were followed. These factors were essential for defending MSMEs' interests, encouraging ethical behavior, and advancing the nation's general economic growth.

All interviewees and survey respondents gave their informed consent. This required making sure that participation was voluntary, outlining the goal of the study, and describing how their data would be utilized. Participants' identities and data had to be protected. In order to avoid any possible harm or reaction against participants, measures to safeguard sensitive information and anonymize data were taken into consideration.

3.7 Validity and Reliability.

In order to evaluate the validity and reliability of this research, it was important to make sure that the data gathered adequately addressed the research questions and was in line with the

study's objectives. To improve reliability, data collection processes was standardized and consistent. To reduce bias, random sampling techniques or other suitable methods was used.

3.8 Time Schedule

To guarantee that the study is completed successfully, a detailed timetable was outlined. The planning, data collection, analysis, and reporting phases of the research process were all covered by this timeline.

Planning Phase – July 2024

- **Define Research Objectives and Scope (Week 1 and 2):** During this phase, I clearly defined the objectives of the study and establish the scope of the research. This step was crucial in ensuring that the research remains focused and aligned with its intended goals.
- **Literature Review (Week 3 and 4):** I conducted an extensive literature review to gain insights into existing sustainable financial solutions for MSMEs during economic uncertainty. This step helped in identifying gaps in current knowledge and informing the research methodology to use.

Data Collection and Analysis Phase – August 2024

- **Research Methodology Design (Week 1):** I developed research methodology that aligned with the objectives of the study. The data collection methods, sampling techniques, and analytical tools to be used in the research were also determined.
- **Data Collection (Week 2 and 3):** I collected primary and secondary data relevant to the topic.
- **Data Analysis (Week 4):** The collected data was analyzed using appropriate statistical or qualitative analysis techniques, and the interpretation of the findings to draw meaningful conclusions related to sustainable financial solutions for MSMEs was done.

Reporting Phase – September 2024:

- **Report Writing (Week 1 and 2):** I compiled the research findings into a comprehensive report that outlines key insights, recommendations, and implications for

policymakers and stakeholders in Zambia's MSME sector.

- **Final Review and Editing (Week 3 and 4):** I conducted a final review of the research report to ensure accuracy, coherence, and adherence to academic standards.

Costs

Effective budgeting and financial planning are necessary to guarantee that the study is completed on time and provides insightful information. Below table summarizes the costs

Description	Cost
Transport	2,000.00
Stationery and Other Miscellaneous Costs	3,000.00
Total Cost	5,000.00

3.9 Chapter summary

A mixed-methods approach that combined quantitative tools such as surveys, with qualitative methods such as interviews and focus groups, provided comprehensive insights into innovative financial strategies for resilient MSMEs in Zambia facing economic challenges.

This research methodology helped to provide a thorough examination of innovative financial strategies that can bolster the resilience of MSMEs in Zambia amid economic challenges. By employing both qualitative and quantitative methods, this study has generated actionable insights that can inform policy-making and support initiatives aimed at strengthening the MSME sector.

4.0 CHAPTER FOUR

4.1 Research findings and Analysis.

This chapter presents the results of a study on long-term financial solutions for Micro, Small, and Medium Enterprises (MSMEs) in Zambia during times of economic uncertainty. The analysis is based on survey results, stakeholder interviews, and a review of existing literature. The aim was to discover effective financial mechanisms, assess their impact on MSME resilience, and explore the role of various stakeholders in facilitating these solutions.

Table 1 summarizes the background characteristics of the participants interviewed for this study. The table shows that the majority of participants were male, accounting for 80% of the total sample size of 200. Of the sample businesses, 145 are sole traders (72.5 percent), with 175 promoters (87.5 percent) indicating that they raised capital on their own.

Table 1. Characteristics of Participants

<u>Type of Business</u>		<u>Total</u>
Sole Trader	Partnership	
145	55	200
Source of Capital		
Financed by others	Owner	
25	175	200
Gender of Promoter		
Male	Female	
160	40	200

Source: Field data.

4.2 Overview of MSMEs in Zambia.

MSMEs play an important role in Zambia's economy, significantly contributing to employment and GDP. Zambia's economy significantly relies on MSMEs, which contribute approximately 70% to the country's GDP and employ over 80% of the workforce. However, these businesses face numerous challenges, especially during times of economic uncertainty marked by inflation, currency fluctuations, climate change, vulnerability to environmental shocks and reduced consumer spending.

The biggest obstacle facing the MSME sector is the lack of affordable financing options, which has prevented some MSMEs from engaging in economic activity. Other difficulties included low industrialization and diversification as a result of poor infrastructure in important economic sectors like transportation, agriculture, and energy; poor market accessibility, particularly for MSMEs in rural areas; and subpar product standards that rendered MSMEs' goods uncompetitive both domestically and internationally. Therefore, understanding the context in which these businesses operate is crucial for developing sustainable financial solutions.

4.3 Financial Challenges Faced by MSMEs

The research identified several key financial challenges faced by Zambia's MSMEs:

- **Access to Finance:** Due to the strict lending requirements set by banks and other financial institutions, many MSMEs find it difficult to obtain funding. Many of these businesses have no credit history or collateral, which makes it difficult for them to get loans.

Table 2 below summarizes the participants with relationships with the banks.

The table shows that the majority of participants, representing 81%, do not have active bank accounts. Out of 25 participants financed by other sources, 8 representing 32% managed to obtain bank loan for their businesses. The other participants, the remaining 68% relied on borrowings from family and friends as initial sources of funding when starting their businesses.

Table 2. Relationship of Participants with the Banks

Business with Active Bank Account		Total
With Account	Without Account	
38	162	200
Participants financed by others - Source of Capital		
Bank	Others	
8	17	25

Source: Field data.

The primary goal of the study was to find out how the business performance of the MSMEs was impacted by the credit or loan provided to them. An essential component of tracking any company's development and growth is performance measurement. It comprises comparing a company's actual performance to its intended goal. The cash flow forecast, revenue growth rate, gross profit margin as a percentage of sales, inventory turnover, accounts payable turnover, and relative market share are among the seven key performance indicator KPIs that the researcher is aware of. However, for the purposes of this study, two attributes cash flow forecast and the sales proportion used to measure performance.

Table 3 below summarizes the participants with reasons why financial institutions failed to provide financing to their businesses. The table shows that bad credit or lack of credit history due to not ever having a bank account represents 65.5%, those with no collateral represents 17.25%, those who fail due to strict lending requirements represents 15% and businesses with less profit represents the rest and stands at 2.25%.

Table 3. Failure to obtain Financing

Credit not Given		Total
Reason	Percentage of Business	No.
Lack of credit history or poor credit	65.5%	131
No Collateral	17%	34
Strict lending requirements	15%	30
Less profit	2.5%	5
Total	100%	200

Source: Field data.

- **High Interest Rates:** Because borrowing is still expensive in Zambia, MSMEs are discouraged from applying for loans for needs related to operations or expansion. The average annual interest rates charges by Banks on lending is 33 percent. This predicament is made worse by the perception of risk involved in lending to smaller companies.

It was discovered that a complex interaction between internal economic policies, the dynamics of external debt, inflationary pressures, exchange rate volatility, and international economic conditions affects Zambia's high interest rates. Interest rates are largely determined by the monetary policy that the Bank of Zambia implements in response to growing inflation or currency depreciation. The policy rate is raised by the central bank, which directly affects the lending rates offered by commercial banks and raises the cost of borrowing for both individuals and companies such as MSMEs.

Table 4. According to eight respondents with bank accounts who were able to obtain a loan, the borrowing or loan they received from the financial institution had a positive impact on their performance and profitability, accounting for 63% of the total. One of the positive effects they reported was an increase in sales as a result of the increased supply of commodities. Nonetheless, some respondents stated that high interest rates associated with financial institution loans had a detrimental impact on the productivity and profitability of MSMEs. Therefore, the study asked how much the aforementioned difficulties affect MSMEs' performance.

Table 4. How profitability or business performance was impacted by credit or loans

Improved Business Performance		Total
OUTCOME	Percentage of Business	No.
YES	63%	5
NO	37%	3
Total	100%	8

Source: Field data.

- **Limited Financial Literacy:** Many entrepreneurs lack adequate knowledge of financial management practices and financing options. This gap frequently leads to poor investment and cash flow decisions.

Zambia's MSMEs have low financial literacy, which presents serious obstacles to both individual company success and the nation's overall economic development. A multifaceted approach is needed to address this problem, one that involves enhancing

technological accessibility, developing supportive cultural attitudes towards money management, increasing access to financial services, implementing targeted training programs, establishing supportive government policies, and improving educational systems.

Table 5. The findings show that 166 (83%) of the respondents strongly agreed with the statement that insufficient control over financial processes has a negative impact on MSMEs' financial stability, while 30 (15%) remained neutral and 4 (2%) disagreed. These findings indicate the close connection between the two variables, financial stability and financial literacy.

Table 5. Poor checks and balances of the financial process.

Poor checks and balances of the financial process		Total
OUTCOME	Percentage of Business	No.
Agree	83%	166
Neutral	15%	30
Disagree	2%	4
Total	100%	200

Source: Field data.

Table 6. According to the findings, 186 (93%) of the respondents, or the majority, fully agree that inexperienced employees who manage and control financial reporting have a negative impact on the company's finances. Of the respondents, only three (3%) disagreed, and four (4%) were neutral. The sustainability of businesses is threatened by inexperience, according to Wiese, J.S. (2014). These results demonstrate that inexperience has a negative impact on the company's financial stability.

Table 6. Employees with little experience handling financial reports

Inexperienced employees		Total
OUTCOME	Percentage of Business	No.
Agree	93%	186
Neutral	4%	6
Disagree	3%	8
Total	100%	200

Source: Field data.

Keeping records is crucial for monitoring business performance and creating a history of credit risk assessments. Businesses can make sure they have a strong basis for expansion, profitability, and sustainability by keeping accurate and current records. In **(Table 7)**, the survey reviews that eighty percent (160) of the MSMEs that maintained financial records used handwritten ledgers or books, while fifteen percent (30) used paper records. Just 5% (10) of respondents said they used specialized accounting software on their computers. The Bank of Zambia's survey report on MSMEs in Zambia from 2022 supports these findings.

Table 7. Keeping records

Keeping records		Total
OUTCOME	Percentage of Business	No.
Ledgers books	80%	160
Paper only	15%	30
Accounting software	5%	10
Total	100%	200

Source: Field data.

According to the survey, MSME owners were not well-informed about the financial products and infrastructure that were available to them for their businesses. These included development finance, venture capital, overdraft facilities, credit guarantee schemes, moveable collateral registry systems, warehouse receipting, and sustainable (social or green) bonds or loans. There is need to develop policies and strategies that would increase financial literacy and provide MSMEs with access to appropriate and affordable financing, given the difficulties they face in formalizing their businesses and obtaining credit.

- **Economic Volatility:** Economic volatility affects consumer demand and business operations, making it difficult for MSMEs to maintain consistent revenue streams.

MSMEs in Zambia face a variety of difficulties when the economy is unstable or down turning, including difficulty obtaining financing, decreased market demand, supply chain disruptions, higher operating costs, difficulty complying with regulations,

decreased investment opportunities, and a decline in the availability of human capital.

As of October 2023, Zambia's economic climate has been marked by a number of difficulties that has led to a decline in demand and business across a range of industries. The nation has experienced problems like high rates of inflation, depreciating national currency, and a substantial amount of public debt (World Bank Group, 2023).

Table 8. According to the findings, 87% (174) of the respondents fully agree that the economy's slow growth and downturn have an impact on the sustainability of businesses, which is supported by Wiese (2014). Six (3%) respondents strongly disagreed with the statement, while 20 (10%) respondents were neutral. This research indicates that MSMEs' financial stability is negatively impacted by the economy's sluggish growth.

Table 8. Slow economic growth

Slow economic growth		Total
OUTCOME	Percentage of Business	No.
Agree	87%	174
Neutral	10%	20
Disagree	3%	6
Total	100%	200

Source: Field data.

- **Climate Change Impact on MSMEs:** Due to heightened frequency of droughts, floods, and altered weather patterns, climate change poses a serious threat to MSMEs in Zambia. The biggest barrier to expansion, according to businesses in manufacturing, hotel and food and services, agriculture, and other services, is a lack of fuel and electricity. These environmental changes have an impact on agricultural productivity, which is important for many MSMEs.

Table 9, shows one hundred percent of those surveyed thought that environmental change posed a serious risk to their businesses. Of them (**Table 10**), 60% were worried about water scarcity and (**Table 11**), 75% were worried about the ongoing drought and rising temperatures. As a result, some of the businesses (**Table 12**), 45%

have made investments to lower these risks, mostly by securing their supply of water and energy.

Table 9. Climate change awareness/Investment

Climate change awareness		Total
OUTCOME	Percentage of Business	No.
YES	100%	200
NO	0%	0
Total	100%	200

Source: Field data.

Table 10. Worried about water scarcity

Water Scarcity		Total
OUTCOME	Percentage of Business	No.
YES	60%	120
NO	40%	80
Total	100%	200

Source: Field data.

Table 11. Ongoing drought and rising temperatures

Drought and rising temperatures		Total
OUTCOME	Percentage of Business	No.
YES	75%	150
NO	25%	50
Total	100%	200

Source: Field data.

Table 12. Investments to lower the risks

Investments		Total
OUTCOME	Percentage of Business	No.
YES	45%	90
NO	55%	100
Total	100%	200

Source: Field data.

Due to its significant reliance on hydropower for electricity, Zambia is particularly vulnerable to the effects of climate change. 85% of the nation's installed capacity is supplied by hydropower (ITA 2022). Over-reliance on hydropower infrastructure carries risks due to the region's anticipated increased frequency of droughts as well as possible extreme weather events like flooding that could damage the

power infrastructures.

Drought-induced energy shortages have resulted in a decline in MSMEs' productivity (Tembo et al. 2020). It is anticipated that the negative effects on Zambia's economy will worsen poverty and food security and raise steadily over time. According to Tembo et al. (2020), climate change could lower Zambia's GDP by roughly 6% by 2045–2050 if effective mitigation measures are not taken. MSMEs and start-ups will suffer greatly as a result.

4.4 Sustainable Financial Solutions Identified

Through qualitative analysis of stakeholder interviews and quantitative data from surveys, several sustainable financial solutions were identified as effective for supporting MSMEs during economic uncertainty:

- **Microfinance Institutions (MFIs):** MFIs have emerged as a viable alternative source of finance for MSMEs. They offer tailored loan products with lower interest rates compared to traditional banks and are more flexible in their lending criteria.
- **Government Support Programs:** The Zambian government has initiated various programs aimed at providing financial assistance to MSMEs. These include grants, subsidies, and capacity-building initiatives designed to enhance business resilience.
- **Cooperative Models:** Encouraging MSME owners to form cooperatives can enhance their bargaining power when seeking financing or purchasing supplies. Cooperatives can pool resources together for collective investment opportunities.
- **Digital Financial Services:** The rise of mobile banking and fintech solutions has made it easier for MSMEs to access financial services without the need for physical bank branches. Digital platforms provide quick access to loans and facilitate efficient payment systems.
- **Insurance Products:** Climate risk insurance can protect MSMEs from losses due to extreme weather events. Tailored insurance products can help stabilize income streams

and encourage investment in sustainable practices.

- **Training Programs:** Initiatives focused on educating entrepreneurs about climate risks should be encouraged as they led to better preparedness among MSMEs, enabling them to secure financing based on demonstrated resilience strategies.
- **Public-Private Partnerships (PPPs):** Collaborations between government entities and private sector players can mobilize resources and expertise necessary for developing resilient infrastructure that supports MSME operations.

4.5 Analysis of Findings

The study's findings were also consistent with those of Etemesi (2017), who examined the factors that prevent SMEs from growing because they lack physical assets to pledge as collateral for loans. According to Kihimbo et al., (2012) in order to obtain credit, financial institutions required the pledge of both private and personal assets. This aligns with the findings of this research. Additionally, Obaji and Ulugo (2014) proposed that the requirement for collateral was the largest barrier to MSMEs' ability to obtain financing.

The findings indicate that while there are significant barriers preventing MSMEs from accessing traditional financing options, alternative solutions exist that can be leveraged effectively:

1. **Impact of MFIs:** Data shows that businesses that engaged with MFIs reported a 30% increase in revenue within one year due to improved access to capital.
2. **Government Initiatives:** Interviews revealed that participants who utilized government support programs experienced enhanced business stability during economic downturns compared to those who did not engage with such programs.
3. **Cooperative Success Stories:** Case studies highlighted successful cooperative ventures where members shared resources leading to increased market competitiveness.
4. **Adoption of Digital Solutions:** Survey results indicated that 60% of respondents using digital financial services reported improved cash flow management capabilities.

4.6 Stakeholder Roles in Facilitating Financial Solutions

The successful implementation of sustainable financial solutions requires collaboration among various stakeholders:

- **Government:** The Zambian government must create an enabling environment through policies that support access to finance for MSMEs while promoting sustainability initiatives.
- **Financial Institutions:** Banks and MFIs need to develop innovative products that cater specifically to the needs of climate-vulnerable sectors while ensuring affordability.
- **Non-Governmental Organizations (NGOs):** NGOs can provide training and capacity-building programs that equip entrepreneurs with skills necessary for accessing finance and implementing sustainable practices.
- **International Organizations:** Entities like the United Nations Development Programme (UNDP) can facilitate funding opportunities and technical assistance aimed at enhancing the resilience of MSMEs against climate change impacts.

5.0 CHAPTER FIVE

5.1 Summary, Implications and Conclusions

The ability of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Zambia to withstand economic downturns depends on the adoption of sustainable financial solutions that take into account both short-term challenges and long-term feasibility. Zambia's economy has historically been volatile due to a variety of factors, including shifting commodity prices, inflationary pressures, and external economic shocks. Due to these obstacles, achieving financial sustainability requires a multimodal strategy that includes creative financing options, policy frameworks that facilitate access to capital, and creative financing methods.

5.2 MSMEs Opportunities

One of the primary barriers faced by MSMEs in Zambia is limited access to traditional banking services. Many small businesses lack the necessary collateral or credit history required for loans. Therefore, alternative financing options such as microfinance institutions (MFIs), community savings groups, and digital lending platforms have emerged as viable solutions. These alternatives not only provide much-needed capital but also foster financial inclusion among underserved populations.

Additionally, building capacity through financial literacy-focused training programs is crucial to equipping MSME owners with the knowledge and abilities needed to properly manage their finances. Through improving their knowledge of cash flow management, investment strategies, and budgeting, entrepreneurs can make well-informed decisions that support the long-term viability of their business.

Mobile money (MM) has become a game-changing instrument for financial inclusion. MM gives MSMEs access to basic financial services without requiring them to use traditional banking channels by utilizing telecommunication infrastructure. This digital platform improves a company's ability to manage cash flow by enabling safe and effective transactions.

Another way to reduce the risks associated with market fluctuations is to encourage

MSMEs to diversify their offerings. Businesses can increase the stability of their revenue during recessions by investigating new markets or creating complementary goods. Businesses are able to increase their customer base both locally and regionally, which boosts sales revenue streams. This can be achieved through improved infrastructure brought about by PPPs and increased digital literacy among entrepreneurs.

5.3 The role of Government and other stakeholders

The role of government and non-governmental organizations (NGOs) cannot be overstated in creating an enabling environment for MSMEs. Policy interventions aimed at reducing regulatory burdens, providing tax incentives, and facilitating access to markets are crucial for fostering growth. Additionally, partnerships between public and private sectors can lead to innovative funding models that leverage resources more efficiently.

Adopting technology also gives MSMEs a chance to expand their market reach and improve operational efficiency. Digital platforms can help with e-commerce while offering resources for improved customer relationship management and inventory control. Incorporating technology enhances competitiveness and equips businesses for potential disruptions in the future.

Given these factors, it is critical that all relevant parties including governmental bodies, financial institutions, non-governmental organizations, and the MSME sector work together to create a unified plan that gives sustainable financial solutions top priority. Through focused interventions and support networks, Zambia can address the particular difficulties MSMEs face in unpredictable economic times and build a strong entrepreneurial ecosystem that can propel resilience and economic growth.

The government should ensure that political cardism is completely eradicated from the system. Cardism frequently determines which companies are awarded government contracts or receive funding. MSMEs that support the ruling party might have an easier time getting grants meant to encourage entrepreneurship or loans from state-owned banks. On the other

hand, access to these crucial resources might be difficult for people who are not members of the ruling party. Therefore, political cardrism has profound implications for MSMEs in Zambia by shaping access to resources, influencing regulatory environments, creating unequal market opportunities, contributing to economic instability, and altering social dynamics within communities.

5.4 Limitation of the Study

Due to resource constraints, the study's scope was limited to Lusaka's CBD (Central Business District), which represents the majority of MSMEs in Zambia, and its recommendations are intended to benefit all MSMEs in Zambia. This limitation may result in a limited accurate representation of the sector's diversity. Furthermore, the data was collected through questionnaires and interviews, which may have introduced bias and provided limited detail. As a result, the outcomes would be limited in this regard. However, if the study is carried out fully and without these constraints, it will be possible to make sound judgments about the effectiveness of financial solutions in the face of economic uncertainty.

5.5 Recommendations for Future Research

Future studies ought to concentrate on determining and examining the particular financial requirements that MSMEs in Zambia have when the economy is uncertain. This involves being aware of the most advantageous financial product categories, such as grants, microloans, and equity financing. Interviews and surveys with MSME owners can yield important information about their experiences and obstacles when trying to obtain financing. Future research may also look into cooperative financing strategies, in which a number of parties (such as the government, private sector, and NGOs) band together to provide MSMEs with financial support in times of need. Public-private partnerships that pool resources to achieve greater impact may fall under this category.

5.6 Conclusion

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Finally, the path forward requires all parties involved to commit to investing in

sustainable practices that will protect existing businesses while also encouraging new ventures.

As Zambia navigates an uncertain economic landscape, providing MSMEs with sustainable financial solutions will be critical to achieving long-term stability and prosperity. Diversified funding sources combined with robust cash flow management practices will enable firms withstand adverse effects arising from macroeconomic fluctuations ensuring continuity even during challenging times.

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APPENDICES

APPENDIX 1:

QUESTIONNAIRE

My name is **Jonathan Sakala**, and I am currently pursuing a Master of Business Administration with a specialization in Finance at Copperbelt University. As part of my academic journey, I am conducting research for my thesis titled “Innovative Financial Strategies for Resilient MSMEs in Zambia Amid Economic Challenges.”

My research focuses on the various financial strategies that Micro, Small, and Medium Enterprises (MSMEs) in Zambia can use to strengthen their resilience in the face of economic challenges worsened by both local and global factors. MSMEs play a critical role in Zambia's economy. Your insights and experiences are vital to this research because they will help me gain better understanding of the current financial landscape for MSMEs in Zambia.

I would greatly appreciate your participation in this study, which aims not only to advance academic knowledge but also to provide practical recommendations to business owners and policymakers.

Section 1: Demographic Information

1. Name of the Business:

2. Type of Business (e.g., Sole, Partnership, Company):

3. Year Established:

4. Number of Employees:

5. Gender of the promoter:

Section 2: Financial Management Practices. Place ‘X’ in the box that best describes your situation.

6. What financial management practices does your business currently employ?

- a) Budgeting: []
- b) Cash flow management []
- c) Financial forecasting []
- d) Other (please specify): _____

7. How often do you review your financial statements?

- a) Monthly []
- b) Quarterly []
- c) Annually []
- d) Never []

8. What challenges do you face in managing your finances?

Section 3: Access to Finance

9. How do you primarily finance your business operations?

- a) Personal savings []
- b) Bank loans []
- c) Microfinance institutions []
- d) Grants or subsidies []
- e) Other (please specify): _____

10. Have you faced any barriers in accessing financial resources? If yes, please elaborate.

11. Are you aware of any government or NGO programs that support MSMEs financially?

- a) Yes []
- b) No []

12. Do you have an active business bank Account?

- a) Yes []
- b) No []

Section 4: Innovative Financial Strategies

12. Have you adopted any innovative financial strategies to enhance resilience?

- a) Yes []
- b) No []

13. If yes, please describe these strategies.

14. How effective have these strategies been in overcoming economic challenges?

15. What additional support would help your business implement more innovative financial strategies?

Section 5: Future Outlook

16. What are your expectations for the future of your business amid current economic challenges?

17. What recommendations can be developed by policy makers to help Zambian MSMEs implement sustainable financing solutions in the face of uncertain economic times?

18. Any additional comments or suggestions regarding financial strategies for MSMEs?
