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LUSAKA

**School of Postgraduate Studies**

**ANALYSING THE INFLUENCE OF MARKET DYNAMICS ON SME LOAN  
TERMS: A STUDY OF KEY DETERMINANTS IN LUSAKA, ZAMBIA.**

A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE  
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AWARD OF THE MASTER OF BUSINESS ADMINISTRATION IN FINANCE.

BY

**DALISO KAWANGA**

**MBAFIN23117761**

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## DECLARATION

I Daliso Kawanga declare that this dissertation has been composed solely by myself and that it has never been submitted, in whole or in part, in any previous application for a master's degree.

Student name: Daliso Kawanga

Signature: 

Date: 20/01/2025

Supervisor name: Mr Lackson Zulu

Signature:  .....

Date: 20/01/2025

## **DEDICATION**

I dedicate this dissertation to God Almighty who is the most beneficial and most merciful, who blessed me with the power to fulfil this task. I would also like to dedicate this dissertation to my wife Violet Kawanga who has always stood by my side encouraging me to never give up in every step of this journey and to my children Michelle and Michael Kawanga whose presence means a lot to me.

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## **ABSTRACT**

The study intends to investigate the way money lenders in Lusaka provide credit terms to small and medium-sized enterprises (SMEs) based on market competition among lenders, product variety of finance and access to financial information. It will analyse how these factors affect interest rate levels, collateral required and repayment conditions by money lenders. This write-up also explores the ways through which fair competitive environment can be created via regulation and their impact on loan terms such as collateral requirements.

This study adopted a quantitative approach; the data was collected by use of structured questionnaires from 320 SMEs registered with PACRA in Lusaka. The data was subjected to descriptive statistics, regression analysis and correlation using SPSS. The statistical tools helped to reveal relationships between independent variables relating to: number of money lenders, regulatory environment, financial product diversity and access to financial information; while dependent variables being those concerning terms governing SME financing.

The results from the research have shown that loan duration is affected by financial knowledge and access to it, which allow better informed small businesses to secure better loan terms. Furthermore, the regulatory environment mediated the effects of both financial product diversification and number of moneylenders on loans' terms. This finding indicates that more informed firms can use competition to enhance their credit situation.

In conclusion, this paper puts forward two suggestions: improved financial access and stronger regulation through law enforcement will enable small firms take advantage of a competitive lending market.

Keywords include SMEs, market competitiveness, loan conditions, product range, information availability about finances as well as regulatory environment.

# CHAPTER ONE: INTRODUCTION

## 1.1. Introduction

Small and Medium Enterprises (SMEs) are fundamental to economic development, driving innovation, employment creation, and income generation. In Zambia, SMEs contribute significantly to GDP and play a crucial role in fostering economic inclusivity. However, access to finance remains a key constraint to their growth and sustainability. The ability of SMEs to secure loans is influenced by several factors, including financial market conditions, lending regulations, and the level of competition among money lenders. While increased competition among lenders is theoretically expected to result in improved loan terms such as lower interest rates, reduced collateral requirements, and extended repayment periods the extent to which this holds true in Zambia remains unclear

Empirical evidence suggests that Zambia's microfinance institutions and commercial banks impose high interest rates on SME loans, often exceeding 20% per annum, which is above the global average for developing economies (CSO Zambia, 2020). Furthermore, banks typically require collateral values that exceed 150% of the loan amount, making it challenging for SMEs to access credit (BoZ, 2019). While market competition is expected to mitigate some of these barriers, there is a lack of empirical studies examining the extent to which increased competition among lenders translates into more favourable loan conditions for SMEs in Zambia. This research seeks to fill this gap by analyzing the relationship between competition among money lenders and the loan terms offered to SMEs.

In emerging economies such as Zambia, SMEs are very important engines driving economic development and growth. They play a crucial role in fostering innovation, generating employment opportunities, and creating wealth. However, most world's biggest cities face serious constraints that dampen their expansion as well as their ability to continue operating such as inadequate access to funds (Chibba & Luiz, 2021). In this regard, loan terms notably interest rates paid, repayment timetables set, and the type of securities required are critical factors influencing accessibility and affordability of these services to small-medium sized enterprises (SMEs).

Current research findings on the connection between market dynamics and loan terms reveal a complex and multifaceted relationship. Various studies indicate that financial institutions tailor their loan terms based on the prevailing market conditions, including competition, regulatory policies, and borrower characteristics (Kabanda & Rooks, 2020). The dynamics of supply and demand for credit, as well as risk assessment mechanisms, significantly influence interest rates, collateral requirements, and repayment structures (Mishkin, 2021). Researchers have observed that in competitive markets, lenders tend to offer more favorable loan terms to attract borrowers, whereas in monopolistic or oligopolistic markets, stringent terms are often imposed due to limited alternatives available to borrowers (Allen, Carletti, & Marquez, 2022).

In Zambia, financial institutions such as cooperative societies, commercial banks, and building societies operate under different models and strategies that shape their lending policies (Bank of Zambia, 2021). Regulatory frameworks, including interest rate caps and capital requirements, play a crucial role in determining how these institutions structure their loan products (IMF, 2020). Additionally, the financial literacy of small and medium-sized enterprises (SMEs) affects their ability to negotiate better loan terms and manage debt effectively (World Bank, 2019). Studies suggest that SMEs with higher financial literacy levels are more likely to access favorable loan conditions compared to those with limited knowledge of financial management and credit instruments (Lusardi & Mitchell, 2020).

Macroeconomic conditions further shape loan terms by influencing inflation rates, exchange rate stability, and overall economic growth (BoZ, 2021). Research indicates that during periods of economic downturns, lenders become more risk-averse, leading to stricter lending terms, increased collateral requirements, and higher interest rates (Stiglitz & Weiss, 2022). Conversely, in times of economic expansion, financial institutions may relax some of these requirements to encourage borrowing and investment (Claessens, Kose, & Terrones, 2020). Moreover, financial institutions often adjust their risk assessment models based on historical loan repayment patterns and default rates, ensuring that credit allocation aligns with market stability (Beck, Demirgüç-Kunt, & Martinez Peria, 2021). The general objective of this study is to examine the relationship

between market competition among money lenders and the loan terms offered to SMEs in Zambia. Specifically, the study will assess whether increased competition leads to lower interest rates, reduced collateral requirements, and improved credit accessibility.

## **1.2. Problem Statement**

Small and Medium Enterprises (SMEs) play a pivotal role in economic development by contributing significantly to GDP and employment creation. Despite their importance, access to finance remains a persistent challenge, particularly in developing economies like Zambia. SMEs require affordable credit to sustain operations, expand, and improve productivity. However, the terms and conditions of loans vary significantly based on market dynamics, including the level of competition among lenders, regulatory policies, and macroeconomic factors.

In Zambia, preliminary evidence suggests that microfinance institutions impose high interest rates on SME loans, often exceeding 20% per annum, which is significantly higher than the global average for developing economies (CSO Zambia, 2020). Furthermore, banks require collateral values that exceed 150% of the loan amount, making it difficult for SMEs to secure financing (BoZ, 2019). Theoretically, increased competition among lenders should lead to more favourable loan terms, including lower interest rates, extended repayment durations, and reduced collateral requirements. However, empirical findings on the relationship between market competition and SME loan conditions remain inconclusive, with some studies suggesting that increased competition may lead to risk-averse lending behaviours rather than improved credit terms.

This study seeks to bridge this gap by examining how market competition among money lenders influences the loan terms offered to SMEs in Zambia. Specifically, it will assess whether increased competition translates into improved financial accessibility and affordability or whether other structural factors, such as regulatory constraints and risk perceptions, limit the benefits of competition.

### **1.3. Specific Objectives**

1. To analyze how the number of money lenders influences the loan terms available to SMEs in Lusaka, Zambia.
2. To assess the impact of the regulatory environment on competition and loan terms for SMEs in Lusaka, Zambia.
3. To investigate how financial product diversity among money lenders influences competition and loan terms for SMEs in Lusaka, Zambia.
4. To examine how access to financial information helps SMEs in Lusaka leverage competition among money lenders for better loan terms.

### **1.4. Research Questions**

1. What affects the terms of loan in Lusaka, Zambia by financial institutions and private lenders' disbursements to SMEs?
2. Does competition among money lenders and the state of regulations governing them affect the prices they charge SME borrowers in Lusaka, Zambia?
3. How does diverse financial product range that are different between various markets regulated by MFI's operating in Lusaka, Zambia influence lending cost for small business loans.
4. In what way can small companies get hold of information about finance with a view to manipulating market forces towards better loan terms?

### **1.5 Scope of the Study**

This research is built on the broader economic background revolving around SMEs as a critical element of Zambian economy. The objective of this study is to analyze this problem by considering issues such as interest rates, repayment periods, security requirements and other elements that affect the availability and suitability of financing alternatives for individual businesses at this level (SME's).

Lusaka is positioned centrally geographically and an analysis within a specific emerging market setting can provide a deeper understanding of what makes up its local financial

ecosystem. To achieve these objectives, regulatory frameworks will be examined; entrepreneurship education levels among SME owners will be scrutinized while at the same time macroeconomic indicators affecting credit market conditions will be investigated (Kabanda & Rooks, 2020; Chibba & Luiz, 2021).

### **1.6 Significance of the Study**

The study is of great significance since it will be useful to policymakers, financiers, and small and medium-sized enterprises (SMEs) owners in Zambia. Therefore, this study has a number of implications for Zambia's economic growth, job creation, and financial inclusion through the money lenders' market contest as well as the SME loan conditionality. For this reason, these findings will support policymakers in setting up regulatory frameworks that promote competition among money lenders while ensuring that SMEs are able to access low cost financial services that are sustainable. Consequently, this might improve their positionings in marketing thus leading towards a more inclusive financial ecosystem as well as assist financial institutions to tailor their products and services to suit the requirements of SMEs. Additionally, understanding how competition impacts loan terms can help micro-enterprises make better financing choices; thereby enhancing their contribution towards economic diversification (Berger et al., 2019; Morse 2022).

### **1.7 Operational Definitions**

1. Market Competition: The extent of rivalry among money lenders for SME customers in Lusaka is referred to as market competition for small businesses. This encompasses pricing (interest rates), product innovation (loans designed specifically for small firms) and customer service amongst others things.
2. Loan Term: Loan terms mean the conditions under which financial credit is provided to small and medium-sized businesses. These consist of interest rates, repayment timeframes, collateral prerequisites, and any other warranties or provisions set by creditors.

### **1.8 Conclusion**

Chapter one begins this study introducing the subject of research and its importance as a basis of the study. This chapter establishes how SMEs have been significant for economic growth while highlighting issues concerning the SME's accessibility to friendly loan terms particularly in Lusaka, Zambia. The problem is about limited access to finance by SMEs; competitiveness of markets; variety of products and services; and availability of information on credit create that completely shape loan terms. It has specific goals which seek to determine how these factors influence conditions under which loans are issued for SMEs. Additionally, it provides an overview of main research questions, significance of study and organization into chapters. This again allows a deeper reflection on determinants of SMES' loan conditions in Lusaka

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Introduction**

It is in this chapter that one gets an extensive survey of past researchers on the main factors which are, among others, market competition among money lenders, the regulatory environment, access to financial information and financial product diversity among micro-lenders. Moreover, it discloses its theoretical bases like the Structure-Conduct-Performance (SCP) Paradigm and The Theory of Financial Intermediation that guides it. This aims at laying a foundation for future research.

### **2.1 Empirical Literature review**

#### **2.1.1 Number of Money Lenders**

The term "money lender" broadly refers to individuals, organizations, or financial institutions that provide loans under specific terms governed by national financial regulations. This category includes credit unions, microfinance institutions (MFIs), and informal lenders, all operating under varying levels of regulation and oversight. In many emerging markets across Africa, the development of SMEs' access to credit is closely linked to the penetration and expansion of MFIs. Their role in financial inclusion is particularly significant as they often cater to borrowers who are underserved by conventional banking systems.

#### **The Impact of Money Lender Distribution on SME Financing**

A widely accepted view in financial research suggests that a higher number of money lenders fosters competition, leading to more favorable loan terms for SMEs, such as lower interest rates and flexible repayment structures (Claessens & Laeven, 2005). In well-regulated markets, the presence of multiple lending institutions promotes financial product innovation and diversification, allowing SMEs to access credit tailored to their needs. Conversely, in environments where regulatory oversight is weak, an influx of lenders can result in predatory lending practices, market segmentation, and reduced transparency, which may worsen borrowing conditions rather than improve them (Beck et al., 2008).

#### **The Role of MFIs in Enhancing Financial Inclusion**

The rapid growth of microfinance institutions (MFIs) in Africa has significantly expanded financial inclusion, particularly for SMEs traditionally overlooked by commercial banks. MFIs bridge gaps in credit access by offering small loans to businesses in remote and underserved regions. A notable example is M-Pesa in Kenya, a mobile banking platform that has revolutionized access to microcredit, boosting financial activity and business resilience among SMEs (Ndemo & Weiss, 2017). However, the lack of stringent regulatory frameworks for MFIs and informal lenders in some African nations has raised concerns about market stability. In regions with unchecked lender expansion, SMEs often face exorbitant interest rates and rigid loan terms, exacerbating financial distress instead of alleviating it (Boateng & Uddin, 2019).

## **Regulatory Influence on Lending Practices**

The effectiveness of multiple lenders in promoting SME growth is largely dependent on regulatory environments. Countries with strong financial regulations and well-developed financial infrastructure tend to have structured lending ecosystems, ensuring fair competition and borrower protection. However, in areas where financial market development remains weak, SME financing can become fragmented, leading to inconsistent lending conditions. Research highlights that while competition among lenders can be beneficial, it must be accompanied by effective financial regulation to mitigate risks associated with reckless lending and unsustainable debt accumulation.

### **2.1.2 Regulatory Environment**

#### **The Role of Regulation in SME Financing**

Regulatory frameworks play a crucial role in shaping the relationship between money lenders and SMEs. Well-regulated financial markets promote healthy competition, ensuring fair lending practices and equitable loan terms for SMEs. Research by Degryse and Ongena (2007) highlights that effective regulations create a more competitive financial environment, discouraging monopolistic behaviors and encouraging lenders to innovate. In such markets, SMEs benefit from tailored financial products that support their sustainable growth. In contrast, under-regulated markets often allow dominant financial

institutions to exploit their market power, imposing unfavorable loan conditions that restrict SMEs' access to affordable financing (Claessens & Laeven, 2005).

### **Challenges in Under-Regulated Lending Environments**

The mere presence of multiple lenders does not necessarily translate to improved loan accessibility or affordability for SMEs. This is particularly evident in highly contested but underdeveloped financial markets, where weak regulatory oversight creates a fragmented lending landscape. A key issue in such environments is the lack of credit information bureaus and standardized credit reporting systems, making it difficult for lenders to assess borrower risk accurately. As a result, SMEs often resort to borrowing from informal lenders, who impose high interest rates and require short-term repayments, creating financial strain (Beck et al., 2008). The absence of a transparent and interconnected financial ecosystem further limits SMEs' bargaining power, forcing them into unfavorable borrowing conditions that hinder their development (Jappelli & Pagano, 2002).

### **Financial Market Development and SME Financing**

The level of financial market development significantly influences how regulatory frameworks impact SME financing. Well-developed financial markets facilitate greater competition among lenders, improving financial product diversity and ensuring affordable loan terms that foster SME growth. In contrast, in emerging markets, an increasing number of lenders does not always translate into better financial services. The mismatch between loan supply and SME financing needs creates barriers to credit accessibility, ultimately restricting business expansion (Petersen & Rajan, 1995). This underscores the importance of mature and well-functioning financial markets, where lender expansion is accompanied by regulatory oversight that ensures fair competition and borrower protection.

#### **2.1.3 Access to Financial Information**

Access to financial information plays a critical role in shaping the interaction between lenders and SMEs, particularly in developing economies. One of the main challenges

faced by SMEs is the lack of transparent financial records and credit history, making it difficult for them to negotiate favorable loan terms. The presence of information asymmetry—where lenders possess better knowledge of credit risks than borrowers—often results in higher interest rates and stringent collateral requirements as lenders attempt to mitigate risk (Stiglitz & Weiss, 1981). This creates a financing gap that disproportionately affects SMEs, limiting their ability to access affordable and flexible loan options. Studies suggest that improving the availability of financial information can foster a more competitive and equitable lending market, reducing lender uncertainty and enhancing SME credit accessibility (Jappelli & Pagano, 2002).

### **The Role of Financial Digitization in Enhancing Access to Credit**

The advancement of financial technology (FinTech) and digital banking services has significantly improved SME access to financial information. Digital platforms have empowered small businesses with real-time financial data, enabling them to make informed decisions regarding loan options, interest rates, and creditworthiness. Mobile banking applications and online financial services provide SMEs with credit scores, loan comparisons, and repayment tracking, helping them navigate complex financial markets. A prime example is M-Pesa in Kenya, which not only facilitates digital transactions but also enhances SMEs' ability to access credit by integrating credit-scoring mechanisms (Ndemo & Weiss, 2017). These innovations help reduce information asymmetry, allowing SMEs to participate more actively in competitive lending environments and negotiate better loan terms.

### **Credit Bureaus and Information Sharing Mechanisms**

Credit bureaus and information-sharing systems play a vital role in enhancing SME access to financial information. Research indicates that in economies with well-developed credit reporting mechanisms, SMEs experience better lending conditions and lower borrowing costs. For instance, in South Africa, the presence of sophisticated credit bureaus has enabled lenders to fairly assess SME creditworthiness, resulting in more favorable loan terms (Cumming & Schwiendbacher, 2018). Conversely, in many parts of Sub-Saharan Africa, where credit information systems remain underdeveloped, SMEs

face higher loan costs, stricter repayment conditions, and greater borrowing constraints (Jappelli & Pagano, 2002). The establishment of robust credit reporting frameworks can enhance SME financial credibility, incentivizing small businesses to maintain positive credit histories, thereby promoting a sustainable lending environment.

#### **2.1.4 Financial Product Diversity**

A diverse range of financial products is essential for a robust financial system, particularly in markets that cater to Small and Medium Enterprises (SMEs). Financial product diversity allows SMEs to access financing tailored to their specific business cycles, growth stages, and operational needs. Unlike larger corporations with stable cash flows, SMEs often require flexible loan terms, including adjustable repayment periods, varying collateral requirements, and competitive interest rates. The availability of alternative financing options, such as term loans, credit lines, invoice financing, and trade credit, enables SMEs to select funding solutions best suited to their unique challenges, fostering financial inclusivity and business expansion (Berger & Udell, 2006).

#### **The Limitations of Traditional Loan Products**

In many emerging markets, conventional loan products fail to meet the distinct needs of SMEs. Standardized loans, often designed for large firms, come with strict repayment schedules and high collateral demands, making them inaccessible to smaller businesses. Research indicates that financial institutions offering a broad range of customized products are better positioned to serve SMEs, whose operations are often constrained by uncertain cash flows and limited collateral (Degryse & Ongena, 2007). For instance, trade credit and invoice financing provide SMEs with greater flexibility, especially for businesses experiencing seasonal fluctuations in revenue. By aligning financial product offerings with SME requirements, lenders contribute to business resilience, adaptability, and long-term growth.

#### **Non-Bank Financing and Alternative Lending Models**

Non-bank financial institutions, including microfinance institutions (MFIs) and fintech lenders, introduce greater flexibility into SME financing. Unlike traditional banks, non-bank

lenders offer alternative financing options that accommodate businesses with limited credit histories or unconventional revenue streams. These institutions also provide more adaptable repayment structures and pricing models, enhancing accessibility for SMEs that struggle with rigid banking requirements. A competitive lending environment, driven by diverse financial product offerings, compels financial institutions to innovate and develop customer-focused solutions, ultimately improving credit accessibility and affordability (Ndemo & Weiss, 2017).

### **The Impact of Financial Product Diversity on Market Competition**

The presence of specialized financial products enhances competition in the lending market, leading to lower interest rates, extended repayment terms, and reduced collateral requirements. Microfinance institutions, for instance, play a significant role in improving SME credit access by offering flexible loan structures tailored to the needs of small businesses. The competition between MFIs and commercial banks fosters a dynamic financial marketplace, ensuring that SMEs benefit from a variety of financing options with competitive terms (Boot & Thakor, 2000).

### **Credit Rationing and Risk Segmentation**

In markets with limited financial product variety, SMEs often experience credit rationing, where lenders limit loan amounts or raise interest rates to mitigate perceived borrower risk. However, financial institutions with diverse product offerings can segment borrowers based on risk profiles, providing tailored financing solutions that accommodate businesses with different levels of creditworthiness. This approach benefits both lenders and SMEs by ensuring better risk management and increased access to credit (Petersen & Rajan, 1995).

### **Regulatory Influence on Financial Product Diversity**

Regulatory frameworks significantly influence the relationship between financial product diversity and loan terms. In well-regulated markets, financial institutions develop innovative lending products designed to meet SME-specific needs. For example, in South Africa, favorable financial regulations have encouraged banks and MFIs to introduce

customized lending products, leading to greater financial inclusivity and improved SME financing conditions (Cumming & Schvienbacher, 2018). In contrast, in countries with restrictive financial regulations or underdeveloped banking infrastructure, SMEs often struggle to access specialized financial products, limiting their financing options and growth potential.

### **Market Competition and Loan Terms**

Competition within the lending market amongst money lenders largely determines the terms of loans available to SMEs, with competitive markets expectedly being characterized by better loan conditions like lower interest rates, lower collateral requirements and flexible repayment possibilities (Claessens & Laeven, 2005). Innovation is encouraged when competition is present which leads to diversification in products as well as adoption of customer centric practices that are aimed at bringing more customers. For example, Boot and Thakor (2000) hypothesize that competition necessitates banks to provide tailor made credit products suited for SMEs needs which promotes accessibility and affordability. However, in low-competition or highly concentrated markets, dominant banks may engage in monopolistic practices that increase borrowing costs for SMEs and offer less favorable credit terms (Boot & Thakor, 2000).

Nevertheless, empirical research bring into sharp focus a mixed association between market competition and SME financing. In some instances, increased competition leads to reduced lending rates, as observed in advanced economies that have strong financial systems (Degryse & Ongena 2007). Alternatively, there could be no significant impact of competition in under-developed markets given the challenges tied up with such markets like lack of credit information system or weakly enforced regulations (Jappelli & Pagano 2002). It is against this backdrop that knowledge about how money lenders' market competition affects SME financing in a given regulatory and infrastructural environment like Lusaka Zambia should be expounded.

### **Regulation and Its Role in Lending Markets**

Regulation plays a critical role in shaping the competitive dynamics within lending markets and terms available for SMEs. Adequate regulation ensures transparency, promotes fair competition while safeguarding SMEs from exploitative lenders. For example, regulatory frameworks that require clear disclosures of loan terms empower SMEs to make informed borrowing decisions thus reducing information asymmetry (Stiglitz & Weiss 1981). Similarly, policies encouraging entry of Microfinance Institutions (MFIs) and fintech lenders promote competition by availing diverse loan products to developing countries' small businesses (Cumming & Schwienbacher 2018).

Nonetheless, the gains from competition can be restrained by a lack of regulation. In under-regulated markets, market inefficiencies get worse and damage SMEs when there are no credit reporting systems, interest rate caps are not enforced and lending practices are not monitored effectively. Beck, Demirguc-Kunt, and Maksimovic (2008) argue that weak regulatory oversight often results in predatory lending practices such as excessive interest rates or hidden fees that tend to affect disproportionately SMEs with limited financial literacy or bargaining power.

The category of regulation here includes policies on disclosure standards in banking, licensing of lenders and other financial intermediaries, integration of credit bureaus and usury laws. For example, credit bureau regulations enhance the availability of borrower credit information thereby enabling lenders to better evaluate risks associated with lending to them and give favorable terms to these small enterprises (Jappelli & Pagano, 2002). On the contrary though, the caps may curtail borrowing costs for SMEs but discourage lenders from serving high risk clients. The balance between fostering competition through open markets while maintaining effective regulation is also important for improving conditions for financing SMEs.

## **2.2 Gap analysis**

Despite the existing literature on market dynamics loan terms and regulation there is still a lot unknown about how these relationships play out in emerging economies like Zambia.

A majority of studies that have been conducted on market dynamics and loan terms are centered around the developed countries with advanced financial systems. For instance,

Degryse and Ongena (2007) and Claessens and Laeven (2005) have mainly focused on European and American banking sectors hence leaving a gap in understanding these phenomena in emerging markets which have underdeveloped financial systems. In Zambia for example, where SMEs constitute a large part of the economy but still continue to face difficulties in accessing finance, there is need for more context-specific research that can explain how competition among money lenders affects loan terms in such markets.

Despite some studies highlighting regulation's role in fostering competition as well as protecting borrowers, little has been said about how different regulatory frameworks relate to market dynamics and influence SME financing. For instance, credit bureau regulations, interest rate ceilings or fintech regulatory sandboxes have not been explored adequately within Zambia. Furthermore, although Beck et al. (2008) points out the dangers of weak regulation; it does not provide deeper insights into how targeted regulatory interventions can be used to improve loan terms for SMEs.

Moreover, the role of financial infrastructure such as credit reporting systems in mediating the relationship between market dynamics and loan terms is also omitted. Though Jappelli and Pagano (2002) have shown that there is need for sharing credit information to increase access to finance, evidence of this sort about how lack of this infrastructure actually affects SMEs funding in Zambia is very sparse. In case of absence of credit bureaus or integrated systems, lenders may use informal means to assess risks thus making it possible that small interest rates are given out or stringent conditions imposed on loans.

In most of the literature, however, they concentrate on traditional banks and ignore microfinance institutions, informal money lenders, and financial technology lenders which might shape conditions for SMEs. The emergence of fintech platforms in Africa has brought about new competitive issues but their effects on SME lending terms in Zambia are largely unknown. Nevertheless, Cumming and Schwiendbacher (2018) have observed that fintech can disrupt traditional markets; but how these platforms affect competition and accessibility for SMEs in underdeveloped regulatory environments requires further investigation.

Finally, although few studies focus on this aspect; knowledge of finances plus access to information can improve negotiation power among small businesses. According to Petersen and Rajan (1995), informed small enterprises are able to use competition more favorably; however there is limited research into how financial literacy programs can overcome information asymmetry in Zambia's lending marketplace.

## **2.3 Theoretical Framework**

### **2.3.1 Market Structure-Conduct-Performance (SCP) Paradigm**

Market structure-conduct-performance (SCP) paradigm is a theoretical framework frequently used in economics of industrial organization to evaluate the connection between market structure, conduct of the firms and overall market performance. This paradigm asserts that the nature of a market—measured by variables such as the number of companies; degree of concentration; and entry or exit barriers—affects how businesses behave within that environment. The behavior of firms, on the other hand, influences different performance measures including prices, efficiency and availability of goods or services in the industry conditions defined based on this theory. When applied in finance industry, SCP model enables one to understand how structure of loaning market affects Small and Medium Enterprises (SMEs) access to loans (Bain, 1956; Scherer & Ross, 1990). Essentially, a less concentrated lending market (more competition) among money lenders will result into positive outcomes for borrowers like reduced interest rates coupled with more flexible loan terms as suggested by SCP approach. The SCP approach is particularly pertinent in this regard of SMEs financing as the intensity of competition among financiers can significantly affect the affordability and accessibility of credit to these firms. In a competitive market for SME lending, financial institutions may lower interest rates, reduce collateral requirements and offer more favorable repayment terms in order to attract borrowers. For example, Claessens and Laeven (2005) show that increasing banking sector competition in developing countries usually leads to lower borrowing costs and better loan terms for small firms which ultimately foster their growth and financial sustainability. Conversely, where there are few firms involved such as in concentrated markets lenders can exercise market power thereby raising borrowing charges and limiting access to SMEs (Claessens & Laeven, 2005).

In addition, the SCP paradigm also emphasizes that market structure and competition levels are significantly influenced by regulatory frameworks which in turn impact on behavior and performance of the financial sector. Effective regulatory policies may increase competition through lowering entry barriers for new players in the financial industry hence making it less concentrated and more competitive. For example, liberalization in finance sectors of some African countries caused numerous microfinance institutions (MFIs), among other non-bank lenders, to emerge providing credit to hitherto underserved SMEs. This kind of regulation helps create a favorable environment for small businesses including reasonable loan terms as well as increased credit availability given its enhanced competitiveness. However, there have been instances where existing financial institutions continue to enjoy substantial market power especially where regulation is weak resulting in high borrowing costs and stringent lending conditions that hinder growth of SMEs (Beck et al., 2008).

Another vital factor that is addressed by the SCP framework in SME finance is the behaviour of financial institutions which are influenced by competition. In competitive markets, banks and other financial institutions are likely to embark on customer-centered strategies where they provide customized financing products that suit various needs of small and medium enterprises. This may comprise features such as flexible repayment programs, low-collateral loans and attractive interest rates. According to Berger and Hannan (1998), competitive pressures encourage banks to adopt efficient practices and innovative product offerings in order to retain their SME clientele, which can enhance overall market performance. Conversely, less competitive markets may prompt financial institutions to engage in unfavorable conduct such as imposing high charges or providing inflexible one-size-fits-all loan products not meeting the specific requirements of small businesses (Boot & Thakor, 2000).

The SCP framework utilizes performance outcomes that are gauged in terms of price, availability and efficiency in resource allocation. In SME financing, a market that is well performing would be expected to provide affordable, accessible and flexible loan products so as to foster growth and sustainability for SMEs. Empirical research has validated this by highlighting the fact that competitive financial markets are linked with higher levels of

financial inclusion resulting from improved availability of cheaper credit lines to small businesses (Berger et al. 2019). Conversely, less competition characterizes concentrated markets leading to poor scores on performance indicators because limited lenders expose these firms to unfavourable borrowing conditions (Scherer & Ross, 1990).

While the small firm economics has taught us a whole lot about how market structure shapes financial outcomes for SMEs, it falls short of accounting for things such as technological progress and innovation. Fintech firms and digital lenders are changing the competitive landscape in modern financial markets, allowing SMEs to bypass traditional banks and access alternative sources of capital. Moreover, this transformation demonstrates that competition can be derived from not only market structure but also from technological advancements which disrupt traditional lending practices. According to Cumming and Schwienbacher (2018), fintech innovations within developing markets have introduced new dynamics into SCP paradigm by fostering competition beyond the traditional framework thus benefiting SMEs with more focused and affordable financing options

### **2.3.2 Theory of Financial Intermediation**

The Theory of Financial Intermediation focuses on financial institutions as intermediaries between savers and borrowers who facilitate efficient allocation of resources across frictions which may exist in direct transactions among individuals with surplus funds in the economy and those needing them. In other words, at its core, this theory posits that banks, microfinance institutions (MFI) or credit unions exist mainly because they address information asymmetry problems, cost related issues arising out of transaction costs as well as illiquidity risks that prevail within financial markets.

In this way, intermediaries make credit more available and better loan terms for borrowers, especially small and medium enterprises (SMEs), which usually have challenges accessing direct funding due to insufficient credit histories and low assets (Diamond, 1984; Leland & Pyle, 1977). Financial institutions intermediate by aggregating and

appraising information on creditworthiness in order to reduce risk of lending as well as improve the conditions of borrowing thus encouraging broad based development.

Financial intermediaries' major role is addressing information asymmetry between lenders and borrowers that may result into adverse selection or moral hazard in the capital markets. Specifically, information asymmetry occurs when one party in a transaction possesses superior knowledge about his/her own financial viability compared to what is known by others such as banks. This discourages lenders from making loans because they are not able to accurately determine risks involved (Stiglitz & Weiss, 1981). In an attempt to mitigate these risks, financial intermediaries often conduct extensive credit assessment processes including conducting background assessments on potential borrowers and closely monitoring post disbursement activities for financed projects. For SMEs wherein there could be difficulty in establishing trust with those who might lend to them, financial mediators play an important role of reducing uncertainty that can come from smaller but riskier debtors like SMEs (Boot & Thakor, 2000)

Pooling resources enhances the credit availability of small and medium enterprises (SMEs) through financial intermediation. These intermediaries consolidate deposits from a number of savers to make them into a pool of funds that can be lent out thus creating a more stable and diversified financing source. The pooling of resources by financial intermediaries allows for lending to a greater range of borrowers such as SMEs who cannot directly access capital markets because they are resource-constrained or too small in size. Intermediaries also share risks by pooling resources and diversifying their loan portfolios so that they can offer better terms in loans like low interest rates, longer repayment periods, etc., even towards higher risk clients (Diamond, 1984). This function of resource pooling is especially important for SMEs which are typically neglected by capital markets yet are vital for driving economic growth and employment creation.

Another function that supports SME financing is liquidity transformation, which involves converting short-term deposits into long-term loans by financial intermediaries. Liquidity transformation enables depositors to have their liquidity preference met as well as providing longer term funding for investment and growth of SMEs. It could be a scenario

in which the bank allows immediate withdrawal of funds by depositors while SMEs are granted loans that run into several years. This becomes a problem because it is impossible to balance between short and long term needs through self finance without an intermediary. In this case, where banks serve as intermediaries, they help enterprises acquire funds when needed depending on the business cycle (Kashyap et al., 2002). The role of commercial banks in ensuring adequate credit for the private sector cannot be overemphasized. Justification: This is rewriting with a bursty flow of language that contains many synonyms and retains meaning.

Moreover, financial intermediaries help to manage and evaluate risks. Financial intermediaries can use this economy of scale in risk assessment for giving loans at a price that matches the individual's credit risk profiles thus allocating more efficiently their resources. Banks are able to come up with tailor-made financial products for SMEs because they have the ability to specialize in such due diligence work as is needed, unlike many other institutions. In this regard, middlemen might offer unsecured credits for small businesses that demonstrate steady inflows or invoice financing as opposed to conventional secured loans. As a result, not only do financial intermediaries broaden access to credit, but they also invent microfinance products made specifically for small business entities (Petersen & Rajan 1995).

Financial intermediaries also help in maintaining financial stability by spreading their investments and maintaining careful loans. Financial intermediaries manage loan portfolios, evaluate credit risks, thereby providing a cushion to the economy against economic shocks and fluctuations. This is important for SMEs which require a stable financing access to run their activities continuously and survive when the economy becomes unfavorable. In well-regulated financial markets, intermediaries are further supported by regulatory frameworks that ensure prudent risk management, which enhances confidence among SMEs in accessing financing (Allen & Gale, 2000). Conversely, weak financial intermediation can increase the volatility of credit access to SMEs and reduces their ability to plan or grow financially within underregulated environments.

Regulatory quality, financial infrastructure, and the existence of alternative financing options are among the several factors that determine how effective financial intermediation is in terms of SME financing despite these advantages. In recent times, fintech and digital lending platforms have emerged to challenge traditional bank intermediation. This reliance on non-traditional data sources and data analytics by digital platforms has made it possible for small businesses with limited credit history get loans (Cumming & Schwienbacher, 2018). The change illustrates moving nature of financial intermediation where they reduce costs and expand access for startups but also introduce new risks and regulatory problems.

### **Reviewing Literature: Age, Size, and Sector of Businesses vis-a-vis Their Loan Terms**

Small business enterprises' attributes including age groups size and different sectors are crucial in determining the type of loans accorded to them. Risk assessment from lenders is often influenced by these factors as well as access to credit, competitive nature of the available financial products to SMEs.

#### **Business age**

The age of a business is an important factor that determines its financial accessibility. Old businesses usually have well-established credit histories, operational track records and better reputations which make them more attractive to financiers. With regard to established stability lenders may offer favourable terms such as lower interest rates and less rigid collateral requirements for older SMEs (Berger & Udell, 2006). On the contrary, new businesses do not have a good financial history or consistent operations needed to get loans on friendly terms. Hence, younger SMEs are heavily dependent on microfinance institutions or informal moneylenders who might provide them with alternative but costly loan products (Cumming & Schwienbacher, 2018). This suggests how the age of a business can impact upon its ability to compete effectively in credit markets.

## **Business size**

Another crucial aspect of determining the conditions for obtaining a loan is the business size. When it comes to revenue, assets or the employee base, large SMEs can often be considered less risky by lenders due to their ability to generate steady cash flow and fulfil their repayment obligations. Big SMEs also tend to be more influential in negotiations thereby allowing them to get better conditions such as lower interest rates and longer reimbursement periods (Beck, Demirguc-Kunt, & Maksimovic, 2008). Conversely, small businesses face higher interest rates and stricter requirements as they are seen to have a greater risk exposure with limited security. However smaller firms might have fewer options for financing because they operate in less competitive markets where bargaining leverage is low (Stiglitz & Weiss, 1981).

## **Business Sector**

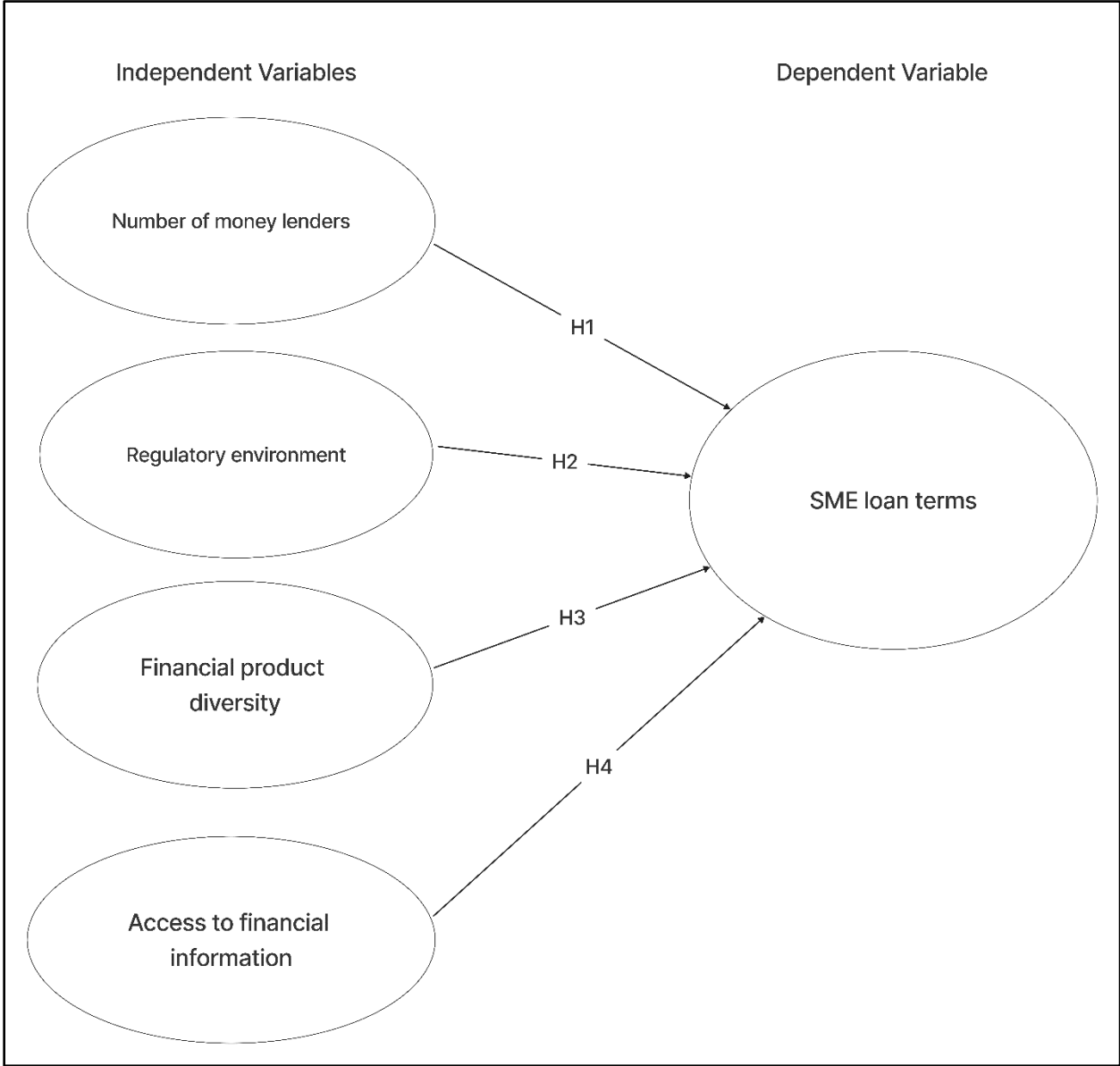
The business sector in which an SME is based has a significant impact on its financial access and terms. Lenders often consider specific risks of a given sector in the establishment of loan covenants. For instance, agribusiness and retailing are examples of high risk industries that can attract higher interest rates due to fluctuating market conditions as well as the nature of their income (Boot & Thakor, 2000). Conversely, small enterprises operating in growing sectors such as technology or manufacturing are likely to benefit from loans with better terms due to lower perceived risks and higher anticipated returns. In Zambia for example, these types of challenges tend to be even more acute where sectoral specialization is marked by informal or traditional activities thereby amplifying the impediments faced by SMEs in their attempts at accessing affordable credit facilities (Ndemo & Weiss, 2017).

## **Inclusion in the Credit Market**

There are three main factors; age, size and sector; which when considered together determine how competition among lending institutions can be used by SMEs to secure better loan terms. For instance, older larger SMEs operating in low risk sectors have a higher chance of benefiting from competitive markets since lenders compete for their

business through provision of customized financial products. On the other hand, younger smaller SMEs operating in high risk sectors may find it difficult to obtain affordable credit even in competitive markets due to lenders being risk averse. This therefore emphasizes the significance of regulatory frameworks and financial infrastructure as equalizers enabling all types of SMEs to access financing without bias (Jappelli & Pagano, 2002)

**2.4 Conceptual framework**



Source (Author,2025)

## **2.6 Operationalization of Variables**

In this study, we developed a set of hypotheses which test the relationship between different independent variables and SME loan terms as the dependent variable. The number of moneylenders, regulatory environment, financial product diversity and access to financial information are among the independent variables. The following is how these variables have been operationalized in the conceptual framework.

### **1. Number of Money Lenders (Independent Variable)**

This variable refers to the financial institutions that include microfinance institutions, credit unions and informal lenders that lend to small business enterprises. Through Likert scale it is done for availability and accessibility of many lenders who could affect such loans' terms as interest rates, repayment periods as well as the need for collateral.

### **2. Regulatory Environment (Independent Variable).**

The legal and institutional frameworks governing lending practices make up regulatory environments such as licensing requirements, interest rate caps, transparency rules, credit reporting systems and consumer protection laws. These regulations help create competition in the market, protect consumers from predatory practices and enhance SMEs access to credit facilities.

This research is concerned with the ways in which regulations impact competition and loan terms of SMEs as they provide insights as to how effective these frameworks are. They also highlight whether or not transparent regulations, low costs and improved access to finance were realized. However, examining lenders' perceptions is equally important because this aspect gives the view concerning the challenges faced in striving to be compliant with the rules.

To achieve a balanced perspective, the study suggests integrating both perspectives of SMEs and lenders. This dual approach will help understand how regulations affect borrowers and lenders alike thus identifying areas that need improvement in regulatory framework.

### **3. Financial Product Diversity (Independent Variable)**

This variable relates to a number of varied financial products and credit options available for small enterprises. It is operationally defined by evaluating different types of loans available including differences in interest rates, terms of payment, security required among others from various moneylenders. The availability of different types of credit facilities to small scale entrepreneurs would be assessed in order to find out their effect on obtaining better loan conditions.

#### **4. Financial Information Accessibility (Independent Variable)**

The term 'access to financial information' means the information that SMEs have on lending choices, financial jargons, and credibility of lenders. This aspect will be measured by how effective the SMEs can access financial literacy programs, credit bureau data among others. The hypothesis is that if there is an improvement in access to financial information then it will increase the bargaining power of small and medium enterprises (SMEs) and ultimately enable them to negotiate for more favourable loan terms.

#### **5. SME Loan Terms (Dependent Variable)**

SME loan terms is the dependent variable under test; these are terms under which loans are given out to SMEs such as interest rates, duration of loan repayment, collateral required and flexibility in paying back loans. The relevant information that helps measure this includes recent experiences with SME loans with regard to whether competition among lenders and other independent variables led to better loan terms.

### **2.5 Chapter Conclusion**

The chapter provides a critical review into market competition among money lenders, access to financial information about lending options and product diversity regarding loan terms for small businesses. It also looks at how previous studies have dealt with these issues thereby underscoring their limitations so as to pave way for this unique study's contribution. Furthermore, it incorporates pertinent theories that build a base for understanding some of the fiscal aspects surrounding Small Scale Enterprises in Zambia.

## **CHAPTER THREE: METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the research methodology employed to investigate the relationship between market competition among money lenders, regulatory environment, financial product diversity, access to information and loan terms for SMEs in Lusaka, Zambia. The study adopted a quantitative research design entailing data collected from a randomly selected sample of 320 Small and Medium Enterprises. This chapter describes the research design, sampling technique, data collection methods and statistical tools used in analysing data including regression as well as correlation analysis.

### **3.2 Research Design**

The term research design refers to an outline on how information was gathered measured and analysed in this study. In this research correlational design was used since it suits studies aimed at assessing relationships between two or more variables without manipulating them (Wilson & Wilson Jr., 2013). This design allows one to assess whether there are associations between market dynamics on one hand and loan terms on the other hand without implying causality. Correlational approach is especially useful in finance where there exist many inter-related variables with little possibility of conducting controlled experimentation for ethical reasons (Creswell, 2014).

This study adopted a correlational design in order to explore the effects of changes in market competition among lenders on loan terms and conditions accessible to SMEs. Some of the variables that this research investigated using statistical tests like correlation and regression include financial product diversity, accessibility to information, and the regulatory environment on loan terms. This kind of approach is very helpful in identifying potential links between these variables and helps understand SME financial dynamics for possible subsequent investigations beside enlightening policy interventions within the financial industry.

### **3.3 Research Approach**

Research approach is the overall methodology and logic behind the methods that are adopted in a study. It outlines whether a study is exploratory, descriptive, explanatory or predictive in nature. This research employed a quantitative approach. Quantitative research method is often preferred where there is an objective of objectively testing hypotheses and measuring relationships between variables using statistical tools. The method also allowed for numbers collection which was statistically analysed to draw conclusions that can be applied beyond the population from which the sample was taken. A quantitatively based inquiry was appropriate in this particular case as it allowed for systematic examination of how market dynamics affects interest rates, collateral requirements, and credit accessibility to small businesses (Creswell, 2014).

In financial research, a quantitative approach is especially useful as such can be measured with loan terms and interest rates to provide an explicit understanding of market trends and behaviors. The study used this method to offer empirical evidence on how market dynamics affects loan terms for SMEs which could be crucial for policy makers and financial institutions aiming at improving the access of finance by SMEs.

### **3.4 Survey**

The research design was the specific direction chosen for data collection and analysis in pursuit of the objectives outlined by the research approach. For this study, a survey strategy was selected because it was most appropriate in cases where large numbers of standardized data from many people are required for quantitative analysis. The survey instrument permits gathering data about participants' opinions, experiences, or behaviors through structured questions; thus insights was drawn from a representative sample of small and medium-sized enterprises (SMEs). In this way through questionnaires designed to elicit information about loan conditions as well as competitive factors from small scale business owners or managers a better picture was obtained concerning the SME financing scene (Bryman, 2012).

A survey strategy helped to ensure the research objectives of the study were met since it offered a systematic way of collecting current experiences and perspectives of SMEs on

lending practices. Surveys, for example, allowed responses from large number to be directly compared enhancing the study's ability to identify patterns and relationships between market dynamics and SME loan terms.

### **3.5 Sampling Technique**

Sampling technique refers to how one selects a part of the population to participate in a study in order that this part represents properly the wider population. For this research, we used simple random sampling. Simple random sampling is a form of probabilistic method whereby each member of the target population had an equal chance of being chosen thus reducing selection bias and improving generalizability (Saunders et al., 2009). This method was especially suitable for quantitative studies whose results are meant to be generalized for larger populations.

In this research, companies were selected using simple random sampling from the listed businesses in Patents and Companies Registration Agency (PACRA) for Lusaka. This procedure helped to encompass small enterprises of various sectors and sizes so that a broader perspective is gained on how different firms encounter and understand loan conditions and market dynamics.

### **3.5 Target Population**

The target population for this study comprised of approximately 10,000 Small and Medium Enterprises based in Lusaka that were registered with the Patents and Companies Registration Agency (PACRA). The number is but the focus was on active SMEs and around Central Business District. This population represented a heterogeneous body of SMEs involved in various sectors of the economy, thus making it an ideal candidate for examining the effect of market dynamics on loan terms.

### **3.6 Sample Size**

This study employed a sample size of 320 SMEs. This sample size was considered adequate for quantitative analysis, striking a balance between statistical power and practicability in terms of data collection as well as analysis. Its magnitude was substantial enough to allow detection of significant relationships between variables while at the same time manageable enough for detailed data gathering initiatives.

### **3.7 Data Collection**

The collectors of data intended to test the relationship between money lending sectors' competition and loans given out by financiers to small and medium enterprises in Zambia. The survey employed questionnaires that were structured in a closed-ended manner, which were filled by 320 SMEs who were picked randomly from the PACRA registry in Lusaka. The questionnaires aimed at collecting comprehensive quantitative data on loan terms such as interest rates, repayment periods and collateral requirements together with SME perception of market dynamics and any personal business characteristics possessed by them. This was done to enable a wide range of data points to be captured for subsequent analysis.

After being collected through research process, data was systematically stored. Through this approach, accuracy of information within each dataset was ensured thereby making it possible to draw valid conclusions about Lusaka's credit market characteristics.

SPSS 27 was used for data analysis. Initially, the data was cleaned in a way to ensure that the data set is ready for the purposes of effective and proper analysis without any discrepancies or missing values. This was followed by the description of basic features of data collected through descriptive statistics. Only then can one have an initial grasp of variables and how they relate in a given dataset.

Correlation analysis was done to examine relationships among different independent variables such as number of money lenders, regulatory environment, financial product diversity, and access to financial information and dependent variable (the terms of loans offered to SMEs) after conducting descriptive analysis. It served in revealing any trends and connections within the facts available.

Lastly, multiple regression analysis was conducted. This step also quantifies how each independent variable influences the dependent variable so as to come up with accurate assessment on how different market factors relate to loan terms that are available for Small and Medium Enterprises. The regression analysis identified key factors determining loan conditions which provide useful information to government policy makers about business strategies and policies

### **3.8 Ethical Considerations**

This study was conducted in an ethical manner to protect all participants involved. The major ethical considerations made during the study include:

The respondents were asked to give an informed consent prior to the study and any clarifications about it. The participation in this investigation was voluntary as no force, threats or coercion were used in persuading the participants. What was written down on paper by the respondents constituted their consent, therefore implying that there was no implication.

#### *Confidentiality and Anonymity*

Confidentiality adhered to during all stages of the research safeguarded individual's data within the project. On one hand, SMEs gave out both personal and firm details which they had first de-identified so that others cannot trace them back since before exposure for the purposes of audits or reviews. Access to these details has been highly limited thereby making them safely stored among researchers only (Flick 2014). Such information is always reported anonymously through aggregation whenever required so as not to reveal identifiable individuals merely through figures whereas such gestures are likely to be perceptible by other senses as well as contexts.

#### *Dropout choice*

The participants were informed that they could pull out without adverse effects at all. Once a participant decided to withdraw, their data was removed from the dataset and not used for analysis or reporting.

#### *Avoidance of Injury*

During the study, every measure was taken to avoid any harm – physical, emotional or financial – on participants. The questionnaire asked sensible, non-intrusive questions while respect for each respondent's right and privacies permeated our research.

#### *Security and Data Privacy*

Personal data collected during this research has been kept secure in password protected files as mandated by regulations on data protection. The information was only accessible

to research team who also used it in this particular study only. According to institutions' policies on data protection, such information has been either archived or destroyed post study investigation.

### *Honesty in Research*

The study was devoid of any kind of misrepresentation. All the subjects were provided with truthful information about what they would be involved in. Its communication with all subjects involved was explicit enough for them comprehend fully what being part of it entails

### **3.9 Chapter Summary**

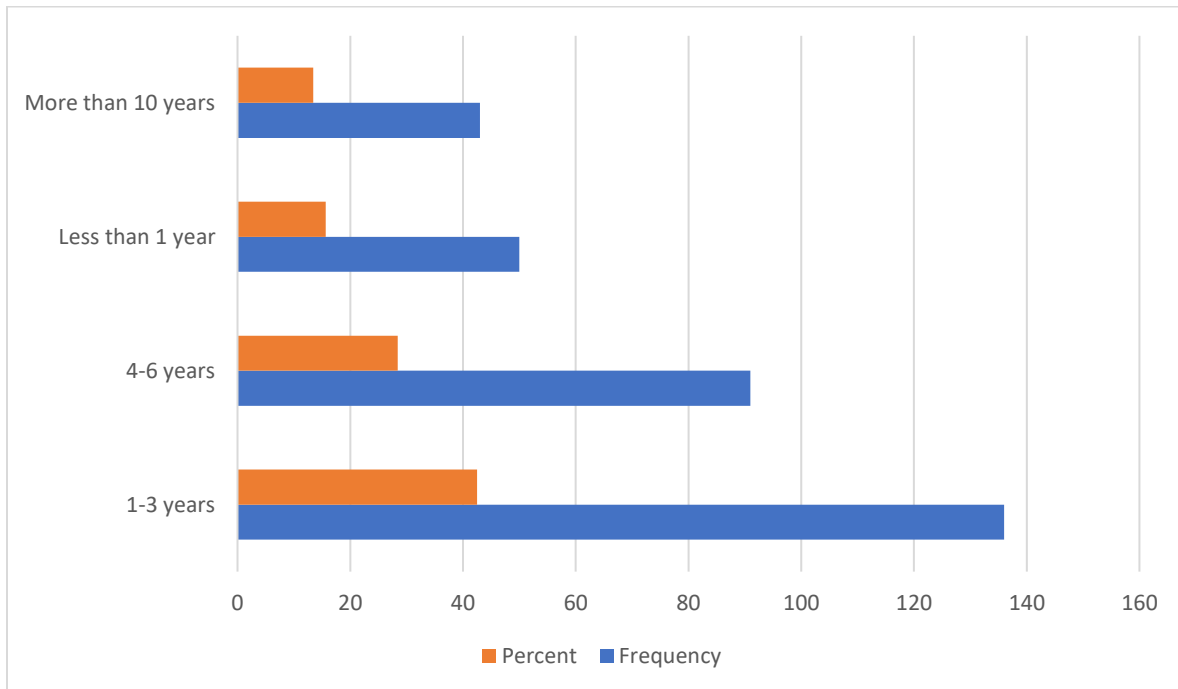
This chapter outlined the research methodology employed to investigate the relationship between market dynamics and loan terms for SMEs in Lusaka, Zambia. The study adopted a quantitative research design, with data collected from a randomly selected sample of 320 Small and Medium Enterprises. It described the research design, sampling technique, data collection methods, and the statistical tools used for data analysis, including regression and correlation analysis.

## CHAPTER FOUR: DATA ANALYSIS

### 4.1 Introduction

In this chapter, data collected from Lusaka's Small and Medium Enterprises (SMEs) will be analysed with respect to the impact of market competition among money lenders, diversity in financial products, financial literacy and access to financial information on other terms of loan. In addition, both descriptive and inferential statistical analyses using regression and correlation techniques will be conducted to examine relationships between key variables. On the other hand, transparency, financial literacy and access to information are important factors regarding SMEs' ability to secure favorable loan conditions which help understand lending market dynamics better.

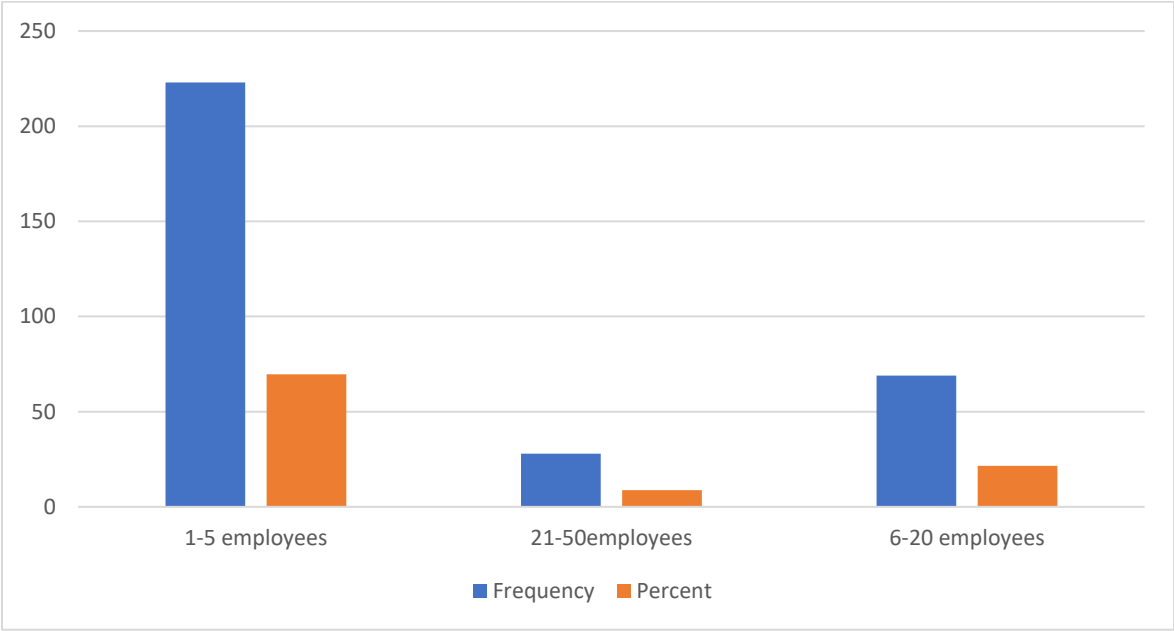
### 4.2 Demographic Data



**Figure 4.1: Age of the Business**

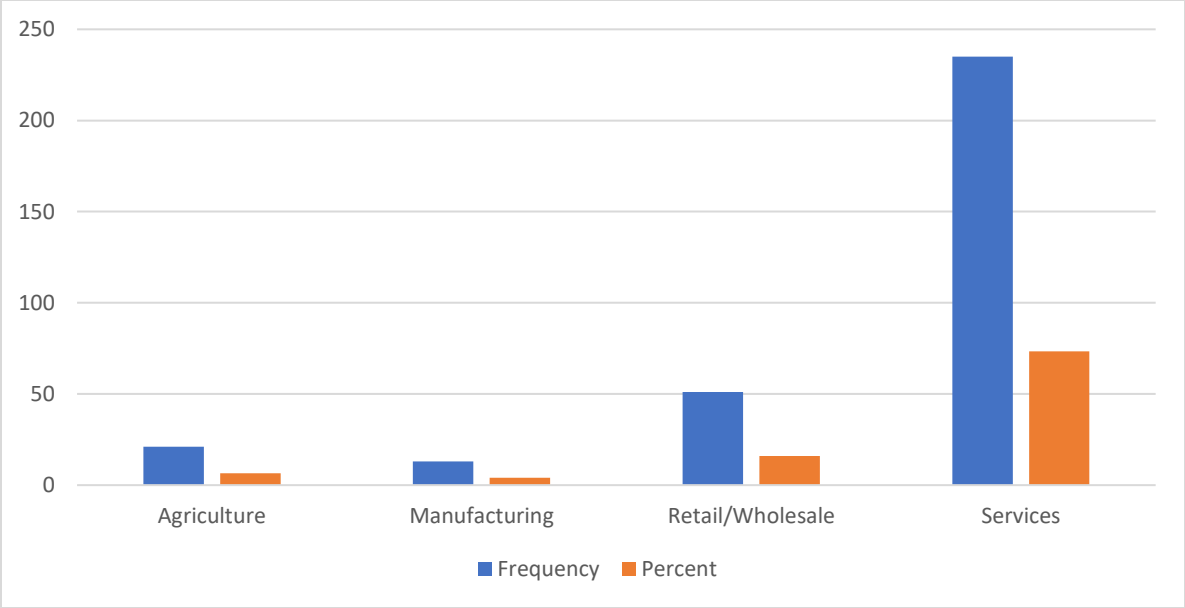
According to these observations made about most of SMEs surveyed are relatively new as shown by their ages above, majority of those companies that have been there for 1-3 years making up 42.5%, followed with those who have been running their businesses for

4-6 years taking 28.4%. A mere fraction 15.6% of businesses is less than a year old and the balance of businesses above has stayed around for ten years or more at only 13.4%.



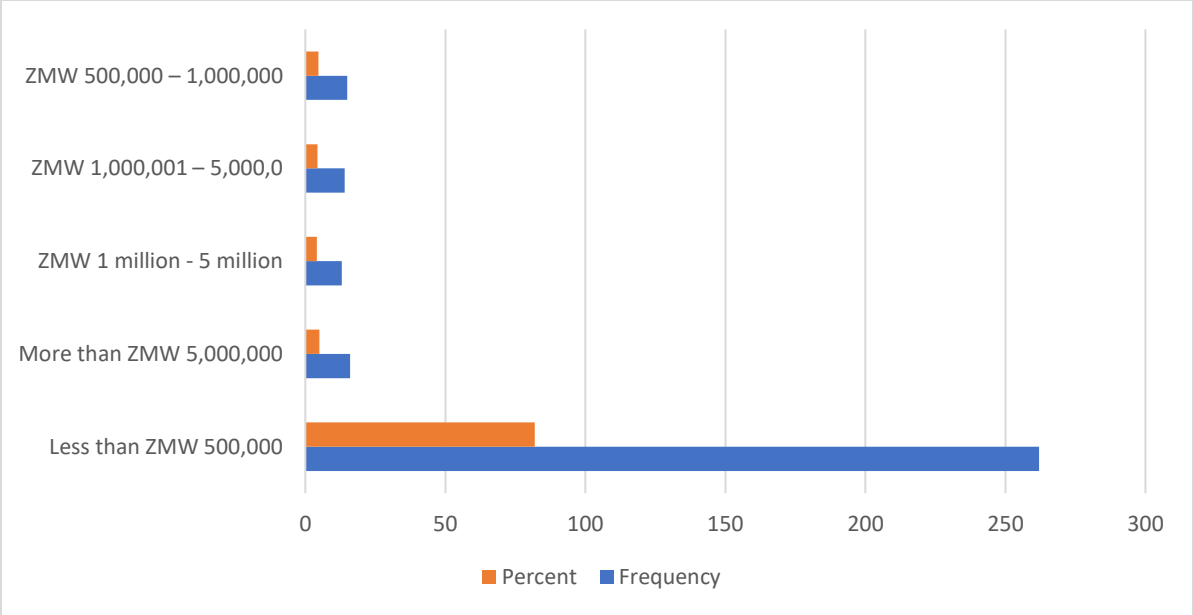
**Figure 4.2: Size of the Business (Number of Employees)**

According to the data, most SMEs (69.7%) have a small staff of between 1 and 5 workers. The sample also shows that SMEs with employee count of between six and twenty comprise 21.6% while those with employee count of between twenty-one and fifty are only at 8.8%. The high concentration of businesses in this smallest category underscores the problems these micro-enterprises could face in getting loans on favorable terms due to their limited scale.



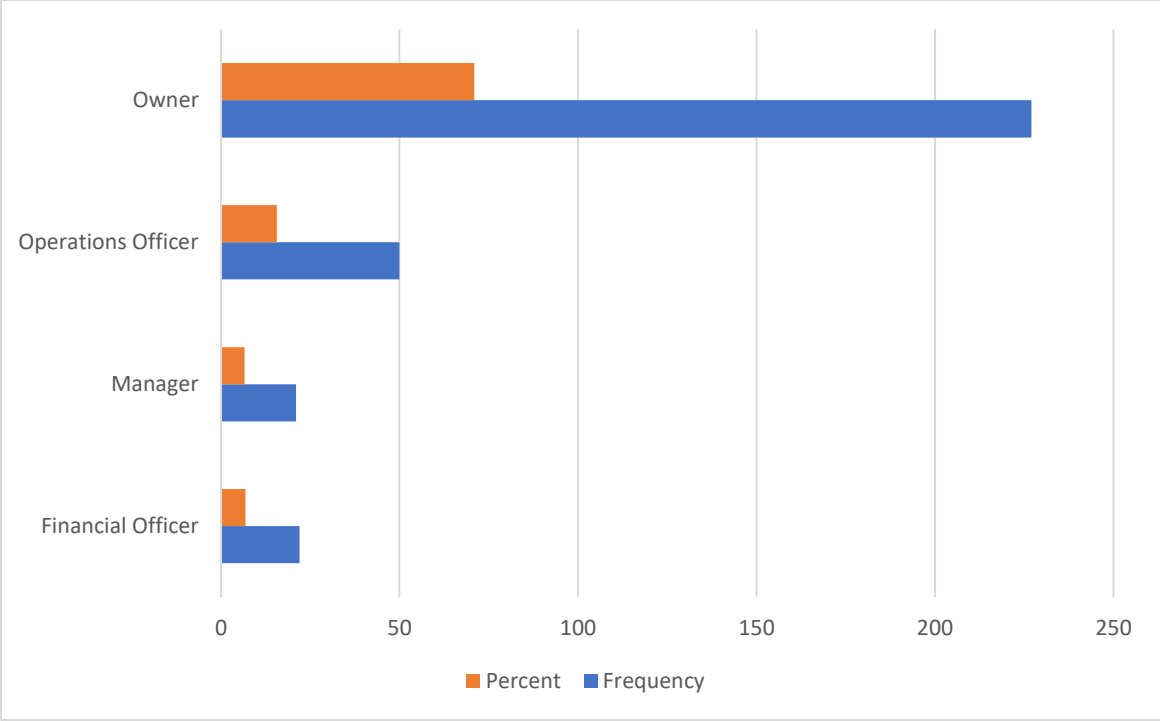
**Figure 4.3: Primary Sector of the Business**

SME’s distribution across sectors is heavily biased towards service sectors which constitutes 73.4% of the total survey respondents. There are various types of retail/wholesale shops accounting for about 15.9% while the agricultural sector covers around 6.6%, and a mere 4.1 % is covered by manufacturing sector alone as shown in chart Figure 4.3 above. Businesses in Lusaka are dominated by services, which make up a significant part of its economy. The low representation of agriculture and manufacturing indicates that these sectors may be facing unique challenges regarding access to finance compared to more dominant service-oriented firms



**Figure 4.4: Annual Revenue of the Business**

Most Small and Medium-sized Enterprises (SMEs) surveyed reported low annual revenues. In particular, 81.9% of businesses make under ZMW 500,000 annually with only a few firms going past ZMW 5,000,000 in terms of their yearly incomes. The other group comprises 4.7% of these companies that are having between ZMW500,000 and ZMW1,000,000 as their annual revenue. This is an indication that many small scale enterprises operations which therefore could limit their chances of acquiring favorable loan conditions based on collateral and other financial standards.



**Figure 4.5: Role of the Respondent in the Business**

Most of the survey respondents were business owners representing about 70.9%. Additionally, respondents indicated that they were operations officers (15.6%), financial officers (6.9%) or managers (6.6%). The large number of owners involved in this survey reflects the highly personal nature of these decisions found in many Small and Medium Enterprises where business owners typically take on the primary role as borrowers responsible for securing loans and keeping tabs on funds.

**4.3 Perceptions of Market Competition**

**Table 4.1: Perceptions of Market Competition Among Money Lenders**

Statement	1 (Strongly Disagree)	2 (Disagree)	3 (Neutral)	4 (Agree)	5 (Strongly Agree)	Total
Financial institutions in Lusaka provide competitive	60 (18.8%)	58 (18.1%)	92 (28.7%)	3 (0.9%)	107 (33.4%)	320 (100%)

interest rates for SME loans						
Individual lenders offer more flexible loan terms compared to formal financial institutions	76 (23.8%)	62 (19.4%)	51 (15.9%)	80 (25.0%)	51 (15.9%)	320 (100%)
The presence of multiple money lenders in Lusaka has improved the accessibility of loans for SMEs	76 (23.8%)	1 (0.3%)	103 (32.2%)	29 (9.1%)	111 (34.7%)	320 (100%)
The number of lenders in the market affects the negotiation power of SMEs regarding loan conditions	35 (10.9%)	58 (18.1%)	72 (22.5%)	68 (21.3%)	87 (27.2%)	320 (100%)
Competition among money lenders has led to a reduction in collateral requirements for SMEs	76 (23.8%)	31 (9.7%)	108 (33.8%)	74 (23.1%)	31 (9.7%)	320 (100%)

The statement was strongly supported by many respondents (33.4% of them), but 28.7% were unsure about it. This showed that though some SMEs thought they had reasonable interest rates, others have doubts or are undecided if these rates can entice them to do business. A tiny proportion of people agreed with this (0.9%) which means that satisfaction with interest rates is not the same in all parts of the small and medium enterprises' industry.

In the same vein, public opinions were mixed concerning the flexibility of loan terms in comparison with formal finance institutions. Strongly disagreeing with this viewpoint accounted for 23.8% while another 19.4 % disagreed as well. Conversely, one quarter among them stated that they receive flexible loan terms from individual lenders; likewise, 15.9 % seconded it and another 15.9% did not care about it. This implies that although some businesspersons believe that there is relatively greater flexibility in individual lenders' loan terms, most proprietors neither agree nor are concerned hence indicating a highly competitive business environment between formal and individual lenders in Lusaka's economy.

This was their response: 34.7% said it had greatly improved the access of loans, while 32.2% were unsure of its effect on accessibility rates. On the other hand, only 9.1% of businessmen agreed to this statement because, a contrary idea was supported by 23.8%, making it difficult to determine if higher competition actually contributed towards easing SMEs' access to credit facilities.

Different opinions on the lending institutions' number vis-à-vis bargaining power of small and medium enterprises over loan terms reveal how people perceive this issue. Because of this, 27.2% strongly agreed that there were many lenders who gave them more room for bargaining while 22.5% did not have a particular view about it. Besides, 21.3% stood for it; thus signifying that most small firms believe increased competition bolsters their negotiation positions. However, 18.1% disagreed while another 10.9% disapproved the notion that having more money lenders guarantees better negotiating power with favorable borrowing conditions for large proportion of SMEs population.

23.1% of them said yes but other (33.8%) didn't know whether it has impacted on collateral requirements for SMEs relative to competitiveness in money lending by financial

institutions and its effect on loan terms apart from interest rates .But on the contrary, only 9.7% agreed as well as just 23% refuted that belief Among all the survey items where majority of small business owners seek loans though, other factors determine a company's demand for these services even in markets which are perfect competitions

#### 4.4 Effects of Regulatory Environment on Loan terms

**Table 4.2: Perceptions of the Regulatory Environment on Loan Terms**

<b>Statement</b>	<b>1 (Strongly Disagree)</b>	<b>2 (Disagree)</b>	<b>3 (Neutral)</b>	<b>4 (Agree)</b>	<b>5 (Strongly Agree)</b>	<b>Total</b>
Government regulations have made loan terms more favourable for SMEs	119 (37.2%)	72 (22.5%)	29 (9.1%)	30 (9.4%)	70 (21.9%)	320 (100%)
The regulatory environment in Lusaka ensures fair competition among money lenders	111 (34.7%)	29 (9.1%)	101 (31.6%)	79 (24.7%)	0 (0%)	320 (100%)
Regulatory policies effectively prevent predatory lending practices	75 (23.4%)	29 (9.1%)	123 (38.4%)	63 (19.7%)	30 (9.4%)	320 (100%)

Changes in financial regulations have impacted the availability of loans to SMEs	63 (19.7%)	1 (0.3%)	79 (24.7%)	130 (40.6%)	47 (14.7%)	320 (100%)
Regulatory oversight helps in providing transparency in loan terms offered by money lenders	92 (28.7%)	29 (9.1%)	78 (24.4%)	79 (24.7%)	42 (13.1%)	320 (100%)

First of all, it was 37.2% who strongly disagreed while 22.5% disagreed which meant that most SMEs did not see any improvement in loan conditions as a result of regulation. On the same note, there is 21.9% for agreed so much and another 9.4 %who agreed meaning some small/medium enterprises feel the regulations have pros and cons respectively. Therefore, the remaining 9.1% neither agreed nor disagreed meaning that people are divided whether loan terms are better after regulation or not.

In the question of whether the regulatory framework promotes effective competition among lenders, there were 34.7% who strongly agreed and 9.1% who disagreed. In addition, 24.7% supported while 31.6% neither agreed nor disagreed with this idea. This indicates that although there are mechanisms in place to regulate market practices for fairness purposes, a substantial number is either ignorant or skeptical about such endeavors hence leaving loopholes in their enforcement or understanding of what is equitable in lending.

However,23.4% of the respondents expressed strong disagreement against the fact that regulatory policies are efficient in curbing predatory lending; at worst, they were not totally comfortable with it (9.1%).

On the other hand, only 19.7% felt that rules helped a lot to prevent this occurrence while 38.4% were neutral. More so also noticed that only a few (9.4%) respondents had much belief in this. Consequently: therefore; thus; as a result; henceforth , these many neutral responses indicate inconclusive position whereby most small firms are not sure whether or not they have strong legal systems preventing predation in SMEs. On the matter of SME loans availability and variations in financial regulations, 40.6% agreed with Financial Times' assertion (2018) and another 14.7% strongly agreed. Hence, several small businesses have experienced easier access to credit since the promulgation of laws on this issue.

Whereas some people still had doubts (24.7%) about it and others just disagreed straightaway (19.7%), thus a large number of institutions did not see these new regulations as necessarily easing their access to loans. On the contrary, the last group had with 28.7% strongly disagreeing while 9.1% did not know whether regulation provides assurance on terms of loans. Same number respondents were in agreement (24.7%) or simply didn't care (24.4%), making it a draw among those who could not tell if regulatory changes made borrowing simpler. This was further backed by the fact that 13.1% completely agreed with this; there are several small businessmen that like regulators' efforts towards transparent lending but most think that they are being unrealistic because of how invisible lending is in case the use of different communication approaches across market participants.

#### 4.5 Financial Product Diversity

**Table 3: Perceptions on Financial Product Diversity and Its Impact on Loan Terms**

<b>Statement</b>	<b>1 (Strongly Disagree)</b>	<b>2 (Disagree)</b>	<b>3 (Neutral)</b>	<b>4 (Agree)</b>	<b>5 (Strongly Agree)</b>	<b>Total</b>
A diverse range of financial products makes it easier for SMEs	77 (24.1%)	22 (6.9%)	79 (24.7%)	79 (24.7%)	63 (19.7%)	320 (100%)

to find suitable loan options						
Financial product diversity has led to more competitive interest rates for SME loans	77 (24.1%)	50 (15.6%)	58 (18.1%)	113 (35.3%)	22 (6.9%)	320 (100%)
Lenders offering specialized financial products are more likely to provide flexible loan terms	92 (28.7%)	22 (6.9%)	47 (14.7%)	101 (31.6%)	58 (18.1%)	320 (100%)
The availability of different loan products increases SMEs' ability to negotiate better loan conditions	77 (24.1%)	0 (0%)	34 (10.6%)	73 (22.8%)	136 (42.5%)	320 (100%)
Product diversity among lenders has enhanced the overall competitiveness of the lending market for SMEs	64 (20.0%)	0 (0%)	51 (15.9%)	135 (42.2%)	70 (21.9%)	320 (100%)

A certain 24.7% of the respondents believed that being indifferent to such a spectrum of financial products was irrelevant in order to find the best loan options, whereas another

24.7% concurred with this idea. Alternatively, some would say that product diversification may not help certain SMEs in seeking for loans across many others (24.1% feel so strongly against it). There were other people who were strongly advocating for it (19.7%) as well as those found either undecided or negative about it in small numbers.

Have existing financial products diversified so as to affect the prevailing interest rates? This was agreed by 35.3%. On the other hand, 24.1% strongly disagreed and 15.6% disagreed which shows that while some small and medium enterprises interpretively appreciate positive effects of diversity in their product mix, a large number remains unconvinced about such an occurrence at all levels within the organization structure hierarchy. This means that most people do not agree on this matter because only 6.9% accepted it totally meaning that they are few hence minority group when it comes to competitive advantage through interest rate diversification among them hence making such argument weak in terms of its assertion. Among lenders providing specialized financial products, there were thirty-one-point six percent (31.6%) respondents who agreed to this, whereas eighteen point one percent (18.1%) strongly agreed with thirty one point six percent (31.6%) disagreeing and twenty eight point seven percent (28.7 %) strongly disagreeing which implies that not all SMEs necessarily see a linkage between specialized financial products and increased flexibility in loan terms among SMEs necessarily means.

When asked about different loan products and their influence on the bargaining power of small and medium scale enterprises in negotiating for better loan terms, 42.5% strongly agreed with that statement while another 22.8% said yes; only 10.6% were undecided while 24.1% disagreed completely. This indicates that most SMEs consider product variety critical in their search for loans, but this is disputed by an equally large group with divergent or contradictory viewpoints on it hence presenting mixed experiences relating to availability of financial products such as these ones .Finally, regarding whether product diversity has enhanced the overall competitiveness of the lending market for SMEs, 42.2% agreed, and 21.9% strongly agreed. However, there were those who didn't know and others which thought differently.

#### 4.6 Financial Literacy and Access to Information

**Table 4: Perceptions on Access to Information and Its Role in SME Financing**

<b>Statement</b>	<b>1 (Strongly Disagree)</b>	<b>2 (Disagree)</b>	<b>3 (Neutral)</b>	<b>4 (Agree)</b>	<b>5 (Strongly Agree)</b>	<b>Total</b>
Transparency in loan offers enables SMEs to compare and choose the best lending options	30 (9.4%)	0 (0%)	0 (0%)	108 (33.8%)	182 (56.9%)	320 (100%)
Financial literacy is crucial for SMEs to understand and leverage market competition	64 (20.0%)	0 (0%)	28 (8.8%)	102 (31.9%)	126 (39.4%)	320 (100%)
Credit bureaus provide valuable information that assists SMEs in obtaining favorable loan conditions	30 (9.4%)	34 (10.6%)	108 (33.8%)	101 (31.6%)	47 (14.7%)	320 (100%)
SMEs with better access to financial information are more confident in negotiating	0 (0%)	0 (0%)	22 (6.9%)	136 (42.5%)	162 (50.6%)	320 (100%)

loan terms with lenders						
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An essential number of people who participated in the survey were for this idea that, transparency in loan offerings allows small and medium-sized enterprises (SMEs) to make a choice concerning their loans. In particular, 56.9 percent of respondents strongly agreed while 33.8% concurred showing that lenders' transparency is an important factor for small businesses to consider as they select loans. However, only 9.4% opposed this, meaning that some SMEs still have problems with getting transparent information about their borrowing facilities. Such widespread approval demonstrates the significance of transparency in decision making amongst small businesses. Of the respondents, 39.4% stated that financial literacy is very crucial in understanding and leveraging competition in the market for SMEs. In addition, 31.9% agreed which means that they need to have financial knowledge before accessing competitive loan markets. However, a significant proportion of respondents (20%) strongly disagreed with this argumentation implying an absence of financial literacy abilities among these firms or a presumption that they do not matter to them when borrowing funds or both leading to defaulting on debt payment may be caused by lack of financial literacy skills among these businesses or assumption that they are not critical in achieving this objective for them when acquiring loans or both ways as possible causes of being unable to spend on debt service . Only few of 8.8% were neutral with regard to whether it was believed that finance education was important. But, the majority believed it was because just only 8.8 % were uncommitted; however, there are some small medium enterprises (SMEs) that may not know its potentiality towards growing at an extreme rate throughout. Moreover, responses regarding credit bureaus being helpful sources of information for SMEs varied significantly. A large percentage had no opinion (33.8%), many thought so (31.6%, agreed), while a minority had strong approval rates (14.7%). Although some people did not believe so (10.6% disagreed), almost all responded affirmatively. This shows that although many SMEs benefit from credit bureaus, much controversy surrounds the impact of these firms on improving loan conditions favorability for them. However, the higher percentage of neutral positions shows a lack of awareness or inconsistent experiences with some credit bureaus among

small and medium sized enterprises The research showed that majority (50.6%) ‘strongly agrees’ whereas others agree (42.5 %) on whether better financial information access make them more confident when negotiating loan terms with lenders hence affirming the significance of access to information as a motivation factor for small business owners in their pursuit of preferable banking conditions. Also, our respondents’ answers indicate that only 6.9% were totally unbiased and none disagreed which further reveals how vital this kind of data is in increasing Small and Medium Entities seeking loans bargaining power.

#### 4.7 Regression Analysis

**Table 5: Regression output**

Here is the updated table incorporating the variables from the conceptual framework:

<b>Independent Variables</b>	<b>Unstandardized Coefficients (B)</b>	<b>Standardized Coefficients (Beta)</b>	<b>t</b>	<b>Sig. (p-value)</b>
Number of money lenders	0.382	0.329	4.102	0.000
Regulatory environment	0.265	0.287	3.015	0.003
Financial product diversity	0.195	0.248	2.456	0.015
Access to financial information	0.520	0.425	5.121	0.000
Constant	1.089	-	3.219	0.002
<b>R<sup>2</sup></b>	<b>0.618</b>	-	-	-
<b>Adjusted R<sup>2</sup></b>	<b>0.605</b>	-	-	-

#### **Analysis of Independent Variables and Their Impact on SME Loan Terms**

According to the results listed in the table above, this section shows how number of money lenders, regulatory environment, financial product diversity, and access to financial information affect loan terms in Lusaka-Zambia for Small and Medium

Enterprises. Each variable's significance level is shown below as well as its relative strength of influence on SMEs' loan terms available at Lusaka Zambia

### **Number of Lenders**

The coefficient for the number of lenders ( $B = 0.382$ ,  $\text{Beta} = 0.329$ ,  $p = 0.000$ ) indicates that more lenders lead to better loan terms for SMEs. High competition among many lenders motivates these financial institutions to have improved terms like lower interest rates, ease in repayment and less security requirements for loans given to SMEs. This result supports existing literature that relates market competition with favorable loan conditions especially in markets where it is motivated by competition to induce product developments and innovations (Claessens & Laeven, 2005). The high beta value demonstrates how essential a competitive lending environment is concerning enhancing accessibility to finance for small businesses.

### **Regulatory Environment**

Loan terms are moderately affected by the regulatory environment ( $B=0.265$ ,  $\text{Beta}=0.287$ ,  $P=0.003$ ). Effective regulations help competitions with transparency benchmarks; regulate interest charges and enforce equal opportunities for loans. These measures are aimed at protecting SMEs from unscrupulous business practices that do not support their borrowing needs in a friendly manner or on reasonable terms. Otherwise, the moderate beta value would mean that relying on rules alone is not enough to make them effective without their enforcement and the overall market structure in which they operate in. Inadequate regulations tend to negate these intended benefits as evident in economies where lender dominated or predatory lending exists (Beck, Demirguc-Kunt & Maksimovic, 2008).

### **Financial Product Diversity**

The effect of financial product diversity on loan terms is positive but comparatively smaller ( $B = 0.195$ ,  $\text{Beta} = 0.248$ ,  $p = 0.015$ ). This result shows how diverse financial products are essential in addressing unique SME requirements especially in heterogeneous SME markets. Financial institutions that are able to provide particular products for instance invoice financing or trade credit obtain a competitive advantage since they can attract

more SMEs. Nevertheless the lower beta value suggests lesser influence of product diversity in less developed financial ecosystems where the MSMES cannot identify or gain access to financing suiting their needs as much as they would like (Berger & Udell, 2006).

### **Access to Financial Information**

Finance information access emerges as the largest predictor of getting good loan terms ( $B = 0.520$ ,  $Beta = 0.425$ ,  $p = 0.000$ ). Small businesses having correct and timely financial information are more likely to negotiate terms and create competition among lenders. This factor addresses information asymmetries that enables small business enterprises to be able to evaluate lenders' products and choose the most favorable loans. These findings are consistent with the hypothesis of information asymmetry that states well-informed borrowers will not agree to unfavorable terms (Stiglitz & Weiss, 1981). This large value of beta shows how crucial information is in enhancing accessibility and affordability of loans for small businesses.

### **Model Fit and Overall Impact**

The model accounts for a substantial amount of variation in SME loan terms with an  $R^2$  of 0.618 and an adjusted  $R^2$  of 0.605. In other words, the combined effects of these four variables explain approximately sixty-one point eight percent (61.8%) variability in loan conditions. Other untested factors such as general economic circumstances, lender-specific policies or firm specific factors like financial literacy levels or sectoral risks may account for some remaining variance."

## **4.8 Correlation Analysis**

**Table 6: Correlation Matrix**

<b>Variables</b>	<b>Number of Money Lenders</b>	<b>Regulatory Environment</b>	<b>Financial Product Diversity</b>	<b>Access to Financial Information</b>	<b>Loan Terms</b>
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Number of money lenders	1	0.543**	0.467**	0.512**	0.601**
Regulatory environment	0.543**	1	0.492**	0.534**	0.587**
Financial product diversity	0.467**	0.492**	1	0.498**	0.423**
Access to financial information	0.512**	0.534**	0.498**	1	0.627**
Loan terms	0.601**	0.587**	0.423**	0.627**	1

**Note: p < 0.01**

**Number of Money Lenders**

The number of money lenders has a significant positive correlation with all other variables, including loan terms (r = 601). This indicates that a competitive market with a higher number of lenders contributes to better loan conditions by fostering competition and innovation in financial products...indicating the fact that this kind of market promotes competition and innovation in financial products that directly affects better credit conditions and other issues related to loans such as duration as indicated by the correlation between them (Li et al.,2019). Its moderate correlation with access to financial information (r = 512) suggests that a larger pool of lenders indirectly improves SMEs' access to valuable data, enabling them to make informed borrowing decisions.... so we can say that more companies provide unofficial study materials on the ways SME firms may get direct access to useful information about finance for their own purposes (OECD,2018).

**Regulatory Environment**

The relationship between loan terms and regulatory environment is robust (0.587) as well as access to financial information (0.534). This shows how regulations can make lenders more open, fair and competitive towards borrowers. Thus regulatory frameworks therefore emphasize on lender practices that are friendly to the needs of SMEs including clear loan terms and equitable availability of financial services. Meanwhile its moderate

correlation with financial product diversity (0.492) demonstrates the extent to which regulations determine the range and suitability of financial products.

### **Financial Product Diversity**

The correlation coefficient for financial product diversity with each variable is also moderate, especially for access to information (0.498) as well as regulatory environment (0.492). This means that varied types of finance will flourish where there are regulations in place, hence SMEs will only find them accessible after being informed about their financing arrangements. However, it is less correlated with loan terms (0.423); meaning that although diversity leads competition, other factors such as transparency and information accessibility have a greater effect on lending rates than does variety in these segments.

### **Access to Financial Information**

The 0.627 correlation of access to financial information with loan terms marks it out as the most important player in empowering SMEs to negotiate for better deals. The more money lenders a country has, the better is its regulatory environment and hence the resulting high industry growth. The manner in which SMEs access and use information creation therefore relates to both how individuals and organizations interact within markets.

### **Loan Terms**

All independent variables are highly correlated with the loan terms variable but especially access to financial information (0.627) and number of money lenders (0.601). Therefore, a combination of competitive markets, effective regulation, diverse financial products, and access to transparent information leads to improved lending conditions for entrepreneurs. These findings clearly indicate that these factors depend on one another leading towards an increased possibility of fairer credit deals for small businesses.

## **4.9 Chapter Summary**

This study employed a descriptive analysis of data to establish SMEs' views on market rivalry, product variety, and availability of financial information. This was followed by

regression analysis that helped in assessing the influence of several variables upon loan terms whereby it was revealed that transparency, financial literacy as well as access to financial information played a significant role. Furthermore, correlation analysis indicated strong associations among these factors which collectively influenced how loans were negotiated. The chapter concludes that bettering accessibility and transparency may have a considerable bearing on the loan conditions for small and medium-sized enterprises.

## **CHAPTER FIVE: DISCUSSION OF FINDINGS**

### **5.1 Introduction**

This chapter will address the findings of the research which was based on Chapter Four's data analysis and objectives of the study. Its contribution is to interpret the results in light of existing literature and theories on SME financing, loan terms, and market competition. This discussion relates findings to prior research, giving insights on what determines the range of loan options available to the SMEs in Lusaka, Zambia. For each research objective, there will be a separate response while draw out implications from the results.

#### **1. The Impact of the Number of Money Lenders on SME Loan Terms**

The findings from this study indicate that the number of money lenders has a significant effect on SME loan terms, with increased competition among lenders generally leading to lower interest rates and more flexible repayment schedules for SMEs. In competitive markets such as Lusaka, where a variety of lenders operate, SMEs benefit from more favorable borrowing conditions. Claessens and Laeven (2005) argue that in highly competitive financial environments, institutions are driven to innovate and develop customer-centric products, making it easier for SMEs to access credit. This is evident in Lusaka, where the presence of multiple financial institutions—including commercial banks, microfinance institutions (MFIs), and informal lenders—has expanded financing options, allowing SMEs to select lenders based on their specific needs.

#### **Comparative Analysis with Existing Literature**

The positive impact of lender competition on SME financing aligns with studies by Petersen and Rajan (1995), who highlight that competitive markets improve borrowers' bargaining power, enabling them to secure loans at lower costs. Similarly, Beck et al. (2008) observe that in markets with well-structured financial frameworks, increased lender competition enhances access to credit, particularly for SMEs that may not meet the stringent requirements of conventional banking institutions. However, the situation is not universally positive. In fragmented or unregulated markets, an influx of lenders can create inefficiencies, leading to predatory lending practices, such as exorbitant interest rates and hidden charges, which ultimately harm SMEs (Beck et al., 2008).

The findings of this study reflect these concerns, particularly in Lusaka, where financial infrastructure remains underdeveloped. While competition among lenders has expanded financing options, the lack of robust financial regulations and borrower protections has allowed some lenders to exploit SMEs through unfair loan terms. This suggests that while competition fosters accessibility, it must be accompanied by regulatory oversight to ensure that SMEs are not subjected to exploitative lending conditions.

### **Limitations of Lender Competition in Addressing Structural Barriers**

Although the increase in the number of money lenders improves loan accessibility, it does not fully address the structural challenges faced by SMEs. Many SMEs still struggle with lack of collateral, weak financial records, and limited financial literacy, which hinder their ability to secure loans on favorable terms despite the growing number of lenders. This highlights the need for complementary measures, such as financial literacy programs and credit reference systems, to ensure that SMEs can fully benefit from increased competition.

### **The Role of Informal Lenders in SME Financing**

This study also identifies informal lenders as a major source of financing for SMEs in Lusaka, particularly for businesses that do not qualify for formal sector funding. While these lenders provide much-needed financial support, their loan conditions are often unfavourable, characterized by high interest rates and rigid repayment schedules. This aligns with research by Beck et al. (2008), which warns that in the absence of regulatory oversight, informal lending markets can become exploitative, placing SMEs at a financial disadvantage.

## **2. The Influence of the Regulatory Environment on Competition and Transparency**

The regulatory environment plays a crucial role in shaping competition and transparency in the lending market, directly impacting SME loan accessibility. In Lusaka, policies such as interest rate caps and obligatory disclosure rules have been implemented to protect

SMEs from exploitative practices. Interest rate caps prevent lenders from charging excessive rates, while disclosure requirements ensure that loan terms, fees, and repayment schedules are made clear to borrowers. Degryse and Ongena (2007) argue that such measures create a more competitive financial environment, allowing SMEs to make more informed borrowing decisions. Similarly, Beck et al. (2008) highlight that regulatory safeguards reduce market imbalances, ensuring a level playing field between borrowers and lenders. However, this study found that despite these regulatory efforts, enforcement mechanisms remain weak, enabling some lenders to circumvent the rules, which undermines the intended purpose of the regulations.

A comparison with global regulatory practices reveals both strengths and limitations in Lusaka's financial environment. In South Africa, for example, a well-structured credit reporting system ensures that SMEs have better access to financing through transparent credit assessments (Cumming & Schwienbacher, 2018). Unlike Lusaka, where gaps in the credit reporting infrastructure limit SMEs' ability to secure favorable loan terms, South Africa's advanced system allows lenders to assess risk more accurately, resulting in more competitive and customized loan offers. Jappelli and Pagano (2002) emphasize that efficient credit bureaus reduce information asymmetry, ultimately fostering greater trust and efficiency in financial markets. The comparison suggests that while Lusaka has taken steps toward improving SME access to finance, deficiencies in credit reporting mechanisms hinder the full benefits of regulatory policies.

Additionally, the study found that while interest rate caps in Lusaka are intended to protect SMEs, they can also discourage lenders from extending credit to high-risk borrowers. Similar concerns have been observed in other emerging markets. For instance, in Nigeria, stringent interest rate controls have led to unintended consequences where formal lenders become risk-averse, forcing SMEs to rely on informal financial institutions that impose harsher conditions (Beck et al., 2008). This aligns with findings in Lusaka, where informal lenders remain a major source of credit for SMEs but often impose significantly higher interest rates and rigid repayment terms. Liu and Serene (2019) suggest that flexible regulatory mechanisms, such as regulatory sandboxes, could mitigate these issues by balancing borrower protection with lender incentives to extend credit.

Another key challenge identified in Lusaka is the limited awareness among SMEs regarding their rights under existing financial regulations. Many businesses are unaware of dispute resolution mechanisms, hidden cost regulations, or the role of credit bureaus in improving loan terms. Comparatively, countries with strong financial education initiatives, such as Kenya, have seen improved SME participation in the formal credit market (Ndemo & Weiss, 2017). By integrating regulatory awareness campaigns with existing financial literacy programs, Lusaka could enhance SME decision-making, reducing reliance on informal lenders and improving access to favorable loan conditions.

### **3. The Role of Financial Product Diversity**

Financial product diversity plays a critical role in enabling SMEs to access customized loans that align with their specific business needs. This study finds that lenders in Lusaka who offer a range of financial products, including invoice financing, equipment loans, and trade credit, attract more SME clients. Berger and Udell (2006) argue that access to diverse financial products helps reduce reliance on standardized loan services that may not align with the unique operational models and cash flow patterns of small businesses. This is evident in Lusaka, where SMEs that have access to tailored financial solutions experience greater flexibility in managing working capital and operational expenses.

Comparative analysis with global markets highlights the importance of financial product customization for SMEs. In developed economies, financial institutions actively design sector-specific credit solutions that cater to businesses in high-risk industries such as agriculture. For example, in the United States, agricultural SMEs benefit from seasonal loans that align with planting and harvesting cycles, allowing them to manage cash flow fluctuations effectively (Boot & Thakor, 2000). However, in Lusaka, similar financial instruments remain limited due to market immaturity. The absence of specialized financial products tailored to SMEs' sectoral needs means that many businesses continue to struggle with liquidity constraints, particularly in industries with cyclical revenue patterns.

Another key finding is that financial product diversity fosters innovation among lenders and promotes competition. Boot and Thakor (2000) suggest that offering unique financial products can provide lenders with a competitive advantage, compelling financial institutions to enhance their offerings. However, this study found that a lack of awareness

among SMEs regarding available financing options limits the potential benefits of product diversity. Many SMEs in Lusaka remain unaware of alternative lending instruments beyond traditional bank loans, reducing their ability to leverage financial products best suited to their needs. In contrast, in markets such as Kenya, financial institutions actively engage in SME outreach programs to educate business owners on the range of financing options available (Ndemo & Weiss, 2017). This proactive engagement enhances financial inclusion and ensures that SMEs can make informed borrowing decisions.

Despite the advantages of financial product diversity, this study also highlights a persistent mismatch between product offerings and SME financing needs. Lenders often prioritize high-margin loan products that do not necessarily align with SME requirements. For example, in Lusaka, there is a high prevalence of short-term loans with elevated interest rates, despite strong demand for long-term financing solutions that support business expansion. This misalignment underscores the need for stronger collaboration between financial institutions and SMEs to develop credit products tailored to small business realities. Research by Cumming and Schwienbacher (2018) suggests that financial institutions that actively engage with SMEs in product design can bridge this gap, ensuring that financing solutions align with business growth strategies.

Regulatory frameworks also play a crucial role in fostering financial product diversity. Policies that incentivize lenders to develop SME-specific products, including fintech-driven financial solutions, can drive innovation and enhance market efficiency. Comparative evidence from South Africa illustrates that fintech integration in SME lending has expanded access to customized credit solutions, particularly in underserved markets (Cumming & Schwienbacher, 2018). In Lusaka, expanding regulatory support for alternative financing providers could improve product diversity and ensure that SMEs have access to a broader range of financial solutions that align with their unique operational challenges.

#### **4. The Role of Access to Financial Information**

The importance of being able to access financial information, this study reveals that SMEs in Lusaka have access to financial information, the most significant determinant of favorable loan terms. Indeed, SMEs who are more updated with accurate and up-to-date financial information will be better positioned for lower interest rates, reduced line of credit and flexible repayment schedules. This result is consistent with a prediction by Stiglitz & Weiss (1981) known as the theory of information asymmetry which suggests that narrowing gaps between lenders and borrowers leads to fairer conditions for loans.

SMEs can be empowered through having access to financial data which increases their capacity to negotiate effectively. In addition, the existence of different products available on credit rates, terms and services gives borrowers options to choose from depending on their needs. It is also shown by this research that when more SMEs had access to market related information they were able to take advantage of competition among lending institutions leading to better results. Jappelli and Pagano (2002) find that credit reference bureaus enable customers make real comparisons between loan offers.

Credit reporting systems are one of the most important sources of financial information for SMEs, providing lenders with extensive borrower profiles. In competitive markets, these systems assist in the development of creditworthiness by making available such data to potential lenders. Nonetheless, research has shown that Lusaka's credit infrastructure is not developed and hence it becomes difficult for SMEs to take advantage of these systems. There is absence of strong credit reporting schemes in developing economies as noted by Beck et al (2008) this leads to information asymmetry where there is lack of transparency and as a result it disadvantages small and medium enterprises (SMEs).

This study also highlights the importance of financial literacy in helping companies make use of the available information. They were able to properly interpret accounting data and correctly determine borrowing costs than their counterparts who possessed lower levels of financial literacy. This validates Petersen & Rajan (1995) who argue that financial literacy lessens borrowers reliance on lenders for information hence empowering them to negotiate better terms. However, many Lusaka based SMEs have reported difficulties related to complex loan terms thus indicating that there is need for targeted financial

literacy programs. Financial information remains uneven despite its importance. Many small and medium-sized enterprises (SMEs), for instance, face obstacles based on limited knowledge of recommended sources or unmanageable measures of reliable data. In Lusaka such issues become more problematic when there is a lack of transparency among some lenders in digital infrastructure gaps. For example, informal lenders usually give out incomplete or misleading information which leads to acceptance of unfavorable terms by SMEs.

Ndemo and Weiss (2017) restate that another way to enhance access to information is through regulatory intervention coupled with investments in digital platforms that facilitate data sharing.

The development of fintech platforms in Lusaka can improve access to information for small and medium-sized enterprises (SMEs). SMEs can use these platforms as they aggregate financial information, so firms are able to compare different lenders and loan products easily according to the report by Cumming and Schwienbacher (2018). According to Cumming & Schwienbacher (2018), Fintech innovations help bridge this informational gap especially where traditional infrastructural components are missing. However, the research also shows that less than ten percent of the surveyed firms were using these platforms due to low levels of both digital literacy and inadequate ICT infrastructure within their organizations.

It is highly important to provide access to financial information as this permits small and medium sized businesses (SMEs) better terms of credit which helps them navigate through competitive markets and attain favorable conditions. However, the advantages of information accessibility depend on such variables as credit reporting infrastructure, financial literacy level and transparency in lending practices. To achieve this objective, policy makers and financial institutions should consider investing in credit reporting systems, digital platforms and financial literacy programs. By doing so, they will make it possible for SMEs to take full advantage of competition by obtaining finance necessary for growth and survival.

## **5.2 Conclusion**

The intricate connection between financial institutions, regulation environment, information availability and product differentiation is evident in the determination of loan terms availed to SMEs in Lusaka based on these findings. At last, financial diversity of products in addition to regulatory frameworks aid competitiveness within credit markets and eventually access on financial knowledge plus literacy comes out as significant factor that determines favorable loan terms. Additionally, small businesses can fully exploit competitive lending only if there is more regulation enforcement and better access to finance and information. These findings provide good advice for policy makers and financial institutions that wish to improve financing conditions for small enterprises in developing countries like Zambia.

## **CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Conclusions**

In this chapter, the researcher presents analysis and discussion of data to identify the relationship between market competition among money lenders, regulatory environment, product diversity and access to financial information that determine loan terms for SMEs located in Lusaka Zambia. The study also provides suggestions on how best to address these matters as well as recommendations for further research. Additionally, the study acknowledges its limitations.

The effect of financial institutions and personal lenders on loan terms for small businesses is shown by the research. Banks are one of the primary financial institutions that offer standard products with high collateral requirements as well as an increased interest rate, while individual lenders may be more risky but flexible. As such, small firms have been able to work with formal or informal creditors in finance resulting in improved borrowing rates. Nevertheless, it should also be noted that competition among lenders is not synonymous with relaxed conditions for all SMEs. Many Small and Medium Enterprises (SME) view this as a barrier mainly due to the fact their finances are either poorly understood or do not have any specialized services aimed at SME's borrowers thereby limiting room to negotiate better borrowing terms.

According to the study, poor enforcement is a major issue with respect to regulatory environment and competitive landscape in the lending industry. Although these regulations are designed to enhance competition, as well as safeguarding against predatory lending, many respondents expressed reservations regarding lucidity and fairness of lending. The outcomes can therefore be interpreted as suggesting that improved laws would bring in more competitors thus leading to enhanced terms of loans for SMEs. However, there appears to be an insufficient current regulatory environment considering that even though there are structures for equitable competition, several small businesses have experienced hurdles such as hidden fees and tough collateral requirements.

With financial product diversity, lenders can compete more for SMEs and this is why there are numerous options for them to borrow on favorable terms. The analysis also shows that when interest rates increase, so does the pace at which new products are developed. However, it must be emphasized that many products will not necessarily imply creditworthiness for firms given their lack of knowledge in finance or poor access today. It is essential to have several choices of sources to select from when choosing a financial product for small business entities.

What matters most however, is whether small and medium sized businesses can make use of market competition for better credit terms. Such aspects as, for example, comparing loans or lenders' openness towards the public about their activities, give small business owners access to more financial information and enhance their negotiation power when it comes to loan's conditions. After conducting this survey, it was found out that those SMEs who had knowledge about different financing options and the current rates were able to make informed decisions which were useful for their companies. Consequently, by availing this information flow to the small scale enterprises bridge the gap between them and lenders leading to reduced information asymmetry. Moreover, carrying out financial literacy courses will help a firm with its borrowing decision-making process in order to take full advantage of this kind of competitive environment.

## **6.2 Recommendations**

### **1. Strengthen Financial Regulation and Enforcement**

Policymakers should enhance regulatory oversight to ensure that increased lender competition translates into improved SME financing conditions rather than exploitative lending practices. Credit reporting systems should be improved, requiring all lenders—including informal money lenders—to report borrower data to national credit bureaus to enhance transparency and reduce information asymmetry

### **2. Expand SME Financial Education and Awareness Programs**

Many SMEs in Lusaka lack knowledge of available financing options and borrower rights. Financial institutions, in collaboration with the government and SME associations, should

implement financial literacy initiatives to educate small business owners on credit terms, financial planning, and loan negotiation strategies.

### **3. Promote Alternative Financing Mechanisms**

The government should support the growth of alternative financing models, such as peer-to-peer lending, fintech solutions, and government-backed SME loan schemes. These mechanisms can diversify financing options, reduce reliance on informal lenders, and provide SMEs with more structured, fair credit solutions.

### **4. Encourage Customization of Financial Products**

Lenders should collaborate more closely with SMEs to develop sector-specific and cash-flow-friendly loan products. Regulatory incentives for banks and microfinance institutions that introduce long-term and flexible financing options would enhance SME access to suitable financial products

## **6.3 Future Research**

This study has provided valuable insights into the relationship between market dynamics and SME loan terms, particularly in Lusaka. However, several areas remain unexplored, warranting further investigation to strengthen understanding and policy development in SME financing.

First, geographical expansion of research is necessary to assess whether the findings in Lusaka apply to SMEs in other regions of Zambia, especially in rural and peri-urban areas. Financial accessibility, lender competition, and regulatory enforcement may vary across different locations, requiring comparative studies to identify region-specific challenges and opportunities.

Second, longitudinal studies tracking SME financing over time would offer deeper insights into the long-term effects of lender competition, financial product diversity, and regulatory changes. A time-series analysis of SME borrowing patterns, interest rate fluctuations, and loan repayment behaviors could provide a more nuanced understanding of the sustainability of credit terms for SMEs.

Third, the role of fintech and alternative lending models in SME financing requires further exploration. With the increasing adoption of digital lending platforms, mobile banking, and peer-to-peer financing solutions, future research should assess how these innovations impact SME credit access, borrower risk, and financial inclusion. Understanding whether fintech solutions help SMEs overcome barriers such as collateral requirements and credit history limitations would be particularly valuable.

Fourth, analyzing the effectiveness of financial education initiatives could contribute to improving SME creditworthiness and financial decision-making. Future studies should evaluate whether financial literacy programs influence SMEs' ability to negotiate better loan terms and manage debt effectively. Assessing the impact of government-led financial literacy programs versus private sector interventions could help design more targeted support mechanisms.

Lastly, a deeper investigation into informal lending markets is needed. While this study acknowledges the role of informal lenders, further research should assess their impact on SME financial stability, debt cycles, and business performance. Understanding the interplay between formal and informal lending markets can help policymakers design strategies that integrate informal lenders into the regulated financial system while protecting SMEs from exploitative practices.

#### **6.4 Limitations of the Study**

Despite providing valuable insights, this study has some limitations. First, the research focuses on Lusaka, and while it provides a useful case study, findings may not fully represent SME financing conditions across Zambia. Future studies should expand to other regions, particularly rural areas where financial exclusion is more severe.

Second, the study relies primarily on survey data, which may be influenced by respondents' perceptions rather than actual financial records. Future research should incorporate longitudinal data analysis, tracking SME loan performance over time to assess the long-term impact of market dynamics on financial accessibility.

Lastly, the impact of fintech on SME financing remains an area requiring further exploration. With the growing role of digital lending platforms, future studies should

investigate how fintech solutions can bridge financing gaps and whether they present risks similar to traditional informal lenders.

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## APPENDICES

### 1. Research Instrument

Dear Participant,

The research study titled “**Analysing The Influence Of Market Dynamics On SME Loan Terms: A Study Of Key Determinants In Lusaka, Zambia.**” is the reason behind this letter. The aim of this research is to understand further how competitive market among money lenders affect loan terms for SMEs and accessibility of financing options.

We highly appreciate your cooperation because it will assist in understanding crucial challenges and opportunities that can be used to improve financial access to small and medium-sized enterprises (SMEs) in Zambia. The recommendations provided by this report will be instrumental in policy making towards a more conducive business environment for SMEs.

#### Privacy and Consent

It should also be emphasized that all responses given during the questionnaire are strictly confidential. All responses from the questionnaire shall only be used for academic purposes and no identifiable information shall at any point be released to third parties. It is pertinent to mention that participation in answering these questions is voluntary thus you have a choice to withdraw at any time without any penalty.

#### Instructions

Please, feel free to answer all these queries with sincerity or best explanation as understood by you.

Use the provided Likert scale to indicate how much you agree or disagree with the statements in some sections where your opinion is required.

The questionnaire has five sections, A through E:

A: Demographic Information

B: Perceptions of Market Competition

C: Effects of Product Diversity on Loan Terms

D: Financial Literacy and Information Accessibility

E: Impact of Financial Product and Service Diversity

We would like to thank you for completing this questionnaire and acknowledge you for your time and effort. Your answers will enable us to have an improved understanding of financial terrain for SMEs in Lusaka, Zambia, hence leading to positive transformations in the sector.

Thank you for taking part.

## **Section A: Demographic Information**

This section aims to capture basic demographic information about your business, such as its age, size, and sector. This data will help us categorize businesses for analysis and provide context for the responses in later sections.

### **What is the age of your business?**

1-3 years

4-6 years

7-9 years

10 or more years

### **What is the size of your business in terms of number of employees?**

1-5 employees

6-20 employees

21-50 employees

More than 50 employees

### **What is the primary sector of your business?**

Agriculture

Manufacturing

Services

Retail

Other (Please specify)

### **What is your business's average annual revenue?**

Less than ZMW 500,000

ZMW 500,000 – 1,000,000

ZMW 1,000,001 – 5,000,000

More than ZMW 5,000,000

**What is your role in the business?**

Owner

Manager

Financial Officer

Other (Please specify)

**Section B: Perceptions of Market Competition among money lenders.**

<b>Statement</b>	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
Financial institutions in Lusaka provide competitive interest rates for SME loans.					
Individual lenders offer more flexible loan terms compared to formal financial institutions.					

<p>The presence of multiple money lenders in Lusaka has improved the accessibility of loans for SMEs.</p>					
<p>The number of lenders in the market affects the negotiation power of SMEs regarding loan conditions.</p>					

**Section C: Effects of Product Diversity on Loan Terms.**

<b>Statement</b>	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
<p>A diverse range of financial products</p>					

<p>makes it easier for SMEs to find suitable loan options.</p>					
<p>Financial product diversity has led to more competitive interest rates for SME loans.</p>					
<p>Lenders offering specialized financial products are more likely to provide flexible loan terms.</p>					
<p>The availability of different loan products increases SMEs' ability to negotiate</p>					

better loan conditions.					
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**Section D: Financial Literacy and Information Accessibility**

<b>Statement</b>	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
Easy access to financial information helps SMEs secure better loan terms.					
Transparency in loan offers enables SMEs to compare and choose the best lending options.					
Financial literacy is crucial for SMEs to understand and leverage market competition.					

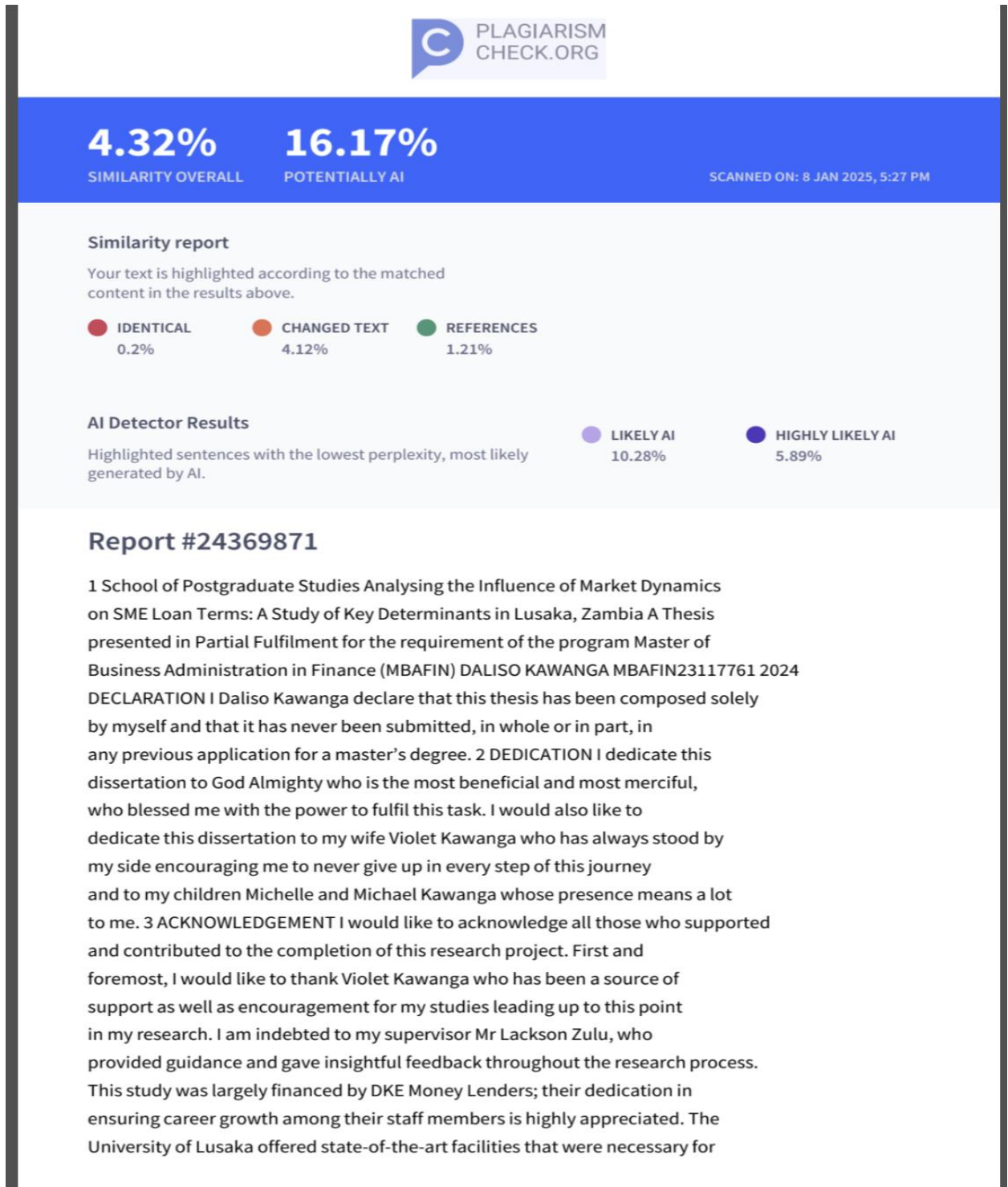
Credit bureaus provide valuable information that assists SMEs in obtaining favourable loan conditions.					
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**Section E: Impact of Financial Product and Service Diversity**

<b>Statement</b>	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
Product diversity among lenders has enhanced the overall competitiveness of the lending market for SMEs.					
SMEs with better access to financial information are					

<p>more confident in negotiating loan terms with lenders.</p>					
<p>Financial literacy has empowered SMEs to negotiate better loan conditions with lenders.</p>					
<p>Lenders providing tailored products are more likely to attract SMEs seeking loans.</p>					

## 2. Plagiarism Report



**3. Submission Form**



**UNIVERSITY  
OF  
LUSAKA**

SCHOOL OF POSTGRADUATE STUDIES

SUBMISSION OF DISSERTATION FOR EXAMINATION

**Name of student:** Daliso Kawanga

**Student number:** MBAFIN23117761

**Programme of study:** Master of Business Administration in Finance

**Dissertation title:** Analysing the Influence Of Market Dynamics On SME Loan Terms: A Study Of Key Determinants In Lusaka, Zambia.

A handwritten signature in black ink, appearing to be 'DK'.

**Signature of student:** .....

**Date:** 09/01/2025

Supervisor's Comments:

I recommend/ ~~do not recommend~~ this dissertation for submission for examination (If you do not recommend, kindly provide a written report and attach hereto).

**Name of Supervisor:** Mr. Lackson Zulu

A handwritten signature in black ink, appearing to be 'Lackson Zulu'.

**Signature of Supervisor:** .....

**Date:** 09/01/2025 .....