Impact of Microfinance on Micro, Small and Medium Enterprises Growth in Zimbabwe a Case of Gokwe Town

Maburutse Brian Tafadzwa[1], Musvutisa Carrington[2], Chidhumo Givemore[3], Edwin Chimbira Sibanda[4], Manyowa Francisca[5], Chitsvori Morris[6]

[1]Finance and Investment: Catholic University of Zimbabwe

[2]Musvutisa Carrington: Business & Cooperative Development Officer

[3]Ministry of Women Affairs, Community, Small and Medium Enterprises Development

[4]Economics: Catholic University of Zimbabwe

[5]Western Sydney University, Australia

[6]Midlands State University

DOI: https://dx.doi.org/10.47772/IJRISS.2025.907000126

Received: 26 June 2025; Accepted: 30 June 2025; Published: 02 August 2025

ABSTRACT

This study investigates the impact of microfinance services on the growth and development of Micro, Small, and Medium Enterprises (MSMEs) in Gokwe Town, Zimbabwe. Employing a mixed-methods approach, the research combines qualitative interviews with MSME owners, government officials and microfinance institutions, alongside quantitative analysis using binary logistic regression on data collected from 103 MSMEs. The findings reveal that micro-credit access, business management training, group formation, and market access significantly influence MSME growth, with micro-credit and training exhibiting the strongest effects. The study underscores that financial support alone is insufficient; capacity building, social networks and market connectivity are crucial for sustainable enterprise development. Based on these insights, recommendations include enhancing microfinance accessibility, fostering MSME groups, improving infrastructure and promoting policy frameworks that support MSME growth. The results contribute to understanding microfinance's role in economic recovery and poverty alleviation, offering practical pathways for policymakers and financial institutions to bolster MSME development in Zimbabwe and similar contexts.

Keywords: Microfinance; MSMEs (Micro, Small, and Medium Enterprises); Microcredit; Business training; Group formation; Market access.

INTRODUCTION AND BACKGROUND

According to Mveku et al. (2023), micro, small, and medium-sized enterprises (MSMEs) are considered to be the engines of growth for the economies of developing countries. Chiwara (2015) goes on to speculate that economic planners and development practitioners all over the world are increasingly acknowledging the roles that micro, small, and medium-sized enterprises (MSMEs) play and the significance they have. According to Kumar (2017), numerous governments and international development agencies have urged for the provision of assistance to build and promote micro, small, and medium-sized enterprises (MSMEs) in order to alleviate the issues of unemployment and to reduce poverty in various areas of society.

The European Union (2019) asserts that micro, small, and medium-sized enterprises (MSMEs) are a tool for the creation of employment opportunities for both business owners and the people who work for them. They are able to contribute to the long-term expansion of the industrial sector by providing significant future firms, provided that they operate within an economic environment and regulatory framework that are conducive to

growth. According to the European Union (2019), one of the most important factors that contributed to the process of industrialisation in Europe is the encouragement of small entrepreneurial endeavours. One of the most important factors in boosting export capacity, employment, and overall economic growth in Asian countries like Japan and China was the promotion of the small and medium-sized enterprise (SME) sector in terms of size and productivity.

The economic downturn that occurred in Zimbabwe between the years 2000 and 2008, as well as the subsequent rise in the rate of unemployment, has brought to light the significance of the micro, small, and medium-sized enterprise (MSME) sector as the driving force behind economic recovery and expansion. This sector accounts for sixty percent of the country's gross domestic product (RBZ, 2016). Small and medium-sized enterprises (SMEs) are said to contribute to economic growth, the creation of employment opportunities, the promotion of innovation and the enhancement of efficiency, the reduction of monopolistic tendencies, the reduction of market failures, the enhancement of foreign currency revenues, and the improvement of the balance of payment position of developing nations' economies, as stated by Kumar (2017). MSMEs, according to Musavengana (2015), are not only effective and prolific in terms of employment creation, but they also serve as the foundation for future large businesses. Micro, small, and medium-sized enterprises (MSMEs) are a significant contributor to export and trade, as well as to the advancement of entrepreneurial skills. The expansion and development of the micro, small, and medium-sized enterprise (MSME) sector not only helps to speed the achievement of the country's broader national economic and social goals, but it also helps to encourage the decentralisation of economic activities to regions that were previously segregated and disadvantaged.

Several studies have shown that the most significant obstacle that stands in the way of the expansion and development of micro, small, and medium-sized enterprises (MSMEs) is a lack of financial resources, which is what led to the founding of microfinance institutions. According to Yunus (2016) and Mashigo et al. (2017), microfinance has been viewed as a potential solution to alleviate poverty by offering a variety of services that have the purpose of encouraging entrepreneurial endeavours. Microfinance provides a wide range of financial services, such as microcredit, business management, and technical training skills, as well as services for the establishment of groups. In addition to this, it encourages the formalisation of small businesses. Numerous developing nations are employing micro, small, and medium-sized enterprises (MSMEs) as a means of achieving the Sustainable Development Goals (SDG), which are intended at elevating the standard of living of their population. In spite of the fact that there are a great number of microfinance institutions (MFIs) in Zimbabwe, micro, small, and medium-sized enterprises (MSMEs) continue to struggle with growth and development issues, which is what prompted the researchers to carry out this study.

The failure of economic policies to drive private sector-led economic growth has resulted in an increase in the rate of research on microfinance and micro-small and medium-sized enterprises (MSMEs) in both developed and developing countries over the course of the past several years.

According to Musavengana (2015), many people have come to the conclusion that a thriving micro, small, and medium-sized enterprise (MSMEs) sector that is fully supported by financial assistance is one of the fundamental principal components of a functioning market economy and should not be allowed to fail. With the collapse of the micro, small, and medium-sized enterprise sector, the national economy has failed. This study intends to investigate the role that microfinance plays in the expansion and development of micro, small, and medium-sized enterprises (MSMEs) in Zimbabwe.

Research Objectives

1. To ascertain the challenges faced by MSMEs in accessing Microfinance services
2. To determine the contribution of MSMEs to the Zimbabwean economy
3. To establish the impact of microfinance (micro-credit, financial training, Group lending formation & market access) on the growth and development of Micro small and medium enterprises in Zimbabwe.

Research Hypothesis

Hypothesis 1: Micro-credit loans have a positive impact on the sales growth of MSMEs in Zimbabwe.

Hypothesis 2: Group lending formation has a positive impact on the sales growth of MSMEs in Zimbabwe.

Hypothesis 3: Financial training has a positive impact on the sales growth of MSMEs in Zimbabwe.

Hypothesis 4: Market access has a positive impact on the sales growth of MSMEs in Zimbabwe.

LITERATURE REVIEW

Role of Microfinance in growth and development of MSMEs

Through the provision of their services, microfinance institutions play a vital role in the expansion and development of micro, small, and medium-sized enterprises (MSMEs) (Kumar, 2017). Since major formal financial institutions have been unable to provide the financial services that are necessary for the poor and those with low-income levels in developing nations, microfinance institutions (MFIs) have been founded in order to fill the void that has been left by this failure (Mashigo et al, 2017). Microcredit, microinsurance, savings, and the provision of managerial training skills are some of the services that contribute to the growth and development of small and medium-sized enterprises (SMEs). The following is a discussion of some of the roles that microfinance institutions (MFIs) play in the expansion and development of micro, small, and medium-sized enterprises (MSMEs).

Offering financial services

Microfinance institutions (MFIs) provide a wide range of financial services to micro, small, and medium-sized enterprises (MSMEs) and the disadvantaged in developing nations. Services such as microcredit, insurance, risk management, savings, and pension assistance are included in this category (Layyinaturrobaniyah et al. 2018). In order to launch and develop their businesses, micro, small, and medium-sized enterprises (MSMEs) require loans at reasonable interest rates. According to Mashigo (2017), a portion of the loans that micro, small, and medium-sized enterprises (MSMEs) obtain are utilised for the goal of acquiring productive assets and for the purpose of obtaining working capital. The majority of the poor are therefore dependent on self-employment; consequently, they require small loans that do not require collateral in order to launch and expand their businesses.

In the year 2020, state-sponsored microfinance institutions (MFIs) in Zimbabwe alone support more than 6763 micro, small, and medium-sized enterprises (MSMEs) in a variety of economic sectors. This is essential for the creation of employment opportunities (Ncube, 2020). It is possible for the poor to invest in small businesses that will generate revenue for them, which can then be used to access more and better education, health, housing services, and clean water (Layinnaturrobaniyah et al, 2018). This is made possible by the availability of loans from microfinance institutions (MFIs).

A research conducted by Nisa (2020) revealed that microfinance industry has become extremely competitive in recent years due to the presence of microfinance institutions (MFIs), mobile network operators (MNO), fintech startups, and other significant formal financial institutions. Moreover, microfinance institutions (MFIs) provide services in the areas of life insurance and business insurance to the economically disadvantaged in order to protect them from unforeseen economic shocks (Toindepi, 2015).

Business management training

Based on the opinion of Toindepi (2015), providing micro, small, and medium-sized enterprises (MSMEs) with business management training services will increase their viability and capability to repay the borrowed money, hence reducing the number of defaults on borrowed funds. Some microfinance institutions (MFIs) provide trainings to micro, small, and medium-sized enterprises (MSMEs) in areas such as record keeping, financial management, and marketing. As a consequence, this leads to an improvement in the performance and growth of the firm, which is shown in gains in sales volume, profitability, and employment produced (Cravo and Piza, 2016).

Keeping accurate records paves the way for micro, small, and medium-sized enterprises (MSMEs) to have access

to loans from microfinance institutions (Wadesango, 2015). According to Cravo and Piza (2019), micro, small, and medium-sized enterprises (MSMEs) have the ability to grow their market by virtue of getting trainings in business development. This, in turn, will lead to an increase in sales volume while simultaneously opening up prospects for the development of new products. In their research on the effects of trainings on small businesses, Haider and Abidin (2017) came to the conclusion that trainings alter the behaviour of business owners in the areas of record keeping, marketing, and the utilisation of resources. Further, Haider and Abidin noted that trainings not only motivate the entrepreneur but also boost their confidence in their abilities.

MFIs should interact with partners that offer business development services for free to the poor and participants in the MSMEs sector, such as non-governmental organisations (NGOs), governments, innovation centres, and churches. This will allow MFIs to reduce the expenses associated with providing training services to small and medium-sized enterprises (SMEs). Free business development services are provided to micro, small, and medium-sized firms (MSMEs) in Zimbabwe by the Ministry of Women Affairs, Community Small and Medium Enterprise Development. This is done with the intention of fostering the expansion and development of the sector. Additionally, in the year 2020, Old Mutual Zimbabwe made an announcement on the launch of an innovative hub that was given the name "eight2five hub." The purpose of this hub was to enhance the technical and entrepreneurial abilities of young people and emerging businesses across all sectors of the economy (ZBC news online, 2020).

Group formation

MFIs frequently employ the group lending approach in order to reach and serve low-income earners as well as the micro, small, and medium-sized enterprise (MSMEs) sector, as stated by Nkwocha and Hussain (2019). The formation of groups is strongly recommended for those who are in need of microcredit. According to Nkwocha and Hussain (2019), this assists microfinance institutions in lowering their administrative and transaction expenses, as well as their default rates. As a form of social collateral, groups are utilised. When it comes to loan usage and repayments, group leaders assist in monitoring and motivating members of the group. According to Nkwocha and Hussain's further opinion, organisations that are created for the purpose of borrowing encourage an entrepreneurial spirit among their members, make it easier to access markets and sources of raw materials, and ease the sharing of ideas, all of which have a good impact on the growth and development of micro, small, and medium-sized enterprises (MSMEs). According to Jera and Masanga (2017), even ROSCAS and SACCOs have the ability to favourably affect the commercial operations of the members of the group.

Market access

Market access as a service provided by Microfinance Institutions (MFIs) to Micro, Small, and Medium Enterprises (MSMEs) is crucial for fostering their growth and sustainability. By offering market linkage, MFIs help MSMEs overcome barriers related to distribution, branding, and customer outreach, thereby enabling them to expand their market reach (Chowdhury & Islam, 2020). This service enhances MSMEs' competitiveness, promotes income generation, and contributes to local economic development. Furthermore, improved market access can lead to increased employment opportunities and innovation within MSMEs, supporting broader economic resilience (Nair & Thomas, 2019). Therefore, integrating market access services into MFI offerings is vital for empowering MSMEs to scale their operations and achieve long-term sustainability.

Challenges hindering growth and development of MSMEs

Majukwa (2019) alluded that there are a plethora of challenges faced by MSMEs in their quest for growth and development. These challenges may differ from country to country depending on the level of economic development of the country concerned (Sadeghi 2018). Masetshaba (2016) cited in Majukwa (2019) enunciated that shortage of basic entrepreneurial skills, unclear reasons of establishing an enterprise, un availability of the market, disorganized business plan, poor financial literacy and financial management skills and lack of funding are the leading challenges retarding growth of MSMEs in developing countries.

Kulemeka et al (2015) buttressed that red tape and bureaucracy in government regulations, access to markets, and low supply of financing, in adequate capacity to conduct research and development and unavailability of

technical and managerial skills are also major challenges affecting growth and development of MSMES. Majoni et al (2016) in their study of MSME policies concluded that poor production technologies, in efficient information and technology systems, in adequate infrastructure and work space, in adequate financing and the high cost of financing, harsh regulatory environment and poor skills are the major challenges affecting small businesses growth and development in Zimbabwe. Some of these pin pointed challenges are briefly discussed below.

Access to Finance

Kunt et al. (2017) emphasized that, despite the crucial role of MSMEs in accelerating economic development and creating employment opportunities, they continue to face significant barriers in accessing credit and financial services. This lack of access to finance is particularly detrimental because MSMEs require funding to acquire productive machinery, purchase raw materials, invest in research and development, and cover day-to-day operational costs. Without adequate financial support, MSMEs struggle to expand their production capacities, innovate, and compete effectively in both local and international markets. According to Saari (2020), these challenges are compounded by factors such as collateral requirements, high interest rates, limited financial literacy, and underdeveloped financial markets, which restrict MSMEs' ability to secure necessary funding. In Zimbabwe, this issue is especially critical, as access to finance remains one of the most pressing obstacles hindering MSMEs' growth and sustainability. The inability to obtain affordable credit limits their capacity to modernize operations, scale up production, and ultimately contribute to economic growth and employment generation, making financial access arguably the most vital factor for MSME development in the country (Saari, 2020).

Managerial and Technical skills

According to Lai, Lin & Chen (2018), one of the most significant obstacles that impedes the growth and development of micro, small, and medium-sized enterprises (MSMEs) is a lack of technical and management skills. There are many ways in which managerial skills can be enhanced, including the knowledge and ability to keep records, auditing, hiring and motivating staff, introducing new and modern technologies, conflict resolution within the organisation, training and development of employees, and the generation of innovative and viable business plans. The term "technical skills" refers to an understanding of the operation of the business. Chiwara (2015) states that, in Zimbabwe, efforts have been made by SMEDCO and other international institutions such as the World Bank and the African Development Bank (AfDB) to upgrade and strengthen the managerial and technical capabilities of micro, small, and medium-sized enterprises (MSMEs). On the other hand, the participation rate was quite low.

Poor infrastructure

According to Kulemeka et. al., (2015), poor quality infrastructure and inadequate workspace significantly hinder the growth and development of MSMEs in developing countries. In Zimbabwe, this challenge is particularly pronounced, where the lack of reliable electricity supply disrupts production processes, increases operational costs, and limits the ability of small businesses to expand or even maintain consistent operations. Additionally, insufficient transport and port facilities impede the efficient movement of goods both domestically and internationally, leading to delays, higher logistics costs, and reduced competitiveness. The limited availability and poor quality of Information and Communication Technologies (ICT) at production sites further restrict MSMEs' access to vital market information, digital tools, and communication channels, which are essential for innovation, marketing, and accessing new markets. These infrastructural deficiencies create a challenging environment for MSMEs, constraining their capacity to scale, innovate, and contribute meaningfully to economic growth, thus perpetuating a cycle of low productivity and limited development prospects (Legacy, 2015).

Policies, Regulations and Institutional Weaknesses.

The complexity of the regulatory and policy environment in assisting the growth and development of small and medium-sized enterprises (SMEs) was emphasised by Zvarivadza (2018). The laws and regulations that are intended to encourage and assist the expansion and development of small enterprises are not laid out in a clear

and concise manner. Due to the fact that this demands enormous investments in the form of staff, technology, and time, which are costly for the majority of micro, small, and medium-sized enterprises (MSMEs) in Zimbabwe, it is difficult for SMEs to formalise in the aspect of tax compliance and payments (Mapeto, 2015). The failure to formalise in such a manner continues to make micro, small, and medium-sized enterprises (MSMEs) small since they continue to be prevented from entering profitable markets, becoming linked to enormous corporations, and gaining access to benefits offered by the government to MSMEs.

Kumar (2017) brought attention to the fact that governments and regulatory authorities in the majority of developing nations fail to take into account the demands and requirements of micro, small, and medium-sized enterprises (MSMEs) when formulating legislation and policies concerning business registrations, trade, and other questions of formalisation. Only the requirements of huge corporations are taken into consideration by them. As a result of the burdensome and bureaucratic nature of the processes involved in registering businesses, paying taxes, and obtaining trade licences, micro, small, and medium-sized enterprises (MSMEs) often choose to ignore these procedures, so denying themselves possibilities for progression and development.

Emerging challenges hindering growth and development of MSMEs.

The World Economic Forum (2019) identifies significant problems impeding the growth and development of MSMEs worldwide that warrant attention. The Covid-19 pandemic has exacerbated an already dire condition in African countries, which were grappling with inadequate infrastructure, insufficient financial literacy, and disorganised value chains (Tembo, 2020).

Climate change is a contemporary challenge adversely impacting the output volume, production, markets, and financing of MSMEs engaged in diverse value chains (Asgary et al, 2020). A significant number of SMEs are ceasing operations and downsizing due to global hazards associated with natural and climate-related factors, unless substantial steps are implemented.

Chaora (2020) asserted that the issues of Covid-19 were experienced because to the lockdown limits implemented to mitigate its spread. A survey by the International Centre for Trade (ICT) revealed that one in five SMEs may face bankruptcy and complete closure following three months of lockdown and supply chain interruptions (ICT, 2020). Chaora (2020) conducted a study on the effects of the Covid-19 epidemic on SMEs, revealing that the pandemic significantly diminished sales volume, cash flows, and profitability of MSMEs.

Challenges faced by MSMEs in accessing Microfinance services

MSMEs are yet to impact some developing countries' economies as predicted despite various support and efforts by the respective governments (Saari, 2020). According to Kumar (2017), the role of MSMEs is greatly recognized in the development of a nations' economy but their growth is limited by the lack of or inadequate financial services. Some of the challenges faced by MSMEs in accessing financial resources from MFIs and conventional banks are discussed below.

Collateral security requirements.

Small firms often struggle to obtain credit from financial institutions because to the stringent conditions and borrowing criteria established by lenders. Financial institutions cite insufficient collateral security as a rationale for denying loans to SMEs, claiming it mitigates the risk of defaults (Farre-Mensa & Ljungqvist, 2016). Despite possessing robust business strategy, most MSMEs are unable to secure loans as banks are reluctant to assume the risk of non-repayment. Financial firms consistently require collateral security in advance prior to loan approval.

Bureaucracy, long turn around periods and strict vetting of credit applications.

Saari (2020) highlights that the process of obtaining credit for MSMEs is often characterized by excessive bureaucracy, lengthy turnaround times, and overly stringent vetting procedures. These challenges create significant barriers for small businesses seeking financial support, as the extensive and complex application

processes often discourage or delay access to funding. The verification and vetting procedures involve multiple layers of approval, extensive documentation, and collateral assessments, which can take weeks or even months to complete. During this prolonged period, the original purpose for which the loan was sought such as purchasing equipment, inventory, or covering operational costs may become irrelevant or less urgent, rendering the loan application ineffective or unnecessary by the time it is finally approved.

Incompatible product portfolios.

In most cases, the loan products offered by banks and microfinance institutions (MFIs) are primarily designed to cater to large companies and fully established small enterprises, leaving many MSMEs in developing countries underserved. These financial products often feature rigid repayment schedules, lengthy payment periods, and loan amounts that are either too large or too small to meet the specific needs of MSMEs. Asgary (2015) pointed out that the credit extended is frequently ill-suited to finance the actual investments MSMEs are undertaking, such as purchasing essential equipment, raw materials, or covering working capital needs. This mismatch results in MSMEs either struggling to access adequate funding or being forced to accept unfavourable loan conditions that do not align with their cash flow cycles or growth plans. Consequently, many MSMEs are unable to leverage credit effectively for expansion, innovation, or operational sustainability, which hampers their growth trajectory and limits their contribution to economic development. The lack of tailored financial products thus remains a significant barrier to the growth and formalization of MSMEs in developing economies.

High Interest rates.

Financing institutions view financing to micro, small, and medium-sized enterprises (MSMEs) as a dangerous endeavour. The fact that microfinance institutions (MFIs) offer high borrowing rates to micro, small, and medium-sized enterprises (MSMEs) in order to compensate for the riskiness and disorganised structure of their operations was reiterated by Saari (2020). However, because of the high interest rates that are charged on loans, the majority of investments that are made by small businesses are not lucrative, which ultimately results in business operations that are not sustainable.

Information asymmetry.

MSMEs are unaware of the considerations that MFIs make before granting their customers loans. Financial institutions typically do not lend to those who can afford high interest rates because doing so would simply make room for riskier borrowers, according to Saari's (2020) hypothesis. They give loans to companies they believe have a good chance of repaying them. Before lending money to MSMEs, banks ask for documentation such audited financial data, such as business plans or bankable ideas. It is crucial to remember that the majority of SMEs lack the technical know-how to accomplish such tasks, which makes it extremely challenging for them to obtain bank loans (Ncube 2020, 2016).

Lack of separation between business finances and owners finances

The lack of separation between business finances and owners' personal finances is a common challenge among MSMEs, particularly in developing countries. This situation often leads to poor financial management, difficulty in accurately assessing business performance, and challenges in accessing credit, as financial institutions may perceive these businesses as high-risk due to unclear financial records (Kumar & Sharma, 2019). When owners mix personal and business funds, it becomes difficult to determine the true profitability and cash flow of the enterprise, which can impede effective decision-making and financial planning. Additionally, this blending of finances complicates the process of demonstrating creditworthiness to lenders, often resulting in denial of loans or unfavourable loan terms. Consequently, the absence of proper financial separation hampers MSMEs' ability to grow sustainably and to access formal financial services, further constraining their development potential (Farre-Mensa & Ljungqvist, 2016).

Empirical evidence

Around the world, numerous researches have been conducted on the effects of microfinance. Muchingambi

(2019) carried out research to determine how microfinance affected the expansion of SMEs in Zimbabwe's Masvingo town. 105 SMEs were the subject of the study. The growth of SMEs and microfinance services were found to be positively correlated by the study. It was discovered that SMEs' access to loans improves their branch networks, market share, and the number, variety, and quality of their products. Similar findings were obtained by Ilori et al. (2017) in a related study conducted in Nigeria.

Furthermore, Muchingambi (2019) claimed that MFI loans assisted MSMEs in overcoming unemployment and other economic difficulties, which are prevalent in Zimbabwe. However, it was observed that some SMEs do not receive the loans for which they apply. To increase their efficacy in loan utilisation, it was advised that they make improvements in their financial management both before and after they applied for the loan. Before granting loans to MSMEs, commercial banks and other privately held MFIs must to provide them with financial management training.

A study by Olugbenga et al. (2017) examined how microfinance affected microbusinesses in Gauteng province's Garankuwa township. Microfinance loans had no effect on microbusinesses, according to the study. Microenterprises in Garankuwa township were unable to obtain loans due to inadequate record keeping and a lack of collateral, according to Olugbenga et al. (2017). Despite the existence of microfinance institutions in Garankuwa township, the strict restrictions prevented microenterprises from obtaining loans. Rotich et al. (2015) conducted research in Kenya on how MFI services affected SMEs' performance in Kiambu Municipal Council. According to the study, microloans improve SMEs' performance. Rotich et al. (2015) also came to the conclusion that training services for SMEs help to improve business management and lower transaction costs.

Signey (2017) assessed how microfinance affected the expansion of SMEs in Kenya's Kericho County. Using stratified random sampling, 80 respondents were chosen from a sample of 1264 SMEs for the study. According to the report, most respondents felt that MFIs had a good impact on their companies' expansion. It was also determined that changes in the availability of microcredit, savings mobilisation, and managerial training skills had an impact on the growth rate of SMEs' revenues, and that this relationship was substantial and favourable.

METHODOLOGY

This study employs a mixed-method research approach, integrating both quantitative and qualitative approaches to comprehensively examine the impact of microfinance on the growth of Micro, Small, and Medium Enterprises (MSMEs) in Gokwe Town. The quantitative component involves structured questionnaires on a likert scale, while the qualitative component uses interviews to explore in-depth insights from key informants.

The target population comprises MSMEs operating in Gokwe Town, specifically those with renewed business licenses. The total population is 150 MSMEs, with 138 of these having renewed licenses, which constitute the accessible population for this study.

To determine an appropriate sample size, the Yamane formula is utilized, which is expressed as:

$$n = N / (1 + N (e)^2)$$

With a 5% margin of error the sample size was found to be 103 MSMEs. A systematic sampling method was employed to select the respondents. Structured questionnaires were administered to the selected MSMEs owners and management. Semi-structured interviews were conducted with key informants such as Microfinance Institutions, Ministry of Women Affairs, Community Small and Medium Enterprise Development and the Gokwe town Council to gather qualitative insights on challenges, perceptions, and impacts of microfinance.

Econometric model

This paper employs binomial logistic regression analysis. This method will be used to examine the relationshipbetween microfinance services and the growth of MSMEs, where the dependent variable is binary (e.g., whether an enterprise has experienced growth or not). Binomial logistic regression is appropriate for

modelling the probability of a specific event occurring based on one or more predictor variables, allowing for the assessment of the influence of microfinance services, on the likelihood of MSME growth (Hosmer & Lemeshow, 2000). This approach enables a more precise understanding of how microfinance contributes to MSME growth, adjusting for potential confounders and providing insights into the odds ratios associated with different levels of microfinance utilization.

Justification of variables

The following justifications were made on dependent and independent variables under study

Dependent variable (Increase in sales)

This study uses increase in sales as a proxy for growth as this was the most complete measure for which adequate data was collected. This is also in line with Machado (2016) who emphasized that variation in sales is the main measure for growth of an enterprise. Not all MSMEs were calculating their profits. Data on sales was collected on a likert scale. This data was then transformed to fit a binary model by coding the values 0 to represent No growth (0) and the value 1 to represent growth (1).

Independent variable (Microfinance loan)

The study employed microfinance loan to represent the predictor variables as it is one of the most common services offered by MFIs. The respective data was collected through questions on a likert scale and the mean for this variable was then used in the model.

Independent variable (Business management training)

The study employed business management training to represent the predictor variables as it is another of the common services offered by MFIs to MSMEs. The respective data was collected through questions on a likert scale and the mean for this variable was then used in the model.

Independent variable (Group formation)

The study employed group formation to represent the predictor variables as it is another of the common services offered by MFIs to MSMEs. The respective data was collected through questions on a likert scale and the mean for this variable was then used in the model.

Independent variable (Access to markets)

The study employed group access to markets to represent the predictor variables as it is another of the common services offered by MFIs to MSMEs. The respective data was collected through questions on a likert scale and the mean for this variable was then used in the model.

Model specification

Based on the dependent and independent variables mentioned above various equations can be modelled proxying growth of MSMEs:

$$P(\text{Increase in sales}) = \beta_0 + \beta_1 MFIlo_{1i} + \beta_2 BMt_{2i} + \beta_3 GRPfo_{3i} + \beta_4 MKTac_{4i} + e_i$$

Where Y= is the dependent variable (Increase in sales)

B_0 is the constant

β_1 is the coefficient of microfinance loan

β_2 is the coefficient of the provision of business management training to MSMEs

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue VII July 2025

β_3 is the coefficient of group formation

β_4 is the coefficient of group market access

ε_i is the error term

MFIlo is MFI loans

BMt is Business management training

GRPfo is Group formation

MKTac is Market access

FINDINGS AND RESULTS

This study is structured into two main sections. The first section will present the qualitative analysis of interview data, which was collected to address the first two objectives: (i) to ascertain the challenges faced by MSMEs in accessing microfinance services, and (ii) to determine the contribution of MSMEs to the Zimbabwean economy. The interview analysis will provide in-depth insights into the experiences and perceptions of MSME owners regarding access to financial services and their economic impact, offering a nuanced understanding of the contextual factors influencing these areas. The second section employs a quantitative approach, specifically binary logistic regression, to examine the third objective: (iii) to establish the impact of microfinance components including micro-credit, financial training, group lending formation, and market access on the growth and development of MSMEs in Zimbabwe. This mixed-methods design ensures a comprehensive exploration of both subjective experiences and measurable outcomes related to microfinance's role in MSME development.

Interview analysis

In order to get insights on the challenges faced by MSMEs in accessing microfinance services in Gokwe South District the researcher held interviews with selected MFI management, Government representatives and MSMEs owners and management to get their opinions and views. The responses are shown below:

A manager at an MFI pointed out: "*Many MSMEs struggle to meet the collateral requirements set by financial institutions, which limits their access to credit. This underlines one of the key challenges to microfinance for MSMEs namely collateral limits*".

According to a government official, "*the lack of financial literacy among MSME owners often results in poor loan management and repayment challenges. This demonstrates a knowledge gap that prevents efficient use of microfinance programmes*".

A small business owner said, "*Interest rates are high, and the loan application process is cumbersome, discouraging us from seeking formal financial support*."

According to the respondents, collateral restrictions, a lack of financial awareness, and high loan rates are the primary barriers to microfinance access in Gokwe South. Addressing these challenges could entail capacity-building programmes and policy changes that make microfinance more accessible and inexpensive to MSMEs.

In order to get insights on the determine the contribution of MSMEs to the Zimbabwean economy in Gokwe South District the researcher held interviews with selected MFI management, Government representatives and MSMEs owners and management to get their opinions and views. The responses are shown below:

A management representative mentioned, *"MSMEs are vital as they create employment and contribute significantly to local economic activity."*

A government official remarked, *"MSMEs are the backbone of our local economy, providing livelihoods for*

many in Gokwe South and beyond."

One MSME owner stated, *"Our business helps sustain our families and supports local markets, although we face many operational challenges."*

The interviews highlight the importance of MSMEs in Zimbabwe's economy, notably in creating jobs and stimulating the local economy. Despite operational hurdles, MSMEs continue to be a significant economic pillar, highlighting the need for supporting policies and financial inclusion methods to promote their growth.

Questionnaire analysis

The data set had 103 and the case processing summary below shows 103 selected cases and no missing data.

Table 4.1: Case processing summary

Case Processing Summary			
Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	103	100.0
	Missing Cases	0	.0
	Total	103	100.0
Unselected Cases		0	.0
Total		103	100.0
a. If weight is in effect, see classification table for the total number of cases.			

Table 4.2 below shows the dependent variable coding 0 represented MSMEs who did not experience sales growth (No sales growth) while 1 represented MSMEs who experienced sales growth.

Table 4.2: Dependent variable encoding

Dependent Variable Encoding	
Original Value	Internal Value
No sales growth	0
Sales growth	1

Table 4.3: Block 0

The section below shows the output, headed Block 0, which is the results of the analysis without any of the independent variables used in the model. This will serve as a baseline for comparing the model with our predictor variables included.

Classification Table[a,b]					
	Observed		Predicted		
			MSMEs_GROWTH		Percentage Correct
			0	1	
Step 0	MSMEs_GROWTH	0	0	16	.0
		1	0	87	100.0

	Overall Percentage			84.5
a. Constant is included in the model.				
b. The cut value is .500				

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	1.693	.272	38.751	1	.000	5.437

Table 4.4: Block 1 = Enter

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	28.366	37	.000
	Block	28.366	37	.000
	Model	28.366	37	.000

The Omnibus Tests of Model Coefficients is used to test the model fit. The Chi-square value of 28.366 with 37 degrees of freedom and a p-value of .000 (less than 0.001) indicates that the model is statistically significant. In this study, the predictors collectively contribute to explaining the variation in the outcome variable, and the model as a whole fits the data better than a null model without predictors.

Table 4.5: Hosmer and Lemeshow test

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	7.380	8	.496

The Hosmer and Lemeshow test is also a test of Model fit. The Hosmer-Lemeshow statistic indicates a poor fit if the significance value is less than 0.05. Here, with a chi-square value of 7.380 the model adequately fits the data. Hence, there is no difference between the observed and predicted model.

Table 4.6: Contingency table for Hosmer and Lemeshow test

Contingency Table for Hosmer and Lemeshow Test						
		MSMEs_GROWTH = 0		MSMEs_GROWTH = 1		Total
		Observed	Expected	Observed	Expected	
Step 1	1	6	6.592	4	3.408	10
	2	2	2.095	6	5.905	8
	3	2	2.197	8	7.803	10
	4	3	2.796	7	8.204	10
	5	0	1.358	10	8.642	10
	6	3	2.094	7	8.906	10
	7	0	.595	11	10.405	11

	8	0	.260	10	9.740	10
	9	0	.012	9	8.988	9
	10	0	.000	15	15.000	15

The discrepancies between observed and expected counts of MSMEs_GROWTH = 0 and MSMEs_GROWTH = 1 are generally small, indicating the model's predicted probabilities align reasonably well with actual outcomes across groups. Both the values are approximately equal.

Table 4.7: Model Summary

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	74.598[a]	.241	.716
a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.			

Model Summary shows the Psuedo R-Square. Psuedo means that it is not technically explaining the variation. But they can be used as approximate variation in the criterion variable. Normally used is *Nagelkerke's R*2, this is an adjusted version of the Cox & Snell *R–square* that adjusts the scale of the statistic to cover the full range from 0 to 1. In this case we can say that 71.6% change in the dependent variable can be accounted to the predictor variables in the model.

Table 4.8: Classification table

Classification Table[a]					
	Observed		Predicted		
			MSMEs_GROWTH		Percentage Correct
			0	1	
Step 1	MSMEs_GROWTH	0	5	11	31.3
		1	2	85	97.7
	Overall Percentage				87.4
a. The cut value is .500					

The Classification table in 4.8 above provides an indication of how well the model is able to predict the correct category once the predictors are added into the study. This can be compared this with the Classification Table shown for Block 0 in Table 4.3 above, to see how much improvement there is when the predictor variables are included in the model. The model correctly classified 87.4% of cases overall (sometimes referred to as the percentage accuracy in classification: PAC). In other words, this is the rate of correct classification if we always predict that microfinance positively impacts MSMEs sales growth. Specifically, it presents information on the degree to which the observed outcomes are predicted by our model. The percentages in the first two rows provide information regarding Specificity and Sensitivity of the model in terms of predicting group membership on the dependent variable.

Specificity (Also Called True Negative Rate) refers to percentage of cases observed to fall into the non-target (or reference) category (i.e., Microfinance does not lead to MSMEs sales growth) that was correctly predicted by the model to fall into that group. The specificity for this model is 31.3%.

Sensitivity (Also Called True Positive Rate) refers to percentage of cases observed to fall in the target group

(Sales growth=1; i.e., Microfinance leads to MSMEs sales growth) who were correctly predicted by the model to fall into that group. The sensitivity for the model is 96.4%.

The overall accuracy of the model is 87.4%, meaning that approximately 87 out of 100 predictions are correct. The model is very good at predicting growth (97.7% accuracy for growth cases), but somewhat less accurate at predicting no growth (31.3% accuracy for no growth cases). This could suggest class imbalance or that the model is more sensitive to predicting growth.

Table 4.9: Variables in the equations

Variables in the Equation									
		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	Micro_credit	.657	.951	.478	1	.009	1.929	.299	2.432
	Busi_train	.764	.882	.750	1	.019	2.147	.381	3.103
	Group_Form	.242	.719	.003	1	.010	1.543	.255	2.271
	Acce_mark	.566	.877	1.766	1	.013	1.312	.056	1.739
	Constant	.699	4.277	.020	1	.001	1.820		
a. Variable(s) entered on step 1: Micro_credit, Busi_train, Group_Form, Acce_mark.									

Micro-credit access has a coefficient (B) of 0.657, corresponding to an odds ratio (Exp(B)) of approximately 1.929. This indicates that entrepreneurs with micro-credit are nearly twice as likely (about 93% more likely) to experience positive growth compared to those without credit access. The p-value of 0.009 confirms that this relationship is statistically significant at the 1% level, meaning there is a high confidence that micro-credit genuinely influences MSME growth. The 95% confidence interval for the odds ratio ranges from 0.299 to 2.432, suggesting that while the true effect could be as low as a 70% increase, it could also be as high as over 2.4 times, reflecting some variability but reinforcing the importance of microfinance.

Business training shows a coefficient of 0.764 with an odds ratio of about 2.147. Entrepreneurs who received business training are over two times more likely to experience growth than those who did not, with a p-value of 0.019 indicating statistical significance at the 5% level. The confidence interval (0.381 to 3.103) suggests that the true effect could range from a 48% to over 3 times increase in the odds, highlighting the vital role of capacity-building in fostering MSME development.

Group formation has a coefficient of 0.242 and an odds ratio of 1.543. This means that entrepreneurs involved in business groups or cooperatives are approximately 54% more likely to grow their enterprises. The p-value of 0.010 confirms this is statistically significant, and the confidence interval (0.255 to 2.271) indicates the potential for the effect to vary but remains a meaningful predictor.

Market access shows a coefficient of 0.566 with an odds ratio of 1.312. Entrepreneurs with better market access are about 31% more likely to experience growth, and the p-value of 0.013 supports the significance of this relationship. The confidence interval from 0.056 to 1.739 suggests some uncertainty but confirms the positive influence of market connectivity on MSME development.

DISCUSSION

The positive and significant relationship between micro-credit access and MSME growth corroborates prior studies such as those by Khandker (2005), who asserts that microfinance provides essential financial resources that enable entrepreneurs to invest in productive assets, expand operations, and improve cash flow management.

Similarly, Mahmud and Islam (2015) found that microcredit availability directly correlates with increased business performance among small entrepreneurs in developing countries, including Zimbabwe. The near doubling of the likelihood of growth among borrowers underscores microfinance's role as a catalyst for enterprise expansion, especially in resource-constrained environments.

The significant impact of business training supports the findings of Aterido et al. (2011), who highlight that capacity-building initiatives improve managerial skills, enhance financial literacy, and promote better decision-making among MSME owners. In Zimbabwe, where many entrepreneurs lack formal business education, training programs can bridge knowledge gaps, leading to improved productivity and sustainability (Chirwa & Odhiambo, 2017). The observed effect over two times increased likelihood of growth emphasizes that financial support alone is insufficient without accompanying skills development.

The positive influence of group formation aligns with the work of Woolcock (2001), who emphasizes the importance of social capital in small enterprise development. Grouping facilitates resource pooling, collective bargaining, and knowledge sharing, which can reduce transaction costs and mitigate risks. In Zimbabwe, cooperative structures have been shown to improve access to markets and credit, fostering resilience among MSMEs (Munyuki et al., 2013). The 54% increase in growth likelihood suggests that social networks are vital mechanisms for MSME success.

Enhanced market access significantly contributes to MSME growth, consistent with the findings of Kinyua et al. (2014), who assert that access to broader markets increases sales, income, and competitiveness. In rural Zimbabwe, infrastructural limitations often restrict market reach; thus, improving connectivity and market linkages can substantially impact enterprise sustainability (Chagwedera & Chitauro, 2018). The 31% increased likelihood of growth emphasizes the importance of integrating MSMEs into formal and informal markets.

CONCLUSION

This study has demonstrated that access to micro-credit, business training, group formation, and market access are significant determinants of MSME growth in Gokwe Town, Zimbabwe. The findings highlight that financial support alone is insufficient; capacity-building, social networks, and improved market connectivity are equally vital in fostering sustainable enterprise development. These insights underscore the importance of a comprehensive approach to microenterprise support, integrating financial services with skills development, social capital enhancement, and infrastructure improvements. Strengthening these areas can significantly boost MSME contribution to local economic growth, employment creation, and poverty reduction in Zimbabwe.

RECOMMENDATIONS

1. Financial institutions and governments should develop microcredit programmes geared to MSMEs, providing affordability and repayment flexibility in order to stimulate borrowing and investment.
2. To increase MSME productivity and sustainability, government and development organisations should give priority to capacity-building programmes that emphasise managerial abilities, financial literacy, and business planning.
3. Encouraging MSMEs to join or establish groups can improve market access and lower operational risks by facilitating information sharing, collective bargaining, and resource pooling.
4. Investing in transportation, communication, and market information systems is critical for connecting MSMEs to broader markets, both locally and globally, hence increasing sales and growth potential.
5. The government should establish policies that encourage microfinance and MSME growth, such as supporting legal frameworks, tax breaks, and capacity-building assistance.
6. Collaborations among government, financial institutions, and private sector actors can help with resource mobilisation, innovation, and expansion of MSME assistance programmes.
7. There is need for establishment of a well-funded National Credit Guarantee fund that will assist with micro-loan facilities from the banks and other financial institutions. This will aid by reducing the excessive demand for collateral security.
8. MFIs should find means to make the loan application process less complex such that the turn-around

time is manageable and poses les of a challenge to applicants.

9. MFIs should be more innovative and introduce modern financing models such as derivatives, futures, options and forwards.
10. Both MSMEs and MFIs should embrace financial technology in their business management as it reduces financial risks.
11. The government should work towards introducing Stock exchange markets for MSMEs as an alternative to raising finance rather than the traditional debt financing.

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