UNIVERSITY OF LUSAKA

ASSESSING THE EFFECTIVENESS OF CREDIT GUARANTEE SCHEMES IN ENHANCING ACCESS TO FINANCE BY SMEs IN LUSAKA-ZAMBIA.

A DISSERTATION PRESENTED TO THE SCHOOL OF POST GRADUATE STUDIES, UNIVERSITY OF LUSAKA IN PARTIAL FULFILMENT FOR REQUIREMENT OF THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION FINANCE

BY

STUDENT NAME: MUKUKA CHILESHE

STUDENT NUMBER: MBAFIN18110926

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DECLARATIONS

I **Mukuka Cecilia Chileshe** hereby declare that this dissertation submitted is in partial fulfilment for the award of the master's in business administration- Finance and that the work contained herein is my own except where explicitly stated otherwise in the text.

AUTHOR: MUKUKA CECILIA CHILESHE

Signature  Date: 20.03.25

SUPERVISOR: MR BRIVEN SIMAUNDU

Signature:  Date: 20.032025

DEDICATIONS

This research is dedicated to my late parents Mr Festus Chileshe and Mrs Cecilia Makasa Chileshe whose belief in education have seen me to where I am today. I am because they greatly believed in my potential.

To my husband and son who believed in me and pushed me to work even harder in times when I doubted myself.

To the rest of my family for their unwavering support throughout the whole process.

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ABSTRACT

This study assessed the role of Credit Guarantee Schemes (CGSs) in improving SME access to financial resources. Given the critical role SMEs play in economic development, access to finance remains a major constraint, often due to lenders' perceived risks and SMEs' limited collateral. CGSs are designed to mitigate these risks by offering guarantees that enhance credit availability. The specific objectives were to assess the impact of CGSs on financial accessibility, determine the extent of SME participation in CGSs, and analyze the effect of government policies on CGS effectiveness. The study employed a quantitative research approach with a descriptive and correlational research design. Primary data were collected through structured questionnaires distributed to a sample of 80 SMEs and financial institutions operating in Lusaka. Data analysis involved correlation and regression techniques to assess the relationships between CGSs, SME financing, and regulatory policies. The study focused on understanding how guarantee coverage, policy structures, and SME awareness influence the effectiveness of CGSs. Findings revealed that higher guarantee coverage ratios significantly enhance SME financing by reducing lender risk ($r = 0.373$, $p < 0.01$), leading to increased loan approvals. However, SME participation in CGSs remains moderate at 53.8%, with barriers such as low awareness and complex application procedures limiting full utilization. The study also found a strong positive correlation ($r = 0.459$, $p < 0.01$) between government credit guarantee policies and loan accessibility, highlighting the crucial role of policy frameworks in shaping CGS effectiveness. However, excessively stringent regulations may create bureaucratic inefficiencies that hinder access to credit. The study concludes that CGSs significantly contribute to improved financial accessibility for SMEs in Lusaka, Zambia, by lowering lending risks and enhancing credit approval rates. However, their overall effectiveness is influenced by SME participation levels, policy frameworks, and risk management strategies. Key recommendations include expanding CGS coverage while maintaining responsible lending practices, increasing SME awareness through outreach programs, simplifying loan application processes, and fostering public-private partnerships to enhance CGS sustainability. **Keywords:** Credit Guarantee Schemes, SMEs, Access to Finance, Financial Inclusion, Guarantee Coverage, Government Policies, Risk Mitigation, Lusaka-Zambia

Contents

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

Financial inclusion is widely acknowledged in all economies as a major factor in job creation and economic growth, especially for small and medium-sized businesses (SMEs). The credit markets for small and medium-sized enterprises are widely recognized for their flaws and shortcomings. These include a lack of recognized collateral, information asymmetry, high transaction costs for small-scale loans, and perceptions of high risk, all of which contribute to an inadequate distribution of credit. For instance, between 55 and 68 percent of formal SMEs in emerging nations are either underserved or unserved by financial institutions, with an estimated US$0.9 trillion to US$1.1 trillion credit gap (World Bank 2022). Credit guarantee scheme (CGSs) programs are a typical way that governments intervene in this gap. In line with this intervention strategy and ensure improvement in the Small, and Medium-Sized Enterprises' (SMEs') access to financing in Zambia, the government established credit guarantee programs in 2017.

This study therefore examines the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka Zambia. Hence this chapter looks at the background of the study, the statement of the problem, the research objectives, the significance of the study, the scope of the study, and the study's limitations.

1.2 Background of the study

SMEs play a crucial part in Zambia's economy. In addition to producing goods and services, they employ thousands of people and provide them with a living. Based on data from the 2018 International Trade Centre (ITC) Survey, small and medium-sized enterprises (SMEs) in Zambia account for 70% of GDP, 88% of employment, and 97% of all firms in the country. These commercial endeavours include, among many other things, restaurants, barbershops and hair salons, business centres, buildings, transportation (both public and private), metal manufacturing, and wood processing. It follows that the crucial role SMEs play in Zambia's economy cannot be understated. In many nations, especially emerging nations, SMEs are acknowledged as a key driver of economic growth

(Boocock & Shariff, 2002). Creating new job opportunities, enhancing industrial relations, encouraging adaptability and modernization, and producing export revenue are some advantages of a thriving SME sector (Harvie and Lee, 2001; Lerner, 2002; Mensah, 1996). Additionally, SMEs' reforming role in social and economic expansion is becoming increasingly acknowledged (Smallbone and Welter, 2001).

Despite this crucial role that these SMEs play in the economy, their access to finance for them to grow and contribute to economic is hampered by various reasons with the most prominent ones being inadequate record-keeping, information asymmetry, size and scale, lack of credit history and a lack of collateral. Because of these factors, banks typically are not able to provide SMEs with loan facilities that have risk-based pricing and offer competitive interest rates. This is the rationale behind the government's incorporation of the Zambia Credit Guarantee Scheme Limited under the Ministry of Finance and National Planning.

The goal of CGS is to increase the credit capabilities of SMEs by guaranteeing loans provided by financial institutions (Waniak-Michalak et al., 2022). Additionally, credit guarantees lower the risk of bankruptcy and indirectly lower the financing cost to reduce differences in the availability of external capital for companies of different sizes (Song et al., 2020). In terms of the classification of the CGSs, there is a wide diversity of schemes available worldwide.

As per the World Bank, credit guarantee schemes (CGSs) are a typical type of intervention meant to help lenders mitigate third-party credit risk by taking on part of the lender's losses on loans to SMEs in the event of default, typically in exchange for a fee (world Bank 2022). They also help SMEs get financing. By providing firms with financing options through loans from financial institutions, CGSs are a crucial tool for making up for the lack of collateral. Based on their requirements for funding and other factors, SMEs are the companies that these plans specifically support.

Banks need detailed accounting data and other financial records, which SMEs sometimes cannot provide. This complicates the application process. There are notable information asymmetries between banks and SMEs as a result of the absence of information (Bank

of Zambia 2021). However, the lack of collateral also made it more difficult for banks to provide direct funding to SMEs.

Collateral lending is one of the methods that have been utilized to solve the issue of funding limits encountered by SMEs; nevertheless, the granting of bank loan guarantees is one of the most popular options that has been employed in many countries (Deressa (2014). Based on the fact that guarantees are used as a mechanism that shares the risk between the bank and the guarantee institution in an agreed ratio, in this way the risk and the costs of the bank's operation are decreased and therefore its returns are raised

Banks that provide finance options to SMEs who are unable to produce sufficient collateral have this as a motivating reason. Credit guarantee programmes have grown to be an important component of many nations' strategies for reducing the financing barriers for SMEs. According to Green (2003), the first guarantee schemes appeared in developing and emerging nations in the late 20th century, but they originated in the 19th and early 20th centuries in industrialized countries. According to Pombo et al. (2015), CGSs were being used in practically every nation on Earth by 2015. Due to their flexibility in meeting the needs of both the lender and the guarantor, as well as their ability to be used as a counter-cyclical tool during times of crisis, CGSs have become more and more popular over the past 20 years, particularly during the most recent global financial and economic crisis.

A credit guarantee scheme specifically functions as a method for risk transfer and risk diversification; it lowers the risk for the lender by substituting a portion of the counterparty risk with the issuer of the credit guarantee, which agrees to reimburse a portion of the loan in the event of default. Additionally, by offering guarantees for loans made in various industries or regions, a CGS can reduce risk (Beck et al., 2010). Because a credit guarantee program is always positioned between the borrower and the lender, it functions as a standard financial middleman.

According to Caselli et al. (2019), CGSs facilitate the removal of financial obstacles and enhance a company's capacity to obtain bank financing, particularly for micro and small businesses. Through the guaranteeing of loans from financial institutions, CGS seeks to improve the credit capabilities of small and medium-sized enterprises (SMEs).

SMEs have difficulty obtaining bank financing because of a lack of transparency and the necessary information that banks want, which impacts the SMEs' ability to develop and survive. SME access to financing is becoming more and more challenging worldwide as a result of increased costs and a sharp reduction in availability. Private companies in China, particularly small ones, mostly depend on trade credit, internal financing, and informal loans (Zhou, 2015).

In Europe, the Central Guarantee Fund (CGF) in particular facilitates SME access by providing guarantees that supplement or replace private ones. CGF is the major governmental credit guarantee program in Italy and accounts for 2.1 percent of the GDP (European Investment Fund, 2014). The Ministry of Economic Development is represented in the management of CGF by Mediocredito Centrale. The organization's goal is to facilitate small and medium-sized enterprises (SMEs') access to credit by providing direct guarantees to lending banks or counter guarantees to other credit guarantee organizations, namely the Confidi (Italian mutually-based guarantee institutions). The CGF offers a public guarantee on financial activities, but it does not get involved in the bank-SME interaction.

In Africa, according to The Financial Sector Deepening Trust (FSDT) (2022), Tanzania's most common guarantee program is the credit guarantee scheme (CGS). Due to beliefs of high risk and/or low profitability associated with involvement in these sectors, banking institutions have disregarded the demand for financing from small, and medium-sized companies (SMEs) and other economic sectors including agriculture. By promising to compensate financial institutions in the event of a loan default, the CGS assumes part of the risk associated with lending.

In Zambia, the government created credit guarantee schemes in 2017 to enhance access to finance by Small and Medium Enterprises (SMEs). ZCGS has a deliberate affirmative policy of providing guarantees to underserved groups such as the women, youths and those in rural areas which is in line with the Government agenda thereby embracing inclusivity, diversity and promoting non-discrimination in service delivery. The scheme aims to increase SME’s participation in the socio-economic development of the country. Through strategic partnerships, ZCGS aims to contribute positively to financial inclusion,

employment creation, poverty reduction and economic development. Despite the establishment of credit guarantee schemes in 2017, SMEs are still having challenges to have access to finance. It is for this reason that this study examines the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka Zambia.

1.3 Statement of the problem

The development of the SME sector in many developing nations, particularly Zambia, was significantly hindered by SMEs' limited access to finance. Despite the critical role SMEs played in economic growth, job creation, and poverty reduction, they faced persistent challenges in securing funding from financial institutions. Key barriers included inadequate record-keeping, information asymmetry, lack of collateral, absence of credit history, and the small scale of operations, which collectively increased perceived risks for lenders. As a result, banks were often reluctant to provide SMEs with loan facilities that offered competitive interest rates and risk-based pricing. To address these challenges, the Zambian government introduced Credit Guarantee Schemes (CGS) in 2017 under the Zambia Credit Guarantee Scheme Limited, aimed at enhancing SMEs' access to finance by sharing the risk with financial institutions. While CGSs were implemented in various countries with reported success in improving SME access to credit, their effectiveness in Zambia remained unclear. Despite the establishment of these schemes, many SMEs in Lusaka continued to face difficulties in accessing the necessary capital to grow their businesses.

Existing studies on CGSs in other contexts, such as Germany (Gonas et al., 2004), the USA (Berger et al., 2011), and Italy (Green, 2003), demonstrated their potential to improve lending practices and increase SME access to finance. However, there was a lack of empirical evidence on the effectiveness of CGSs in Zambia, particularly in Lusaka, where SMEs formed a significant portion of the economy. This study sought to address this gap by assessing the effectiveness of Credit Guarantee Schemes in enhancing access to finance for SMEs in Lusaka, Zambia. Specifically, it explored the extent to which CGSs improved the availability and accessibility of financial resources, the utilization of these schemes by SMEs, and the impact of government policies and regulations on their effectiveness. Through addressing these questions, the study aimed to provide insights

into the role of CGSs in bridging the financing gap for SMEs and inform policymakers and stakeholders on how to enhance the design and implementation of such schemes to better support SME growth and economic development in Zambia.

1.4 Research objectives

This study is guided by general research and specific research objectives

1.4.2 General objective

To assess the effectiveness of Credit Guarantee Schemes in enhancing access to finance by SMEs in Lusaka, Zambia.

1.4.2 Specific Research Objectives

i. To assess the impact of Credit Guarantee Schemes on the availability and accessibility of financial resources by SMEs.
ii. Determine the extent to which SMEs utilize Credit Guarantee Schemes and the resulting impact of their access to finance.
iii. To assess the effect of government credit guarantee policies and regulations on SMEs accessing Credit Guarantee Schemes loans

1.5 Specific research questions

i. What is the impact of Credit Guarantee Schemes on the availability and accessibility of financial resources by SMEs?
ii. What is the extent to which SMEs utilize Credit Guarantee Schemes and the resulting impact of their access to finance?
iii. What is the effect of government credit guarantee policies and regulations on SMEs accessing Credit Guarantee Schemes loans

1.6 significance of the study

The study's conclusions and recommendations will be used by SMEs to develop strategies that will help them address innate issues that prevent them from obtaining loans from banks and other financial institutions. This study will advance our understanding of the variables influencing SMEs' ability to obtain financing and serve as

a foundation for further investigation. Researchers can identify current research gaps and utilize the study's conclusions and recommendations as a starting point for new research.

The Zambian government will be able to determine tactics and variables that impact SMEs' access to financing thanks to the study's findings. As a result, the government will be able to create policies and plans that will let banks create new goods aimed at young SMEs.

1.7 Scope of the study

The effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka Zambia will be conducted in Lusaka Central business. The study respondents are the SMEs in Central business. The Central business will be used in this study because there are many SMEs doing business in CBD.

1.8 Limitations of the Study

Despite the study being important, this study will be held in Lusaka alone due to financial constraints.

1.9 Definitions of terms and concepts

Credit: Credit is fundamentally the provision of loaned money based on an agreement between a creditor and a borrower, where the borrower is obligated to repay the loan with interest over a specified period (Lisa et al., 2022).

Credit guarantee schemes: Credit Guarantee Schemes (CGSs) are financial instruments designed to enhance access to credit for small and medium-sized enterprises (SMEs) by mitigating lenders' risks (Leo et al., 2024).

SMEs: Small and Medium-sized Enterprises (SMEs) are defined as businesses that operate on a smaller scale compared to large corporations, typically characterized by specific criteria such as employee count and annual revenue (Nefedov, 2023).

1.10 1.10 Organisation of the Study

This study examines effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka. Chapter one of this study looked at the introduction of the

study, background to the study, Statement of the problem, research objectives, scope of the study, significance of the study, outline of the dissertation, and chapter summary.

Chapter two of this study contains the Literature review and it has reviewed the theoretical literature, theoretical framework, empirical literature review, knowledge gap, conceptual framework, and chapter summary.

Chapter three of this study looks at the research methodology.

Chapter four looks at data analysis and Chapter Five discusses the findings from chapter four. Chapter 6 looks looked the conclusion and recommendations.

1.11 Chapter Summary

This study examined the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka Zambia. Chapter one of this study looked at the introduction of the study, background to the study, Statement of the problem, research objectives, scope of the study, significance of the study, operational definition, outline of the dissertation, and chapter summary.

The next chapter looks at the literature review

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature evaluate is one of the maximum crucial levels within the research system. Researchers can decide what is thought and unknown approximately a specific phenomenon they're analysing and the status of theory and technological know-how surrounding it by studying literature reviews. Grove and Burns (2007). Polit and Beck (2008) define a literature review as a critical summary of the studies on a compelling topic regularly produced to set research trouble in context. Consequently, the theoretical evaluation, theoretical framework, knowledge gap, conceptual framework, and chapter summary were examined in this chapter.

2.2 Overview of Small and Medium enterprises

In both industrialized and developing nations, Micro, Small, and Medium-Sized Enterprises (MSMEs) are critical to the processes of industrialization and economic expansion. MSMEs have the largest potential for growth and the highest rates of job creation, according to research Ayyagari, Demirgüç-Kunt, & Maksimovic, (2011). Evidence from a wide range of nations and development stages shows that SMEs promote economic growth by mobilizing savings Beck, Levine, Laeven, & Demirgüç-Kunt, (2005). Despite the importance of the sector to the economy, MSMEs continue to experience many constraints in accessing finance which limits them from realizing their full potential.

Zambia Chamber of Small and Medium Enterprises Association (ZCAMEA, 2012) states that access to finance is the second most cited obstacle facing MSMEs to grow their businesses in emerging markets and developing countries. This is due to lack of adequate collateral which is a major consideration for lenders in extending credit to MSMEs. Majority of MSMEs do not possess the types of assets that are typically accepted by

lenders as collateral. Collateral requirements therefore continue to be a major barrier for MSMEs in accessing formal credit. MSMEs are forced to rely on internal funds, or cash from friends and family, to launch and initially run their enterprises.

2.2.1 Credit guarantee scheme

Credit guarantee schemes (CGSs) are essential tools for enhancing access to finance for small and medium-sized enterprises (SMEs). They mitigate financial constraints by reducing lenders' credit risk, thereby facilitating loans to SMEs that might otherwise struggle to secure funding. In many nations, Credit Guarantee Schemes (abbreviated CGSs) have been a part of financial systems since the turn of the 20th century (Beck et al., 2019). With funding becoming more and more difficult to access, Small and Medium Businesses (SMEs) stand to gain a great deal from the introduction of Credit Guarantee Schemes (CGS). By offering guarantees against default, these programs reduce the risks for lenders and encourage them to lend money to SMEs that might not have physical collateral. In developing countries like Zambia, a credit guarantee scheme is essential in helping many SMEs obtain financing.

Credit guarantee programs in the financial markets are intended to reduce the risks that come with lending to small and medium-sized businesses (SMEs), making it easier for them to obtain the funding they require (Hossain et al. 2023). By offering guarantees that cover a percentage of the loans made to SMEs, these programs provide as a safety net for lenders, thereby reducing the risk of failure. These mechanisms are especially crucial when there is economic volatility because traditional financing channels tend to become more restrictive, which disproportionately affects SMEs' capacity to obtain funding. These difficulties were brought to light by the global financial crisis, as many SMEs saw declining demand and limited loan availability, endangering their ability to survive and expand (Duarte et al. 2018).

The goal of CGSs is to improve the credit capabilities of small and medium-sized enterprises (SMEs) by guaranteeing loans from financial institutions (Waniak-Michalak et al., 2022). Additionally, credit guarantees mitigate the risk of bankruptcy and indirectly reduce the financing cost to lessen disparities in the availability of external capital for businesses of different sizes (Song et al., 2020). There is a great deal of variation in the

classification of CGSs worldwide, which can be seen in a number of ways, including funding structure and ownership, business size restrictions, industry or geographic restrictions, price and risk analysis, and individual or portfolio level guarantees. CGSs are implemented and carried out by various government agencies, non-profit organizations, financial institutions, or business associations, with the goal of improving credit access.

Governments may improve businesses' creditworthiness and promote economic growth by implementing credit guarantees, which will strengthen the contribution of SMEs to social cohesion and job creation. Therefore, these schemes are pivotal in fostering a resilient financial environment that addresses both the needs of lenders and the operational realities of SMEs. Bank of Zambia (2022) stated that the introduction of credit guarantee schemes has often been posited as a vital mechanism for addressing the financial challenges faced by small and medium-sized enterprises (SMEs). These schemes act as a safety net for lenders, thereby significantly reducing the perceived risk associated with financing SMEs, which are notoriously burdened by limited access to credit.

2.3 Empirical Literature Review

This section of this study looks at the studies done on the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs starting with global, African perspective and ending with Zambian perspective.

2.1 Credit Guarantee Schemes on the availability and accessibility of financial resources by SMEs.

Credit Guarantee Schemes (CGSs) play a pivotal role in enhancing the availability and accessibility of financial resources for Small and Medium Enterprises (SMEs). These schemes mitigate financial constraints by providing guarantees on loans, thereby reducing the risk for lenders and encouraging them to extend credit to SMEs. The integration of innovative technologies, such as Distributed Ledger Technology (DLT), can further enhance the operational efficiency of CGSs, making them more effective in supporting SMEs (Leo et al., 2024).

One of the main obstacles SMEs encounter when trying to obtain capital is inadequate collateral, which is successfully removed by credit guarantee programs. Lenders are more inclined to give credit to SMEs when CGSs lower their risk exposure by guaranteeing a portion of the loan. In developing economies, where small firms have limited access to traditional collateral, this risk-sharing system has had a particularly significant impact. For example, SMEs in nations with active credit guarantee programs had greater loan acceptance rates than those in nations without such programs, according to a 2017 World Bank report. According to the study, CGSs promoted longer-term lending and improved SMEs' access to financing, which in turn promoted more sustainable company growth (World Bank, 2017).

CGSs lower interest rates on SME loans since they lower lender risk. According to certain research, the CGS's structure including the percentage of the loan guaranteed and the running expenses of the program determines this effect. Interest rates for SME loans are often better when administrative efficiency is strong and guarantee coverage is at its best. According to a paper by Beck et al. (2010), CGSs reduced banks' risk premiums, which in turn helped SMEs in several nations reduce their borrowing costs. SMEs also face cheaper financial expenses because CGSs frequently allow them to access legal financial channels, as opposed to informal credit sources, which frequently have significantly higher rates because of a lack of regulations.

Globally, Oscalu et al. (2020) looked into how financing limitations affected the expansion of the SME sector and how the integration of banking markets might be related to this. The authors discovered that SMEs' expansion was hampered by perceived rather than real funding barriers and that it was encouraged by more banking market integration. Banerjee (2014) investigated how financing limitations affected SMEs' profitability across a range of age groups. He demonstrated how financial limitations lower profitability and worsen when lenders are informed that financing is the biggest.

Using distinct data from a sizable number of businesses, D'Ignazio & Menon (2013) calculated the incidental impact of a credit guarantee program that was put into place in a major Italian region in 2008. Given that the guaranteed enterprises' financial status improved, the results demonstrate the effectiveness of the scheme. There wasn't

impact on the overall amount of bank loans, but the long-term component saw a significant rise, and the interest rates for SMEs saw a decline. The likelihood of guaranteed loan default rises, but the impact is only slightly significant. All other variables were unaffected; in particular, it was impossible to find important direct effects on the balance sheets" items, at least in short term.

Asdrubali and Signore (2015) conducted a study in Central Eastern and South-Eastern European countries between 2005 and 2012 that examines the economic impact of the credit guarantee scheme to SMEs. The study's findings indicate that, on average, beneficiaries of the credit guarantees have seen a notable increase in employment (from 14% to 18%) in contrast to those who did not have guaranteed loans; a less significant finding is the increase in turnover (up to 19%) within the first five years of the loan contract signing.

Gonzalez-Uribe and Wang's (2020) study showed that during a recession, guarantees can be used to keep jobs and support operations, but mostly for businesses where employing new employees and providing training is expensive. Additionally, it was demonstrated by Corredera-Catalán et al. (2021) that different countries and regions have different guarantee schemes due to different historical, economic, and legal factors. The influence of regional and economic development on the financial stability of guarantee programs was further demonstrated by Waniak-Michalak et al. in 2021.

According to Valentin and Wolf's (2013) thorough analysis of the body of research on the effect of guarantee schemes on SME lending, CGSs help SMEs that otherwise would not have been financed without guarantees, fostering a relationship between the bank and the borrower that will eventually allow banks to gather more data and, in turn, lessen actual information asymmetries.

Using distinct data from a sizable number of businesses, D'Ignazio & Menon (2013) calculated the incidental impact of a credit guarantee program that was put into place in a major Italian region in 2008. Given that the guaranteed enterprises' financial status improved, the results demonstrate the effectiveness of the scheme. There wasn't an impact on the overall amount of bank loans, but the long-term component saw a significant rise, and the interest rates for SMEs saw a decline. The likelihood of

guaranteed loan default rises, but the impact is only slightly significant. All other variables were unaffected; in particular, it was impossible to find important direct effects on the balance sheets" items, at least in the short term.

As a hitherto neglected subject, Dvouletý et al. (2018) evaluated the impact of CGSs on SME policies in Central and Eastern Europe. The authors concentrated on two EU-funded programs in the Czech Republic that ran from 2007 to 2013. Based on the propensity score matching approach, the study uses six financial variables—tangible fixed assets, total assets, staff expenses, sales, price-cost-margin, and return on assets—to assess a company's competitiveness for up to two years following the guarantee projections. With the exception of a positive change in tangible fixed assets, the findings for the period were not statistically significant for the most of the variables. This research is unable to determine if sponsored enterprises would fare better in the short term than unsupported firms.

The goal of a recent paper by Waniak-Michalak et al. (2022) was to evaluate the business models of CGSs implemented in 20 EU countries between 2007 and 2013. The authors focus on the financial additionality that is primarily dependent on the management style of the guarantee schemes, their implementation, the setting of objectives, and the distribution constraints. The researchers analyse the execution costs and the fund usage allocated for the schemes. A variety of methods are employed to achieve the goal (the Kruskal-Wallis by ranks, the median test, discriminant analysis, multidimensional scaling, and correlation), and power analysis is also conducted. The results indicate that the efficiency of implemented schemes is related to the level of regional development.

According to Valentin and Wolf's (2019) thorough analysis of the body of research on the effect of guarantee schemes on SME lending, CGSs help SMEs that otherwise would not have been financed without guarantees, fostering a relationship between the bank and the borrower that will eventually allow banks to gather more data and, in turn, lessen actual information asymmetries. Additionally, financing to SMEs becomes more profitable and bank fees for guaranteed loans are reduced.

In Africa, Ghanem (2021) examined the relationships between the number of SMEs and the degree of banking development in Algeria, as well as bank loans to the private sector

since 1964. She discovered that the banking system's role in funding the private sector had improved and had grown to notable proportions by 1996. The results show that government initiatives to promote financing for the private sector are what are responsible for the rise in private enterprises rather than improvements in bank lending over time.

One of the first programs in South Africa to encourage SME financing with guarantees was the Khula Credit Guarantee Scheme, which is now a part of the Small Enterprise Finance Agency. According to a research conducted by the University of Stellenbosch Business School (2021) which examined Khula's performance over a 20-year period, it was crucial in facilitating bank lending to underrepresented SMEs. The program was successful in expanding the flow of financing to SMEs, especially those in the manufacturing and agricultural sectors. Nevertheless, it encountered obstacles like exorbitant administrative expenses and issues in determining the creditworthiness of unregistered SMEs.

Research on Nigeria's National Credit Guarantee Scheme (NCGS) (2022) was carried out by NEXIM Bank, with an emphasis on how it affects Micro, Small, and Medium-Sized Businesses (MSMEs). Results indicated that CGSs played a key role in improving SMEs' access to financing in industries such export-oriented manufacturing and agricultural. According to the survey, bank loan approvals for SMEs covered by the guarantee increased by 40%. Notwithstanding these achievements, NEXIM found that SMEs' wider adoption was hampered by a lack of knowledge about the program and convoluted administrative procedures.

2.1.2 The extent to which SMEs utilize Credit Guarantee Schemes and the resulting impact of their access to finance

The utilization of Credit Guarantee Schemes (CGS) by SMEs significantly enhances their access to finance, which in turn positively impacts their growth and sustainability. These schemes serve as a vital tool for mitigating the risks associated with lending to SMEs, thereby facilitating their financial strategies and overall economic contributions.

Government-allocated funds known as Public Credit Guarantee Schemes (PCGSs) were established to lessen banks' losses in the event of borrower default by offering direct

guarantees or particular types of co-guarantees or counter-guarantees. These are the most prevalent kind of financial market public intervention programs in both developed and developing nations (ADB-OECD, 2014; Asdrubali and Signore, 2015; KPMG, 2012; OECD, 2013). These programs primarily seek to make it easier for certain business types—typically startups or SMEs—to obtain financing, as they face significant disadvantages with regard to requested collateral and interest rate spreads.

Even during the most severe times of crisis, empirical research indicates that the ability to obtain a public counter-guarantee has enhanced the volume of Confidi's mutual guarantees and enhanced the legitimacy and reputation of private guarantee programs (European Commission, 2005; AECM, 2010).

Globally in Italy, Zecchini (2020) used financial data from a sample of SMEs to examine the role of guarantee credit funds in increasing lending access and lowering financial expenses for SMEs. Businesses that received the guarantee and businesses that did not are included in this sample. The latter two groups were further divided into two sizable categories: SMEs eligible for credit guarantees (possible suppliers) and non-eligible SMEs (non-prospective suppliers). He employed two econometric methods: difference-in-difference (DID) estimation and instrumental variable (IV) to examine how guarantee funds affected the financial expenses of the SMEs under consideration. He then utilized DID estimate to determine whether the fund of guarantee. permitted the company to obtain a greater bank credit amount than it would have otherwise. The results demonstrated that the public guarantee lowers SMEs' borrowing costs and has a favorable and substantial impact on the banking loans that SMEs receive; nevertheless, the influence is too little, indicating that it is limited, for the latter outcome.

Asdrubali & Signore (2015) conducted a study in Central Eastern and South-Eastern European nations between 2005 and 2012 that examines the economic impact of the credit guarantee scheme to SMEs. In contrast to those who did not receive guaranteed loans, the statistics indicate that, on average, recipients of the credit guarantees have seen a significant increase in employment (from 14% to 18%). The study's less noteworthy finding is that, within the first five years of the loan contract being signed, turnover increased by up to 19%.

The goal of a recent study by Waniak-Michalak et al. (2022) is to assess the business models of CGSs that were put into place in 20 EU nations between 2007 and 2013. The authors focus on how the guarantee schemes' management style, execution, goal-setting, and distribution limits primarily affect the financial additionality. The funds used for the schemes and their execution costs are examined by the researchers. The Kruskal-Wallis by ranks, the median test, discriminant analysis, multidimensional scaling, correlation, and power analysis are some of the techniques used to accomplish the purpose. The results demonstrate a relationship between the degree of regional development and the effectiveness of implemented plans.

Research to evaluate the economic worth of loan guarantees was carried out by Saldana (2000). In order to highlight some consequences for government guarantee institutions and policymakers, the study examined the guaranteed portfolio of loans from the Guaranteed Fund for Small and Medium Enterprises (GFSME) in the Philippines as of year-end 1991. The first implication relates to the proposal that guarantee schemes choose the types of companies that would support and assist financial institutions based on their risk management policy and collateral requirements. This implies that the loan coverage ratio needs to be below 100%. The second suggests that in order to make sure that guarantees are exclusively granted for loans without collateral, guarantee schemes should tighten their approval processes. Overall, the study's findings indicate that guarantee institutions should broaden the network by involving financial institutions that provide loans without collateral and thereby significantly contribute to the benefits of the guarantee. The third one proposes that these schemes, in order to increase their scope, should seek the cooperation of financial institutions that wish to use the guarantee as a means of reducing risks.

By analysing 76 partial credit guarantee schemes from 46 developed and developing nations, Beck et al. (2010) observed the typology of credit guarantee schemes worldwide. The study demonstrates the diversity of credit guarantee schemes and their organizational characteristics, identifying the role of the private sector and the government, the various methods of setting prices and lowering risk, and the correlation of these characteristics between nations. The study demonstrates that the government plays a significant role in financing and managing credit guarantee schemes, but it plays

a much smaller role in risk assessment and recovery. Conversely, it is demonstrated that default rates are always higher when the government is involved in credit risk analysis.
In Africa, Researchers have studied the effect of the Agricultural Credit Guarantee Scheme Fund on the development of the agricultural industry in Nigeria. According to Orok and Ayim's (2017) research, the program positively impacted crop growers' productivity levels. Additionally, it was disclosed that the crop industry received more funding than other sectors.

In a study on the effect of the Agricultural Credit Guarantee Scheme Fund (ACGSF) on Nigeria's domestic food supply, Zakaree (2014) found that the ACGSF scheme has a statistically significant and detrimental effect on domestic food production. He added that a protracted delay in loan disbursement to farmers in rural areas is to blame for the detrimental effects. Due to the fact that the majority of banks are found in urban areas, loans that are sanctioned may come too late to serve the intended purpose. According to Tiamiyu et al. (2017), who conducted a study on the impact of the Agricultural Credit Guarantee Scheme Fund in Nigeria and economic regeneration through agriculture, a sizable amount of the shift in agricultural GDP was brought about by an increase in the amount of credit funds given to farmers.

In Kenya, Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA) Assessed the Effectiveness of Credit Guarantee Schemes in Supporting SME Access to Credit. The study revealed that that Kenya's government-backed CGS, which was launched in 2020, led to a marked increase in loan approvals for SMEs, with utilization highest among SMEs in agriculture, manufacturing, and trade. The scheme reduced collateral requirements, which is a major barrier for SMEs, allowing them easier access to credit. However, the study also highlighted that the uptake of the CGS was lower than anticipated, largely due to limited awareness among SMEs and some reluctance by banks to extend credit to high-risk SMEs despite the guarantees.

CGS scheme increased credit accessibility for SMEs, with participating businesses reporting better cash flow and operational stability. SMEs that accessed finance through the CGS showed an average revenue increase of about 20% over one year, which

contributed to job creation. Nevertheless, the report recommended expanding outreach efforts and simplifying application processes to improve CGS uptake.

In Zambia, the International Finance Corporation (IFC) 2020, examined the Role of Credit Guarantees in Expanding SME Finance in Zambia. The IFC's study on Zambia's CGS program analysed data from SME loans guaranteed by the IFC in partnership with local banks. The study found that CGSs reduced lenders' risk aversion and increased loan accessibility for SMEs by 20-30% in sectors such as agriculture, retail, and small-scale manufacturing. The IFC observed that CGSs were particularly effective in supporting SMEs that lacked sufficient collateral, which is a common barrier in Zambia.

2.2.3 The effect of government policies and regulations on accessing Credit Guarantee Schemes loans

Government policies and regulations significantly influence access to Credit Guarantee Schemes (CGSs) loans, particularly for small and medium-sized enterprises (SMEs). These schemes are designed to mitigate the risks associated with lending to financially constrained firms, thereby enhancing their access to credit. CGSs can be set up to solve market imperfections that keep MSMEs from obtaining loans at socially acceptable rates for greening initiatives. They are therefore a tool to address an issue rather than an end in and of themselves. Therefore, it is crucial to conduct a thorough analysis of market failures to pinpoint the issues that need to be resolved and ascertain whether there is sufficient evidence to support government intervention through a CGS (Aldana, Braly-Cartillier & Shuford. 2018).

The credit guarantee instrument cannot, on its own, compensate for the lack of technical or financial capacity of a lender or borrower. However, the majority of credit guarantee systems (CGSs) come with accompanying capacity-building programs and are frequently connected to a concessionary financing program, both of which address these challenges to some degree (Aldana, Braly-Cartillier & Shuford. 2018). Credit guarantees can enhance the collateral position of borrowers so that lenders can either provide lending where they otherwise would not or increase their debt exposure to a target borrower segment. A credit guarantee does not enhance a borrower's credit risk profile, that is, the

probability of a borrower defaulting on their loan obligation does not improve because of the credit guarantee (World Bank. 2015).

Globally, In Ecuador, Honohan, Patrick. (2020) examined the effect of government guarantee credit scheme policies on the performance of SMEs. The study looked at the Corporación Nacional de Finanzas Populares (CONAFIPS) which was implemented as a guarantee mechanism that seeks to facilitate the delivery of credits via cooperatives to entrepreneurs that do not have sufficient collateral, thus becoming a guarantor for the cooperatives. The study revealed that the policies influenced access to finance thereby increasing production.

In the same vein, in Cambodia, Pombo, Molina & Ramires (2020) assessed the effect of government credit guarantee policies on the working capital of SMEs. The study revealed that to improve SMEs' access to official loans for operating capital as well as investment or business expansion, the Credit Guarantee Corporation of Cambodia Plc. offers a CGS that supports them with less collateral and offers them insurance against collateral protection. The Business Recovery Guarantee Scheme, or CGS, offers collateral equal to 70% to 80% of the loans companies take from participating financial institutions.

In a study conducted in the Central Island of Solomon by the International Monetary Funds (2020) on the effects of credit guarantee policies influence on SMEs access to finance. The study revealed that through a cooperation program with commercial banks, the Central Bank of Solomon Islands manages the SME credit guarantee program, which receives funding from the Ministry of Commerce and is administered when claims are submitted. The program can benefit SME borrowers who would not otherwise have enough collateral by guaranteeing 90% of the whole shortfall or unsecured component of the loan offered by a participating financial institution.

In Africa, Yadi, R., & Shaban, M. (2021) looked at the government credit guarantee policy on the performance of SMEs in Morocco. The study revealed that incorporating guaranteed loans to SMEs into its acceptable collateral for refinancing operations and lowering prudential criteria for these loans, Bank Al-Maghrib supports government financing programs that target SMEs and individual entrepreneurs in both urban and rural areas. The Moroccan government and Bank Al-Maghrib both provide equal support for

the credit guarantee program. It is intended to help small and medium-sized businesses and early-stage project entrepreneurs by facilitating their access to funding and encouraging the professional and economic integration of workers in the unorganized sector.

In Tanzania, Hansen Kimeria (2020) assessed policies influencing access to finance by SMEs. The study revealed that a program run by the Loan Guarantee Corporation gives banks portfolio guarantees so they can make loans on their holdings. As a result, it is not product-specific; that is, banks are already able to use the guarantee program on any of their goods, so it will continue to be helpful when banks create new green products.

2.2.4 Public Credit Guarantee Schemes

Public Credit Guarantee Schemes (PCGSs) have been widely implemented across various countries to address the financing challenges faced by Small and Medium Enterprises (SMEs). The literature highlights the role of PCGSs in mitigating credit market failures, reducing information asymmetry, and enhancing SMEs' access to finance. Below is a discussion of key studies that provide insights into the design, effectiveness, and challenges of PCGSs, with a focus on their impact on SMEs.

Gai, Ielasi, and Rossolini (2016) examined the Italian Central Guarantee Fund (CGF), a public credit guarantee program that provides direct guarantees to banks and counter-guarantees to Mutual Guarantee Institutions (MGIs). The study analyzed the determinants of default risk for 33,229 SME loans counter-guaranteed by the CGF. The findings revealed that increases in an MGI’s leverage and the size of its counter-guaranteed portfolio heightened default risk. However, MGIs with local and specialized operations exhibited lower risk-taking behavior. The study emphasized the importance of designing PCGSs to control moral hazard and ensure financial sustainability. Gai et al. (2016) underscored the need for tailored public interventions that consider the operational characteristics of intermediaries like MGIs, as their behavior significantly influences the effectiveness of PCGSs.

Noh and Hong (2016) explored the effectiveness of South Korea’s public credit guarantee system, particularly its role as a counter-cyclical measure during economic downturns.

The authors argued that PCGSs should complement private financial systems by addressing market failures caused by the pro-cyclical behavior of private lenders. Noh and Hong (2016) highlighted the comparative advantages of PCGSs, such as their ability to provide liquidity without increasing government deficits and their focus on supporting start-ups, innovative enterprises, and employment-creating businesses. The study also emphasized the importance of strengthening the publicness of credit guarantees by prioritizing sectors with high growth potential, such as export-oriented and productivity-enhancing businesses. This research provides a strong rationale for the coexistence of public and market-based financing mechanisms, particularly in addressing the cyclical nature of financial markets.

Caselli, Corbetta, Rossolini, and Vecchi (2019) evaluated the impact of Italy's Central Guarantee Fund (CGF) on SME profitability during the 2007–2009 financial crisis. Using propensity-score matching and Difference-in-Differences regressions, the study found that the CGF positively influenced the profitability of micro- and small-sized firms, particularly in the manufacturing sector. However, the effects varied across firm sizes and sectors, suggesting that more customized programs are needed to maximize the value of public interventions. Caselli et al. (2019) highlighted the importance of tailoring PCGSs to the specific needs of different SME segments to enhance their effectiveness. For instance, while micro- and small-sized firms benefited significantly from the guarantees, the impact on larger firms was less pronounced, indicating the need for differentiated approaches.

Yağcı (2019) analyzed Turkey's Credit Guarantee Fund (KGF), which was revived in 2017 to address SMEs' chronic financing challenges. The study identified structural impediments such as high inflation, a large informal economy, and a bank-based financial system as key barriers to SME access to finance. Despite the revival of the KGF, these structural issues persisted, limiting the scheme's effectiveness. Yağcı (2019) argued that PCGSs should prioritize financing for SMEs in value-added, tradeable goods sectors to contribute to long-term economic growth. The study also highlighted the need for a sustainable KGF mechanism that balances public and private debt while addressing the specific needs of SMEs in high-potential sectors. This research underscores the

importance of addressing structural economic challenges to enhance the impact of PCGSs.

Ciani, Gallo, and Rotondi (2020) investigated the Italian Central Guarantee Fund (FCG) using an instrumental variable strategy to assess its impact on credit availability and interest rates for SMEs. The study found that guaranteed firms received an additional 7–8% of their total banking exposure in credit and benefited from a 50-basis-point reduction in interest rates. The effects were most pronounced for intermediate-risk firms, while interest rate reductions were observed across all risk classes except the least risky. Ciani et al. (2020) also noted that firms with longer banking relationships benefited more from the guarantees, raising questions about the ability of young firms to overcome financial frictions. The study highlighted the differential impact of PCGSs across SME risk classes and the importance of fostering long-term relationships between SMEs and financial institutions.

In summary, the reviewed literature demonstrates that PCGSs play a critical role in enhancing SME access to finance, particularly during economic downturns. Gai et al. (2016) and Caselli et al. (2019) emphasize the importance of designing PCGSs to mitigate moral hazard and tailor interventions to the needs of different SME segments. Noh and Hong (2016) highlight the counter-cyclical role of PCGSs and their ability to complement private financial systems. Yağcı (2019) underscores the need to address structural economic challenges to enhance the effectiveness of PCGSs, while Ciani et al. (2020) provide insights into the differential impact of guarantees across SME risk classes. These studies collectively offer valuable lessons for designing and implementing effective PCGSs, particularly in developing economies like Zambia.

Table 2.1 Gap analysis

Author and year	Country Of study	Research Topic	findings	Research gap
Oscalu et al. (2020)	Saudi Arabia	Looked into how financing limitations affected the expansion of the SME sector and how the integration of banking markets might be related to this.	The authors discovered that SMEs' expansion was hampered by perceived rather than real funding barriers and that it was encouraged by more banking market integration.	This study was done in a country with advanced financial markets, need to do the study in Zambia
Banerjee (2014)	Albania	Investigated how financing limitations affected SMEs' profitability across a range of age groups.	He demonstrated how financial limitations lower profitability and worsen when lenders are informed that financing is the biggest.	Done in a country with different lending regulations. Need to be done in Zambia
Ghanem (2021)	Algeria	Examined the relationships between the number of SMEs and the degree of banking development in Algeria, as well as bank loans to the private sector since 1964.	She discovered that the banking system's role in funding the private sector had improved and had grown to notable proportions by 1996.	The study used a qualitative research approach, this study employed a quantitative research method
Zecchini (2020)	in Italy	used financial data from a sample of SMEs to examine the role of guarantee credit funds in increasing lending	The results demonstrated that the public guarantee lowers SMEs' borrowing costs and has a favorable and substantial	Need to be done in Zambia as the study was done in country with

		access and lowering financial expenses for SMEs	impact on the banking loans that SMEs receive	different qgarantee schemes
Asdrubali & Signore (2015)	Conducted a study in Central Eastern and South-Eastern European nations between 2005 and 2012	Examined the economic impact of the credit guarantee scheme to SMEs.	The showed that those who did not receive guaranteed loans, the statistics indicate that, on average, recipients of the credit guarantees have seen a significant increase in employment (from 14% to 18%). The study's less noteworthy finding is that, within the first five years of the loan contract being signed, turnover increased up 19%	Need to be done in Zambia as the study was done in developed countries
Waniak-Michalak et al. (2022)	EU nations between 2007 and 2013	Assessed how the guarantee schemes' management style, execution, goal-setting, and distribution limits primarily affect the financial additionally	The results demonstrate a relationship between the degree of regional development and the effectiveness of implemented plans	Done in European countries that have different schemes. Hence the need to be done in Zambia
Orok and Ayim's (2017)	Nigeria	effect of the Agricultural Credit Guarantee Scheme Fund on the development of the agricultural industry	The program positively impacted crop growers' productivity levels.	done in a country with different environments and regulations
Zakaree (2014)	Nigeria	effect of the Agricultural Credit Guarantee Scheme Fund (ACGSF) on Nigeria's domestic food supply,	found that the ACGSF scheme has a statistically significant and detrimental effect on domestic food production	done in a country with different environments and regulations

Tiamiyu et al. (2017),	Nigeria	conducted a study on the impact of the Agricultural Credit Guarantee Scheme Fund in Nigeria	Through economic regeneration through agriculture, a sizable amount of the shift in agricultural GDP was brought about by an increase in the amount of credit funds given to farmers.	Need to asses this effect on SMEs in Zambia
Hansen Kimeria (2020)	In Tanzania	Assessed policies influencing access to finance by SMEs...	The study revealed that a program run by the Loan Guarantee Corporation gives banks portfolio guarantees so they can make loans on their holdings	The study was done in different county with different government policies
Pombo, Molina & Ramires (2020	Cambodia	assessed the effect of government credit guarantee policies on the working capital of SMEs	Improved access to finance	This study was done in a different country. Need to be assessed in Zambia

2.4 Theoretical framework

This study is underpinned by the theories of Credit Rationing Theory, Pecking Order Theory and Contract Theory.

2.4.1 Credit Rationing Theory

The equilibrium with credit rationing theoretical model of Stiglitz and Weiss (1981) was employed by the study. The model makes the assumption that there is information asymmetry in the imperfect market, making it difficult to get reliable information on the borrowers and for the banks, the expense of tracking the borrower's behavior is too high.

In addition, the model assumes that numerous banks are involved in the credit market and are attempting to maximize their profits by selecting collateral and interest rates. The goal of these decisions should be to lower the likelihood of default. However, a large number of prospective borrowers are also looking to select projects that would allow them to maximize their profit.

Owing to information asymmetry, only the borrowers and not the banks are aware of the project's likelihood of success. Furthermore, a borrower may choose to abandon the project that was first agreed upon and that the bank believes has a good probability of success with a regular return in favor of a high return project that has an equally high risk of failure. The borrower's actions are beyond the bank's control. The bank utilizes interest rates to differentiate between good and bad risk because the value of a failed project is the same whether it is high risk or not.

Regarding the barriers that SMEs face while trying to obtain financing, the study's findings are supported by the theory. According to the notion, banks will curtail the loans that SMEs request because of knowledge asymmetry.

2.4.2 Pecking Order Theory

According to the Pecking Order Theory, a company's desire to finance new investments first internally, then with low-risk debt, and lastly, if all else fails, with equity drives its capital structure. As a result, the companies favour internal funding over external funding (Barclay & Smith, 2005). This principle holds for both small and large businesses. Small businesses have high information costs because they are opaque and have significant adverse selection issues that are described by loan rationing (Psillaki, 1995). Because small businesses' financial statements vary in quality, small businesses typically have higher degrees of asymmetric information. Small businesses may wish to minimize these expenses even though investors might prefer audited financial statements (Pettit & Singer, 1985).

Pecking order theory illustrates, in the context of the study, the difficulty SMEs face in presenting accurate financial statements due to the high cost. As a result, SMEs would rather have finance from within than from outside sources like bank credit.

Boocock and Shariff (2005) claim that CGS lessens information asymmetry, enabling SMEs to apply for outside funding without incurring additional costs since CGSs enable banks to have a deeper understanding of the SMEs.

2.4.3 Contract Theory

According to contract theory, asymmetric information occurs when one of two parties to a transaction has information that is either different or more than the other. In these kinds of situations, one side frequently lacks sufficient information about the other party and is unable to make an informed choice (Powell & Stringham, 2009). This situation raises concerns about moral hazard and possible adverse selection in the credit market. An issue that arises from asymmetric information that exists prior to a transaction is known as adverse selection. Even if a borrower is deserving of the loan and has the ability to repay it as agreed, a lender may choose not to extend credit. Asymmetric knowledge that emerges after a transaction has taken place is known as a moral hazard Tadelis & Bajari, (2006).

According to the study, the idea illustrates how information asymmetry affects SMEs' ability to obtain loans. CGS lessens information asymmetry, which makes it more likely for SMEs to be eligible for loans.

2.5 conceptual framework

According to Atkinson (2006), a conceptual framework is a situation analysis tool. It takes into account the theoretical concerns of the research process in order to offer the framework for the development and identification of variables. According to Mugenda & Mugenda (2003), variables are measurable characteristics whose values vary depending on the subject. A researcher alters independent variables to ascertain the impact of one variable on another.

Independent variables **dependent variables**

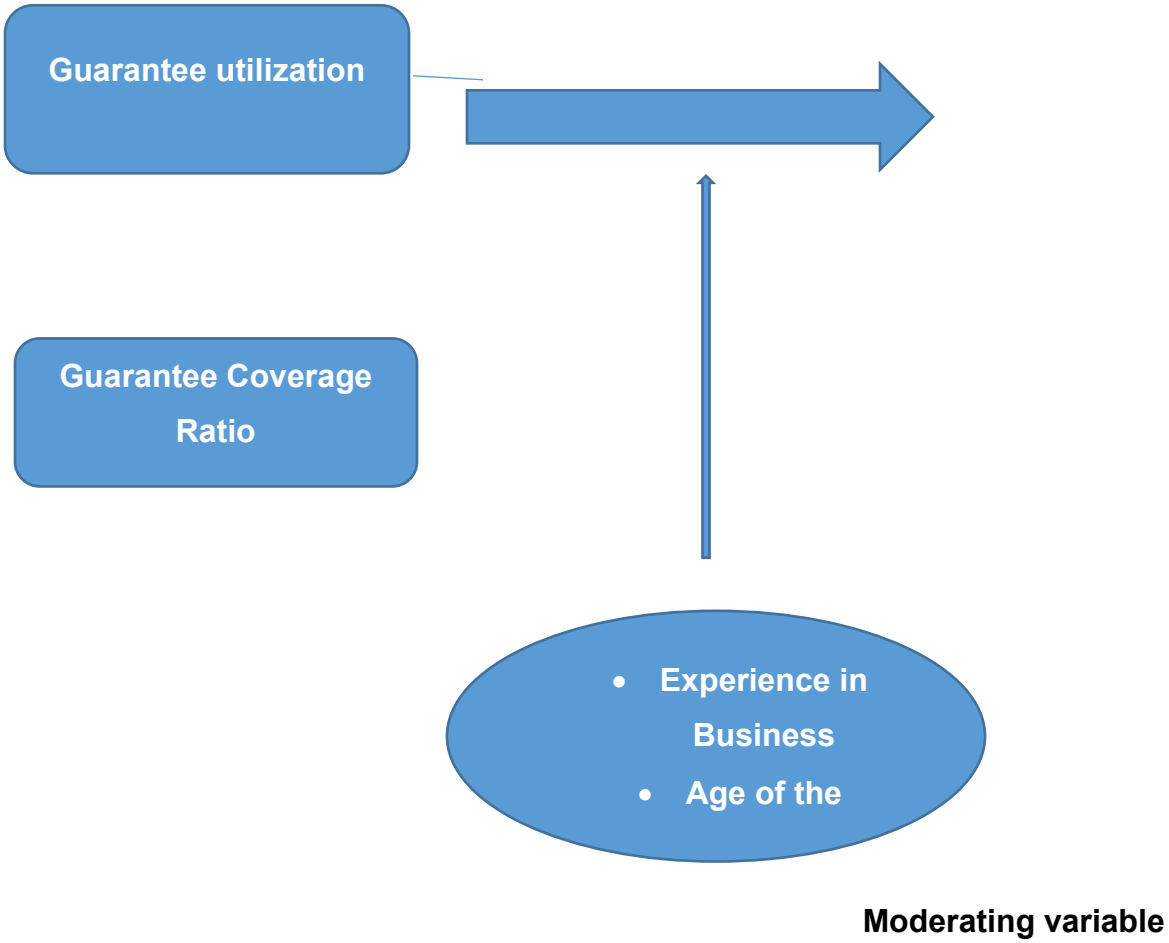

Figure 2.1 Conceptual framework

2.6 Chapter Summary

This chapter looked at the literature relevant to this study. It has specifically looked at the theoretical literature, theoretical framework, empirical literature review, research gaps and conceptual framework.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology, which describes the strategies, processes, and techniques that will be applied to complete the study. The target population, sample frame, design, and procedures for collecting and evaluating study data are also covered.

3.2 Research Approach

This study employed a quantitative research approach to examine the effectiveness of credit guarantee schemes in enhancing access to finance for SMEs in Lusaka, Zambia. Quantitative methods were chosen because they allowed for the systematic collection and analysis of numerical data, enabling the identification of patterns, relationships, and trends (Creswell, 2014). Specifically, this approach was used to measure variables such as awareness of credit guarantee schemes, participation rates, loan approval outcomes, and the impact of guarantee policies and regulations. By using statistical tools, the study aimed to test hypotheses and draw objective, generalizable conclusions about the role of credit guarantee schemes in improving SME access to finance (Saunders et al., 2019). This approach aligned with the study's goal of providing empirical evidence to inform policy and practice.

3.3 Research Design

The study adopted a descriptive and correlational research design. The descriptive component was used to summarize the demographic and operational characteristics of SMEs, such as age, education level, years in operation, industry sector, and business location. This provided a comprehensive overview of the sample and contextualized the findings within the broader SME landscape in Lusaka (Babbie, 2020). The correlational component was used to explore relationships between key variables, such as the impact of guarantee policies, utilization rates, and coverage ratios on loan approval outcomes. This design was chosen because it allowed for the examination of both the prevalence of credit guarantee scheme usage and the factors influencing their effectiveness (Bryman & Bell, 2015). By combining these elements, the study aimed to provide actionable insights for policymakers and stakeholders.

3.4 Research Philosophy

The study was grounded in a positivist research philosophy, which emphasized objectivity, measurement, and the use of scientific methods to uncover facts and relationships (Saunders et al., 2019). Positivism was chosen because it aligned with the study's quantitative approach and its focus on testing hypotheses and establishing causal relationships (Creswell, 2014). This philosophy assumed that reality was objective and could be measured through observable phenomena, such as loan approval rates and participation in credit guarantee schemes (Bryman & Bell, 2015). By adopting a positivist stance, the study sought to minimize bias and ensure that the findings were based on empirical evidence. This approach also allowed the researcher to use statistical tools to analyze data and draw conclusions that were both reliable and generalizable (Saunders et al., 2019). While other philosophies, such as interpretivism or pragmatism, could have been considered, positivism was deemed most appropriate given the study's objectives and the nature of the research questions (Creswell, 2014).

3.4.1 Epistemology

Epistemology is the branch of philosophy that studies knowledge in relation to its nature, sources, limitations, and validity. Epistemology refers to the philosophical assumptions about the nature of knowledge and how it can be acquired (Saunders et al., 2019). The study's epistemological stance is crucial as it underpins the approach to knowledge acquisition and validation on the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka Zambia. This study adopts a pragmatic epistemological stance which emphasizes the practical impact of research and advocates for the use of various methods to address research questions (Creswell & Poth, 2018). Pragmatism recognizes that there are different ways to interpret the world and conduct research, and the key factor in choosing a research philosophy is the nature of the research question. Pragmatism was selected as it aligns well with the quantitative approach and descriptive research design used (Creswell, 2014). By adopting pragmatism, the study effectively adopts the quantitative approach to achieve a comprehensive understanding of the research problem.

3.4.2 Ontology

Ontology is the branch of philosophy concerned with the nature of reality and existence. According to Saunders (2019), it provides the philosophical basis for the kind of knowledge presented in research, addressing its credibility and adequacy. The study's ontological position is essential as it shapes the researcher's understanding of reality in the context of credit guarantee schemes. This study takes a critical realist ontological approach, which asserts that an external reality exists independently of our perceptions and understandings, yet our knowledge of this reality is always flawed and subject to change (Bhaskar, 2016). By embracing a critical realist ontology, this study seeks to reveal the underlying factors influencing the on the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs , while acknowledging the limitations of our understanding and the necessity for continuous exploration and improvement.

3.4.3 Axiology

Axiology is the branch of philosophy that studies values, including ethics and aesthetics. Axiology, a branch of philosophy, delves into the nature of value, exploring the intrinsic worth and importance attributed to various aspects of existence (Harris, 2015). The Austrian and German schools of value phenomenologists played a key role in developing axiology, establishing a philosophical foundation for understanding value (Windelband, 2018). Axiology also explores the ethical considerations involved in research, such as the researcher’s responsibility to ensure integrity, fairness, and respect for participants. Researchers must recognize their own values, as these are integral to the research process and critical for achieving credible results. By adhering to scientific methods and research ethics, they can reinforce the integrity of their findings. Analyzing the results without bias allows researchers to produce unique and reliable research. Therefore, understanding and accounting for personal values is crucial to obtaining credible research outcomes.

3.5 Study population

Welman and Kruger (2001:46) define "population" as "people, groups, organizations, human products, events, circumstances, or the environment in which they exist.

According to Pandey and Pandey (2015), a population or universe is the set of traits that are part of a particular group, the parent bunch from which a sample is to be drawn. Walliman (2017) defines a population as the totality of a specific type of person, entity, or case pertinent to the study's topic, as opposed to a predetermined number of people, entities, or parts.

The population for this study is the 100 SMEs banking with Zambia Industrial Commercial bank.

3.6 Sample Size

Sampling is an essential component of any study in order to obtain the desired results. Researchers need to be aware of one important component of sampling. The sample used for a study should be representative of the population. Creswell (2012: 15) defines sampling as the process of selecting a sample from the target population. Seldom will a researcher examine every person in the population who meets the criteria to be a study subject. Selecting a subset of the population is known as sampling. Sampling is the process of selecting a smaller group of people from a larger population in a way that is representative of the characteristics of the larger population, according to Pender (1991:114).

This is because not all population sizes in research can be referred to as populations. A population is made up of components that could be study participants, the results of which the researcher hopes to generalize. The researcher used the Israel (1992) simplified method, which was derived from Yamane's 1967 formula, to determine the sample size, as indicated below.

$$n = \frac{N}{1 + N(e)^2}$$

Where sample size (n), N is the population size; e is the precision level (0.05). Is the result of n = 100/1+100 (0.05)(0.05).

n = 80

The study employed probability sampling, specifically random sampling, to ensure that every member of the target population had an equal chance of being selected for the study (Bryman & Bell, 2015). Random sampling was chosen because it minimized selection bias and enhanced the generalizability of the findings to the broader population of SMEs in Lusaka, Zambia. The sampling frame consisted of SME owners and operators registered with relevant business associations and government agencies in Lusaka. A total of 109 SMEs were randomly selected to participate in the study, ensuring a representative sample that reflected the diversity of the SME sector in terms of size, industry, and location.

3.8 Data Collection

Data for this study was collected using structured questionnaires, which were distributed to SME owners and operators in Lusaka. Questionnaires were chosen as the primary data collection tool because they allowed for the efficient collection of standardized data from a large sample size (Saunders et al., 2019). The questionnaire included both closed-ended and Likert-scale questions to capture demographic information, awareness of credit guarantee schemes, participation rates, and perceptions of their effectiveness. To ensure clarity and relevance, the questionnaire was pre-tested with a small group of SME owners, and adjustments were made based on their feedback. In addition to primary data collected through questionnaires, secondary data was gathered from journals, books, and past research studies. Secondary data provided contextual background and supported the interpretation of primary data findings. The combination of primary and secondary data sources enhanced the robustness and reliability of the study's conclusions (Zikmund et al., 2013).

3.9 Data Analysis

The data collected for this study was quantitative in nature. After participants completed the questionnaires, the raw data was coded, sorted, and organized into a format suitable for statistical analysis (Kombo & Tromp, 2006). The Statistical Package for Social Scientists (SPSS) was used to analyze the data, as it is a widely recognized tool for handling quantitative data and performing advanced statistical tests (Field, 2018).

The analysis involved several steps:

i. **Descriptive Statistics**: Frequencies, percentages, and means were calculated to summarize the demographic and operational characteristics of the sample.

ii. **Correlation Analysis**: A correlation matrix was constructed to examine the relationships between key variables, such as guarantee policies, utilization rates, and loan approval outcomes. Pearson's correlation coefficient (r) was used to measure the strength and direction of these relationships.

iii. **Regression Analysis**: Multiple linear regression was used to assess the predictive power of independent variables (e.g., guarantee policies, utilization, and coverage ratios) on the dependent variable (loan approval rates). Hierarchical regression analysis was also conducted to evaluate the incremental contribution of independent variables beyond control variables (e.g., business age and size).

These analytical techniques provided a comprehensive understanding of the factors influencing the effectiveness of credit guarantee schemes in enhancing SME access to finance.

3.10 Validity and Reliability

According to Bond (2003), validity comes first in the minds of individuals who develop measures, on the other hand, those who seek valid outcomes from assessments place a premium on a genuine scientific measurement. According to the comment above, validity lies at the heart of any form of dependable and accurate evaluation, Messick (1989) says that validity always means how much empirical evidence and theoretical justifications support the quality and relevance of the study's understanding and action. Cronbach's alpha, a coefficient of consistency in the instrument rather than a statistical test, was used by the researcher.

3.11 Ethical consideration

There should be a set of moral standards controlling the use of human subjects in research in every academic field. Vanderstoep and Johnston (2009). Research ethics such as voluntary participation, informed consent, confidentiality, anonymity, plagiarism,

transparency and coercion are concerns related to how study participants are treated and what happens to data after it is gathered.

3.11.1 Voluntary Participation

Participation should be on voluntary basis and no individual should be forced into the research process Davidson, (1995). In conducting research, participants are assistants and they are not bound to undertake a survey but rather invited. Coercion is avoided and an informed consent approach is adopted.

3.11.2 Informed Consent

Potential participants must fully understand what information is required of them. This is mostly done using an information sheet provided to all those who are invited to participate (Nelson et al, 2011). The information sheet will provide sufficient information for an individual to make an informed decision.

3.11.3 Confidentiality and Anonymity

Confidentiality requires that any disclosed information from the respondent is protected. Anonymity requires that the participants are unknown. In an event where participants are exposed, it must be clearly stated in the information and consent letter (ibid). However, there are some possibilities that individuals could be identified through data analysis.

3.11.4 Plagiarism

The issue of plagiarism also known as academic fraud was addressed to avoid making up data or purposively forwarding conclusions that are not accurate Bhattacharjee, (2023). In other words, there was need to avoid presenting someone else's information and regarding it as that done by the researcher.

3.11.5 Transparency

Transparency referred to the obligation of the researcher to make their finding or evidence, research design and analysis public Lupia & Elman, (2014). Therefore, the

researcher publicised the evidence on empirical findings, measured, interpreted and analysed the evidence. The researcher also publicised the research design and method choices.

3.11.6 Coercion

Coercion depicted influence of the researcher on the respondent to harm or force them to participate in the study (Patterson et al, 1992). However, the researcher ensured that consent was received from all the participants before the study was conducted.

3.12 Chapter Summary

This chapter looked at the methodology that has been used in analysing the data. The chapter contains the research approach, research design, research philosophy, the population, the sample size and the sampling techniques. The chapter has also looked at the data collection and the data analysis and the ethical considerations.

CHAPTER FOUR: DATA ANALYSIS

4.0 Chapter Introduction

This chapter presents the results of the data analysis, focusing on the relationships between the independent variables—Guarantee Policies and Regulations, Guarantee Utilization, and Guarantee Coverage Ratio—and the dependent variable, accesses to finance. Additionally, the chapter incorporates control variables, Business Age and Business Size, to provide a comprehensive understanding of the factors influencing access to finance rates for SMEs. The analysis uses both correlation and hierarchical regression methods to examine the strength and significance of these relationships. The findings are organized to highlight the critical factors driving loan approvals, their practical implications, and their potential contributions to policy-making and SME growth. The chapter also discusses the implications of the regression results in the broader context of enhancing financial support for SMEs.

4.1 Demographic profile

Variable	Category	Frequency	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Age Range	18 - 30 years	20	25.0	25.0	25.0
	31 - 40 years	40	50.0	50.0	75.0
	41 - 50 years	10	12.5	12.5	87.5
	50 - 60 years	5	6.3	6.3	93.8
	Above 60 years	5	6.3	6.3	100.0
Education Level	Degree	9	11.3	11.3	11.3
	Diploma	36	45.0	45.0	56.3
	Master’s Degree	6	7.5	7.5	63.7
	Primary	12	15.0	15.0	78.8
	Secondary	17	21.3	21.3	100.0

Years Operating as SME	1 - 4 years	15	18.8	18.8	18.8
	5 - 10 years	28	35.0	35.0	66.3
	Below 6 months	10	12.5	12.5	78.8
	Over 10 years	17	21.3	21.3	100.0
Industry Sector	Farming	26	32.5	32.5	32.5
	Hardware	15	18.8	18.8	51.2
	Restaurant	10	12.5	12.5	63.7
	Retail - Electronics	14	17.5	17.5	81.3
	Retail - Groceries	15	18.8	18.8	100.0
Business Location	Peri-urban	12	15.0	15.0	15.0
	Rural	21	26.3	26.3	41.3
	Urban	47	58.8	58.8	100.0
Awareness of Credit Schemes	Yes	66	82.5	82.5	82.5
	No	14	17.5	17.5	100.0
Participation in Schemes	Yes	43	53.8	53.8	53.8
	No	37	46.3	46.3	100.0
Loan Guarantee Percentage	0 - 25%	15	18.8	18.8	18.8
	25 - 50%	20	25.0	25.0	43.8
	50 - 75%	8	10.0	10.0	53.8
	Nil	37	46.3	46.3	100.0

Source of Scheme Awareness	Banks or Financial Institutions	32	40.0	40.0	40.0
	Business Associations	8	10.0	10.0	50.0
	Government Agencies	17	21.3	21.3	71.3
	Not Heard About It	23	28.7	28.7	100.0

The majority of respondents (50.0%) fall within the 31–40 years age range, indicating that most business operators are in their productive middle age. Younger participants aged 18–30 years accounted for 25.0%, showcasing the engagement of youth in entrepreneurship. Older age groups, including those over 60 years, constituted 12.6%, highlighting their relatively lower involvement in SME activities.

In terms of education, the largest proportion of respondents held diplomas (45.0%), suggesting that middle-level education is prevalent among business operators. Secondary education accounted for 21.3%, followed by primary education at 15.0%. Only a small portion had advanced degrees, with 11.3% holding undergraduate degrees and 7.5% holding master's degrees. This suggests that higher education may not be a significant prerequisite for SME operation in the study area.

Regarding business experience, 35.0% of respondents had operated their SMEs for 5–10 years, reflecting stability in this group. Another 21.3% had been in business for over a decade, while 31.3% had less than four years of experience, including 12.5% with less than six months. This distribution indicates a mix of seasoned and emerging entrepreneurs.

Farming was the most common sector, representing 32.5% of respondents. This was followed by hardware (18.8%) and retail, which combined groceries (18.8%) and electronics (17.5%). The restaurant sector accounted for 12.5%. This diversity reflects the multifaceted nature of SMEs in the region, with a strong focus on agriculture.

Urban areas hosted 58.8% of businesses, with 26.3% in rural settings and 15.0% in peri-urban locations. This indicates a concentration of businesses in urban areas, likely due to better infrastructure and access to markets.

Awareness of credit guarantee schemes was high, with 82.5% of respondents reporting familiarity. However, actual participation was slightly lower, at 53.8%. Notably, 46.3% reported no participation, indicating barriers to accessing these schemes. Among those who participated, 25.0% reported guarantees covering 25–50% of their loans, while 46.3% received no guarantee.

Banks and financial institutions were the primary sources of information about credit schemes (40.0%), followed by government agencies (21.3%). However, 28.7% of respondents had no knowledge of these schemes, indicating gaps in awareness dissemination. Overall, the data reveals diverse demographic and operational characteristics, providing a comprehensive understanding of SME dynamics.

4.3 Correlation Matrix

Variable	Mean	Std. Dev	N	1	2	3	4	5	6	7
1. Increased Loan Approval	3.89	0.49	109	1.000						
2. Business Age (Control)	7.5	3.12	109	0.187	1.000					
3. Business Size (Control)	12.3	4.8	109	0.143	0.132	1.000				
4. Guarantee Policies & Regulations	3.72	0.62	109	0.459**	0.062	0.071	1.000			
6. Guarantee Utilization	3.55	0.56	109	0.266*	0.091	0.088	0.068	-0.080	1.000	
7. Guarantee Coverage Ratio	3.67	0.53	109	0.373**	0.123	0.097	0.046	0.009	0.122	1.000

*Indicates significance at p < 0.05. *Indicates significance at p < 0.01*.

Guarantee Policies and Regulations exhibited a strong positive correlation with Increased Loan Approval thereby increasing access to finance ($r = 0.459$, $p < 0.01$). This underscores the importance of well-defined and supportive guarantee policies, which instill lender confidence and facilitate smoother loan processing.

A moderate correlation exists between Increased access to finance and Guarantee Utilization ($r = 0.266$, $p < 0.05$). This suggests that businesses actively utilizing

guarantee schemes are more likely to have their loans approved which in turns increases accesses to finance. Guarantee schemes reduce the perceived risk for lenders, making it easier for businesses to access credit.

Similarly, Guarantee Coverage Ratio demonstrates a moderate positive correlation with Increased Loan Approval ($r = 0.373$, $p < 0.01$). Higher coverage ratios mitigate lender risks, which is particularly beneficial for SMEs that may lack traditional collateral or financial strength.

The control variables, Business Age and Business Size, show weaker correlations with Increased Loan Approval ($r = 0.187$ and $r = 0.143$, respectively). This suggests that while older and larger businesses might have slight advantages in securing loans, their influence is not as significant as that of the independent variables. For instance, older businesses may have established credit histories, and larger businesses may present a lower financial risk to lenders.

Interestingly, Business Age shows a mild correlation with Access to Finance ($r = 0.201$), suggesting that older businesses might find it slightly easier to secure financing due to their experience and stability. Similarly, Business Size shows a weak correlation with Access to Finance ($r = 0.194$), indicating that larger businesses might have better access to financial resources due to their scale of operations.

4.2 Regression Table: Predictors of Increased Loan Approval

Predictor Variables	Unstandardized Coefficients (B)	Standard Error (SE)	Standardized Coefficients (Beta)	t	Sig. (p-value)	Tolerance	VIF
Constant	4.208	0.142	-	29.608	0.000	-	-
Business Age (Control)	0.020	0.015	0.069	1.354	0.179	0.917	1.0
Business Size (Control)	-0.034	0.040	-0.042	-0.841	0.402	0.939	1.0
Guarantee Policies & Regulations	0.249	0.027	0.452	9.178	0.000	0.973	1.0
Guarantee Utilization	0.140	0.030	0.231	4.610	0.000	0.935	1.0
Guarantee Coverage Ratio	0.175	0.028	0.305	6.163	0.000	0.960	1.0

The regression analysis reveals significant relationships between the independent variables and the dependent variable, Increased Loan Approval, while controlling for Business Age and Business Size.

Guarantee Policies and Regulations (B = 0.249, Beta = 0.452, $p < 0.001$) have a strong positive impact on loan approvals. This suggests that clear and supportive policies significantly enhance lenders' confidence and streamline the loan approval process.

Guarantee Utilization (B = 0.140, Beta = 0.231, $p < 0.001$) also significantly contributes to loan approval rates. Active utilization of guarantee schemes likely enhances borrowers' creditworthiness, making lenders more inclined to approve loans.

Guarantee Coverage Ratio (B = 0.175, Beta = 0.305, $p < 0.001$) positively impacts loan approvals. Higher guarantee coverage reduces lender risk, increasing their willingness to approve loans for SMEs with limited collateral.

The control variables, Business Age (B = 0.020, Beta = 0.069, $p > 0.05$) and Business Size (B = -0.034, Beta = -0.042, $p > 0.05$), show weaker and statistically insignificant relationships with loan approvals. This suggests that while older and larger businesses might have slight advantages, their influence is minimal compared to the independent variables.

The overall model explains only a small proportion of the variance in loan approvals ($R^2 = 0.011$), suggesting that other unexamined factors might also influence loan approvals. However, the significant predictors Guarantee Policies and Regulations, Guarantee Utilization, and Guarantee Coverage Ratio—highlight actionable areas for improving SMEs' access to financial resources. These findings underscore the importance of enhancing financial mechanisms and guarantee systems to support SME growth.

4.1 Hierarchical Regression Analysis for Increased Loan Approval

Variable	**Model 1 (Beta 1)**	**SE (1)**	**Model 2 (Beta 2)**	**SE (2)**	**VIF**
Control Variables					
Business Age	0.091	0.024	0.072	0.017	1.103

Business Size	-0.015	0.053	-0.031	0.045	1.089
Independent Variables					
Guarantee Policies & Regulations	-	-	0.389	0.026	1.019
Guarantee Utilization	-	-	0.256	0.031	1.067
Guarantee Coverage Ratio	-	-	0.322	0.029	1.049
Model Statistics					
R	0.49		0.72		
R^2	0.24		0.52		
Adjusted R^2	0.21		0.50		
F	15.63		41.29		
F Change	-		25.66		

In Model 1, the control variables (Business Age and Business Size) were analyzed for their predictive effect on loan approvals. Business Age (Beta = 0.091, SE = 0.024) shows a weak positive relationship with loan approvals, suggesting that older businesses have a slightly higher likelihood of securing loans due to their experience and established track record. On the other hand, Business Size (Beta = -0.015, SE = 0.053) exhibits a negligible and non-significant effect, indicating that the size of a business does not significantly influence its ability to obtain loans. The R^2 value of 0.24 indicates that the control variables explain only 24% of the variance in loan approvals, leaving substantial room for the influence of other factors.

In Model 2, the addition of the independent variables (Guarantee Policies & Regulations, Guarantee Utilization, and Guarantee Coverage Ratio) dramatically improves the model's predictive power. The R^2 increases to 0.52, indicating that these independent variables collectively explain an additional 28% of the variance in loan approvals beyond what is explained by the control variables. The F-change of 25.66 is statistically significant, confirming the importance of the independent variables in enhancing the model's explanatory capacity.

Guarantee Policies & Regulations (Beta = 0.389, SE = 0.026) also plays a significant role in facilitating loan approvals. Effective and transparent policies provide assurance to lenders, reducing perceived risks and encouraging loan disbursement.

Guarantee Coverage Ratio (Beta = 0.322, SE = 0.029) demonstrates a moderate positive relationship with loan approvals. Higher coverage ratios reduce the risk for lenders, increasing their willingness to approve loans for SMEs that may lack traditional forms of collateral.

Guarantee Utilization (Beta = 0.256, SE = 0.031) has a smaller yet significant impact on loan approvals. SMEs that actively engage with guarantee schemes are more likely to secure loans, as such schemes enhance their creditworthiness and reduce lender hesitation.

4.4 Model Performance

The final model demonstrates strong predictive power, with an R = 0.72 and an Adjusted R^2 = 0.50. These values suggest that 50% of the variance in loan approvals is explained by the combined effect of the control and independent variables. The low variance inflation factors (VIF < 1.1) across predictors indicate no multicollinearity issues, affirming the reliability of the regression results. The hierarchical regression analysis underscores the significant influence of independent variables, particularly Guarantee Policies & Regulations, in enhancing loan approvals for SMEs. While control variables like Business Age and Business Size contribute minimally, the independent variables add substantial explanatory power to the model. These findings highlight the importance of improving financial accessibility and guarantee mechanisms to support SMEs in securing the loans necessary for growth and sustainability. Future efforts should focus on refining guarantee policies, increasing access to finance, and promoting the effective utilization of guarantee schemes to boost SME development.

4.5 Chapter Conclusion

The analysis in this chapter highlights the significant influence of independent variablw Guarantee Policies and Regulations, Guarantee Utilization, and Guarantee Coverage Ratio—on increasing loan approvals for SMEs. underscoring the critical need for financial accessibility to improve SME loan eligibility. Guarantee Policies and Regulations and Guarantee Coverage Ratio also significantly contribute to reducing lender risk and increasing approval rates. The control variables, Business Age and Business Size, demonstrated weaker relationships, suggesting that these demographic factors have limited impact compared to the financial and policy-related

variables. The regression model's robust explanatory power, with an adjusted R^2 of 0.50, reflects the importance of targeted financial and policy interventions to enhance SME credit access. These findings provide actionable insights for stakeholders aiming to design effective financial support mechanisms and strengthen SME growth in competitive markets.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

This chapter of the paper covered the results from Chapter Four. First, it covered the results of the research objectives from Chapter One. Based on the research, it then concluded and eventually offered suggestions for the research.

5.2 To Assess the Impact of Credit Guarantee Schemes on the Availability and Accessibility of Financial Resources by SMEs

The findings revealed that the Guarantee Coverage Ratio had a moderate positive correlation with increased loan approval rates ($r = 0.373$, $p < 0.01$). This indicates that higher guarantee coverage ratios significantly enhance SMEs' access to finance by reducing lenders' perceived risk. Hierarchical regression analysis further confirmed this relationship, showing a moderate positive impact (Beta = 0.322, SE = 0.029). These results suggest that credit guarantee schemes (CGSs) play a critical role in bridging the financing gap for SMEs, particularly for those lacking traditional collateral or strong financial histories. This finding aligns with Ghanem's (2021) study, which highlighted the role of government interventions in improving private sector financing in Algeria. Similarly, the study supports contract theory, which posits that asymmetric information between lenders and borrowers can hinder access to finance (Powell & Stringham, 2009). By mitigating information asymmetry and reducing lender risk, CGSs enable banks to extend more loans to SMEs, thereby improving financial inclusion.

The findings underscore the importance of designing CGSs with adequate coverage ratios to maximize their impact on SME financing. However, policymakers must also consider the potential risks of high coverage ratios, such as moral hazard, where lenders may become less diligent in assessing borrower creditworthiness. To address this, policymakers could implement risk-sharing mechanisms that encourage responsible lending while maintaining the effectiveness of CGSs. For SMEs, these findings highlight the importance of leveraging CGSs to improve their access to finance, particularly for those with limited collateral or financial histories.

5.3 To Determine the Extent to Which SMEs Utilize Credit Guarantee Schemes and the Resulting Impact on Their Access to Finance

The analysis showed a moderate correlation between Guarantee Utilization and increased loan approval rates ($r = 0.266$, $p < 0.05$), with regression analysis confirming its significant impact (Beta = 0.256, SE = 0.031). This suggests that SMEs actively utilizing CGSs are more likely to secure loans, as these schemes enhance their creditworthiness and reduce lender hesitation. However, the study also found that only 53.8% of SMEs participated in CGSs, indicating barriers to utilization, such as lack of awareness or complex application processes. These findings are consistent with Orok and Ayim's (2017) research, which highlighted the positive impact of guarantee utilization on crop growers' productivity in Nigeria. However, the study also echoes Zakaree's (2014) concerns about delays in loan disbursement, which can undermine the effectiveness of CGSs. For instance, the concentration of financial institutions in urban areas may disadvantage rural SMEs, as observed in Nigeria. The findings highlight the need for targeted outreach programs to improve SME awareness and participation in CGSs. Policymakers should consider simplifying application processes and leveraging digital platforms to enhance accessibility, particularly for SMEs in rural and peri-urban areas. Financial institutions can also play a role by developing user-friendly guarantee products tailored to the needs of SMEs in different sectors. For SMEs, these findings emphasize the importance of actively engaging with CGSs to improve their access to finance and enhance their creditworthiness.

5.4 To Assess the Effect of Government Credit Guarantee Policies and Regulations on Accessing Finance

The findings demonstrated a strong positive correlation between Guarantee Policies and Regulations and increased loan approval rates ($r = 0.459$, $p < 0.01$). Regression analysis further confirmed the significant impact of these policies (Beta = 0.389, SE = 0.026), underscoring their importance in instilling lender confidence and facilitating smoother loan processing. Well-defined and supportive policies create an enabling environment for CGSs to function effectively, thereby improving SMEs' access to finance.

This finding aligns with Honohan's (2020) study on the Corporación Nacional de Finanzas Populares (CONAFIPS) in Ecuador, which highlighted the role of government policies in enhancing SME access to finance. The study also supports the

notion that CGSs can serve as counter-cyclical tools, providing liquidity during economic downturns when private lenders are risk-averse.

The findings emphasize the importance of well-designed and supportive guarantee policies in enhancing SME access to finance. Policymakers should prioritize the development of inclusive and sustainable CGSs that address the specific needs of SMEs, particularly those in underserved areas. However, policymakers must also consider the long-term sustainability of these interventions. For instance, over-reliance on government guarantees could strain public finances, particularly in developing economies. To address this, policymakers could explore innovative financing models, such as public-private partnerships, to share the risks and costs of CGSs. Additionally, integrating CGSs with broader financial inclusion strategies, such as financial literacy programs and digital financial services, could enhance their impact on SME growth and development.

5.5 Synthesis of Findings

The study found that higher Guarantee Coverage Ratios significantly enhance SMEs' access to finance by reducing lenders' perceived risk. This is particularly beneficial for SMEs that lack traditional collateral or strong financial histories. However, the study also raises important considerations about the sustainability of high coverage ratios, as excessive reliance on guarantees could lead to moral hazard. Policymakers must therefore strike a balance between risk mitigation and financial sustainability, ensuring that CGSs remain effective without overburdening public finances. The analysis also revealed a moderate correlation between Guarantee Utilization and increased loan approval rates, indicating that SMEs actively utilizing CGSs are more likely to secure loans. However, the study found that only 53.8% of SMEs participated in CGSs, highlighting barriers to utilization, such as lack of awareness or complex application processes. These findings underscore the need for targeted outreach programs and simplified application processes to improve SME participation in CGSs. Financial institutions can also play a role by developing user-friendly guarantee products tailored to the needs of SMEs in different sectors Finally, the study demonstrated a strong positive correlation between Guarantee Policies and Regulations and increased loan approval rates, underscoring the importance of well-defined and supportive policies in instilling lender confidence and facilitating smoother loan processing. However,

policymakers must also consider the long-term sustainability of these interventions, as over-reliance on government guarantees could strain public finances. Innovative financing models, such as public-private partnerships, could help address this challenge while enhancing the impact of CGSs on SME growth and development.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.0 Introduction

This chapter presents the conclusions derived from the study's findings and provides recommendations based on the research objectives. It also identifies areas for future research and outlines the study's limitations.

6.1 Conclusions

This study aimed to assess the effectiveness of Credit Guarantee Schemes (CGSs) in enhancing access to finance by SMEs in Lusaka, Zambia. The research successfully answered the study's key research questions, as discussed below.

6.1.1 The Impact of Credit Guarantee Schemes on the Availability and Accessibility of Financial Resources by SMEs

The study found that higher Guarantee Coverage Ratios significantly enhance SMEs' access to finance by reducing lenders' perceived risk. The findings demonstrated a moderate positive correlation ($r = 0.373$, $p < 0.01$) and a significant regression impact (Beta = 0.322, SE = 0.029), indicating that SMEs benefiting from CGSs experience improved loan approval rates. This confirms that CGSs effectively bridge the financing gap for SMEs, particularly those lacking collateral or strong financial histories. However, the study also highlights the potential risk of moral hazard if guarantee coverage is too high, leading to relaxed lending standards.

6.1.2 The Extent to Which SMEs Utilize Credit Guarantee Schemes and the Resulting Impact on Their Access to Finance

The research found that SME participation in CGSs remains moderate, with only 53.8% of SMEs actively utilizing these schemes. The analysis showed a moderate correlation ($r = 0.266$, $p < 0.05$) and a significant regression impact (Beta = 0.256, SE = 0.031), confirming that SMEs engaging with CGSs experience higher loan approval rates. However, barriers such as lack of awareness and complex application processes hinder full utilization. This suggests that while CGSs improve access to finance, their effectiveness is constrained by SME participation levels.

6.1.3 The Effect of Government Credit Guarantee Policies and Regulations on SMEs Accessing Credit Guarantee Scheme Loans

The study established a strong positive correlation ($r = 0.459$, $p < 0.01$) between Guarantee Policies and Regulations and increased loan approval rates, emphasizing the critical role of government policies in financial accessibility. Regression analysis (Beta = 0.389, SE = 0.026) confirmed that well-defined and supportive policies enhance lender confidence and facilitate smoother loan approvals. However, overly stringent regulations or bureaucratic inefficiencies could hinder the intended benefits of CGSs. This finding suggests that while policies are instrumental in shaping the effectiveness of CGSs, their implementation and adaptability to economic changes are equally crucial.

6.1.4 Overall Conclusion

The study concludes that Credit Guarantee Schemes play a significant role in improving access to finance for SMEs in Lusaka, Zambia. By reducing lenders' perceived risk, CGSs contribute to higher loan approval rates and enhanced financial inclusion. However, despite their benefits, the effectiveness of CGSs is influenced by SME participation levels, policy frameworks, and risk management mechanisms. While well-structured CGSs can bridge financing gaps, issues such as awareness, application complexity, and potential moral hazards need to be addressed. To maximize their impact, policymakers and financial institutions should refine CGS policies, improve outreach initiatives, and ensure a balanced risk-sharing approach. Overall, the study underscores the need for continuous improvement and innovation in CGS implementation to enhance SME growth and economic development.

6.2 Recommendations

Based on the study’s findings and conclusions, the following recommendations are proposed:

1. **Enhance Credit Guarantee Coverage While Managing Risk:** Policymakers should ensure that CGSs maintain adequate coverage ratios to encourage lending without promoting reckless credit practices. Implementing risk-sharing mechanisms between the government and financial institutions can balance accessibility with responsible lending.

2. **Increase SME Awareness and Participation in CGSs:** Government agencies and financial institutions should conduct targeted outreach programs to educate SMEs about CGSs. Simplifying the application process and leveraging digital platforms could improve accessibility and participation.
3. **Streamline Credit Guarantee Disbursement Processes:** Efforts should be made to minimize bureaucratic delays in CGS loan approvals and disbursements. Reducing processing times can enhance the effectiveness of CGSs, ensuring SMEs receive timely financial support.
4. **Strengthen Policy Adaptability and Private Sector Involvement:** Governments should create flexible regulatory frameworks that allow for periodic assessments and adjustments to CGSs. Additionally, fostering public-private partnerships in CGSs can enhance their sustainability and impact.
5. **Develop Sector-Specific Guarantee Products:** Financial institutions should tailor CGS products to suit the needs of SMEs in various industries, including agriculture, manufacturing, and technology, ensuring inclusivity and targeted support.

6.3 Areas for Future Research

The study identified several areas that warrant further investigation:

1. **Sector-Specific Effects of Credit Guarantee Schemes:** Future studies could examine how CGSs impact SMEs in different industries and whether certain sectors benefit more than others.
2. **Long-Term Sustainability of CGSs:** Research should explore the financial sustainability of CGSs, particularly in developing economies, and assess their long-term economic effects.
3. **The Role of Digital Finance in CGS Utilization:** Investigating how digital financial services and fintech solutions can enhance CGS participation and accessibility for SMEs.
4. **Optimal Guarantee Coverage Levels:** Further research is needed to determine the ideal guarantee coverage ratio that balances accessibility with lender risk mitigation.

6.4 Limitations

While this study provides valuable insights into the effectiveness of CGSs in enhancing SME access to finance, it has certain limitations:

1. **Limited Geographic Scope:** The study focused solely on SMEs in Lusaka, Zambia, which may limit the generalizability of findings to other regions.
2. **Self-Reported Data:** The study relied on self-reported responses from SMEs and financial institutions, which may introduce bias due to misreporting or subjective perceptions.
3. **Lack of Longitudinal Data:** The study assessed CGS impacts at a single point in time. A longitudinal study could provide deeper insights into long-term trends and effects.
4. **Variability in SME Financial Literacy:** Differences in financial literacy levels among SMEs could influence their ability to effectively utilize CGSs, potentially affecting the study results.

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APPENDICES

Appendix 1: Questionnaire

PARTICIPANTS CONSENT FORM

Dear respondent,

My name is Mukuka Chileshe, and I am a student pursuing a Master's in Business Administration -Finance at the University of Lusaka in Lusaka Zambia

You are randomly selected to take part in this research. So please feel free to participate in this program. As I pledge not to expose your confidential personal information as you are not going to be asked to write your name or disclose any personal details.

Your truthfulness and honest participation will be highly appreciated, please be sincere when answering this questionnaire. Kindly direct any queries to

Mukuka Chileshe

Phone: 260979480537

Email: mbafin18110926@stud.unilus.ac.zm

SECTION A. DEMOGRAPHIC DETAILS

Please tick your most appropriate choice.

1. **Gender of respondent**

a). Male [ ]

b). Female [ ]

2. Education level

a). Primary [ ]

b). Secondary [ ]

c). Diploma [ ]

d). Degree [ ]

e). Masters Degree [ ]

f) PHD [ ]

f).others,

specify……...

2. Age of respondents

a). 18-30 [ ]

b). 31-35 [ ]

c). 36-40 [ ]

d). 41-45 [ ]

e). 46-above [ ]

3. How many years have you been operating as an SMEs

a). Below 6 months [ ]

b) 6-12 months [ ]

c). 1-4 years [ ]

d). 5-10 years [ ]

e). Over 10 years [ ]

4. Which industry sector does your business operate in ?

Please state,

……

5). What is the location of your business?

a) Urban b) Peri-urban c) Rural

AWARENESS AND UNDERSTANDING

6. Do you know of any credit guarantee schemes available in Zambia?

a). Yes

b). No

7. Have you ever participated in a credit guarantee scheme?

a). Yes

b). No

8. If yes, which credit guarantee scheme did you participate in?

9. To the best of your knowledge, what percentage of your loan was guaranteed under the scheme?

a) 0-25%

b) 25-50%

c) 50-75%

d) 75% and above

10.How did you know about the credit guarantee scheme?

a). Government agencies

b). Banks or other financial institutions

c). Media

d). Business associations

e). Other (please specify)

SECTION B: GUARANTEE COVERAGE RATIO

This section will ask questions relating to credit Guarantee coverage Ratio. Please indicate the extent to which you agree or disagree with each of the statements below by ticking (√) in the appropriate space.

(Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree)

	Guarantee Coverage Ratio	1	2	3	4	5
GC1	Guarantee coverage has made it easier for my business to access financing.					
GC2	Guarantee coverage has allowed my business to obtain more credit than before					
GC3	Guarantee coverage has improved the willingness by financial institutions to lend to my business.					
GC4	A higher credit guarantee ratio has encouraged lenders to lend more money to my business					
GC5	The current credit guarantee ratio offered by CGS in your area aligns with industry practices and market needs					

Gc6	Guarantee coverage ratio has helped reduce collateral requirements for my loans					
Gc7	Guarantee coverage ratio affects interest rates offered by financial institutions					
Gc8	To the best of your knowledge, do you think the coverage ratio offers sufficient coverage to minimize risks for your business?					
Gc9	Guarantee Coverage ratio has influenced the time it takes to approve my loan					
Gc10	Guarantee coverage ratio has provided sufficient support for sustainable financial access.					

SECTION C: GUARANTEE POLICIES ANS REGULATIONS

This section will ask questions relating to credit guarantee policies and regulations and their impact on the participants business.

Please indicate the extent to which you agree or disagree with the following statements by ticking (√) in the appropriate space.

(Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

	STATEMENT	1	2	3	4	5
Gp1	I am familiar with regulations and policies that support credit guarantee schemes					
Gp2	Regulations governing access to credit guarantee schemes are easy for me to understand					
Gp3	I do not find the regulatory compliance for accessing credit guarantees burdensome					
Gp4	I believe the regulatory policies are supportive of my business growth and financing					
Gp5	I believe financial institutions have aligned their loan requirements with credit guarantee policies					

Gp6	I believe financial institutions are consistent in implementing credit guarantee policies					
Gp7	Guarantee policies have improved my access to finance					
Gp8	Credit guarantee policies have led to a reduction in my cost of borrowing					
Gp9	Credit guarantee policies have improved my business operations					
Gp10	I am satisfied with the credit guarantee policies					

SECTION C: UTILIZATION AND IMPACT

This section will ask questions relating to credit guarantee utilization and its impact on the participants business.

Please indicate the extent to which you agree or disagree with the following statements by ticking (√) in the appropriate space.

(Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree)

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	Guarantee utilization	**1**	**2**	**3**	**4**	**5**
Gu1	My business relies on CGS as a primary source of financing					
Gu2	My business applies for CGS-backed loans whenever credit is needed.					
Gu3	Credit guarantee schemes offer user friendly services					
Gu4	Credit guarantee schemes do not require a lot of paperwork					

Gu5	Speed and ease of approval make my business use CGS backed loans.					
Gu6	Credit guarantee schemes have improved the repayment terms of loans					
Gu7	Lower collateral requirements make my business use CGS backed loans					
Gu8	I find it easy to get a CGS backed loan					
Gu9	CGS backed loans has enabled me to create more employment opportunities.					
Gu10	CGS backed loans have made it easier for my business to increase productivity					
Gu11	CGS backed loans has improved my business operational efficiency					
Gu12	CGS-backed financing supports the long-term sustainability of my business					
Gu13	CGS-backed financing has enabled me to expand business operations					
Gu14	CGS backed loans have increased my business income					

SECTION D: ACCESS TO FINANCE

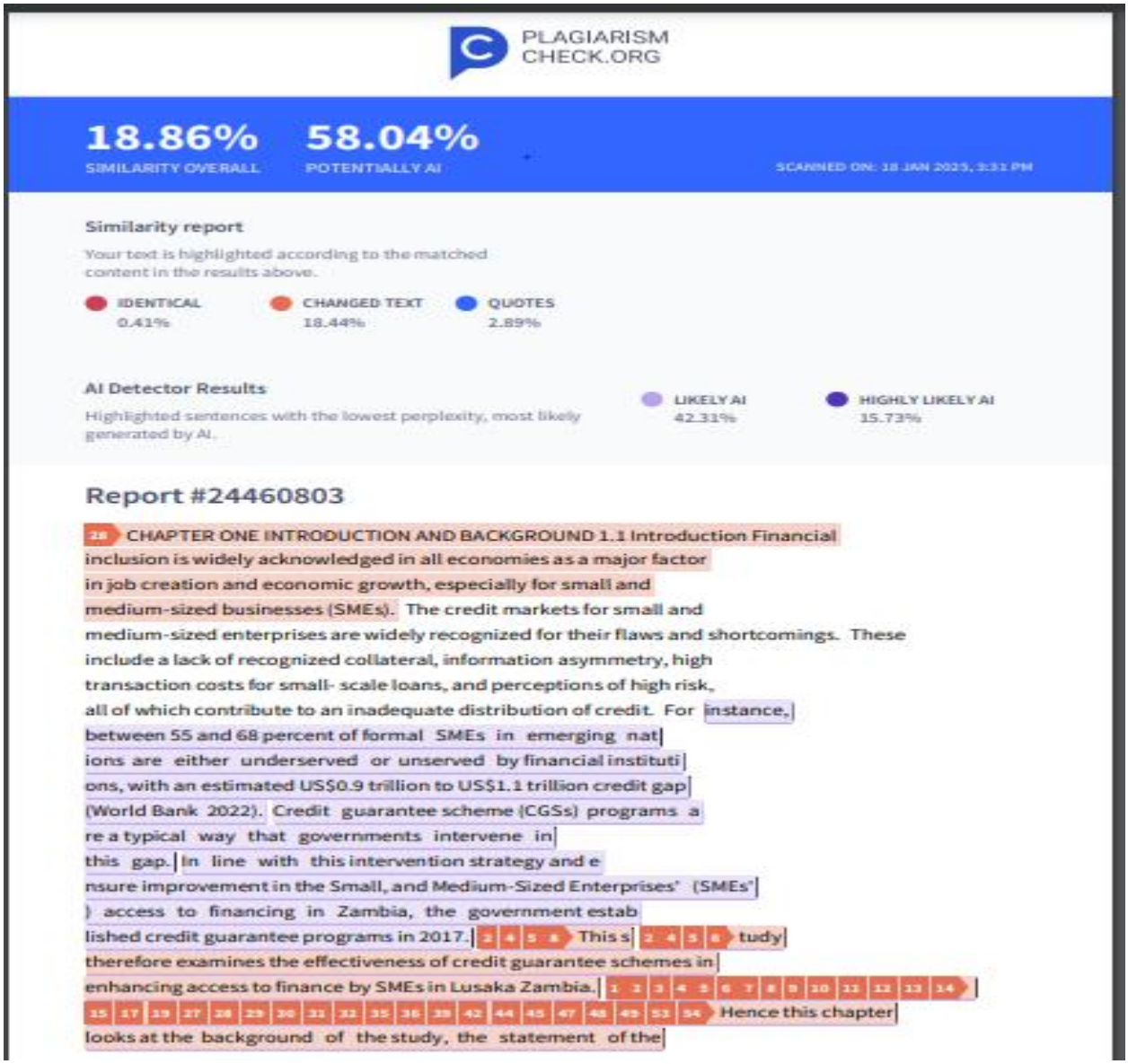
This section will ask questions about access to finance by the participants. Please indicate the extent to which you agree or disagree with each of the statements below by ticking (√) in the appropriate space.

(Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

	STATEMENT	**1**	**2**	**3**	**4**	**5**
AF1	There are various financial institutions near my business					

AF2	I am aware of the terms and conditions for CGS backed loans					
AF3	I am aware of the benefits offered by CGS backed loans					
AF4	Credit guarantees have made it easier for my business to access loans					
AF5	The fees associated with CGS backed loans are favorable for my business					
AF6	Credit guarantees have made interest rates more favorable for my business					
AF7	I find it easy to meet the credit guarantee requirements					
AF8	Credit guarantees have improved the disbursement timelines for loans.					
AF9	The nature of my business influences my access to credit guaranteed loans					
AF10	Credit guarantees have reduced the collateral requirement to access loans for my business					

Appendix 2: Similarity report



PLAGIARISM CHECK.ORG

18.86% SIMILARITY OVERALL

58.04% POTENTIALLY AI

SCANNED ON: 18 JAN 2025, 3:31 PM

Similarity report

Your text is highlighted according to the matched content in the results above.

IDENTICAL 0.41%

CHANGED TEXT 18.44%

QUOTES 2.89%

AI Detector Results

Highlighted sentences with the lowest perplexity, most likely generated by AI.

LIKELY AI 42.31%

HIGHLY LIKELY AI 15.73%

Report #24460803

CHAPTER ONE INTRODUCTION AND BACKGROUND 1.1 Introduction Financial inclusion is widely acknowledged in all economies as a major factor in job creation and economic growth, especially for small and medium-sized businesses (SMEs). The credit markets for small and medium-sized enterprises are widely recognized for their flaws and shortcomings. These include a lack of recognized collateral, information asymmetry, high transaction costs for small- scale loans, and perceptions of high risk, all of which contribute to an inadequate distribution of credit. For instance, between 55 and 68 percent of formal SMEs in emerging nat ions are either underserved or unserved by financial instituti ons, with an estimated US$0.9 trillion to US$1.1 trillion credit gap (World Bank 2022). Credit guarantee scheme (CGSs) programs a re a typical way that governments intervene in this gap. In line with this intervention strategy and e nsure improvement in the Small, and Medium-Sized Enterprises' (SMEs') access to financing in Zambia, the government estab lished credit guarantee programs in 2017. This s tudy therefore examines the effectiveness of credit guarantee schemes in enhancing access to finance by SMEs in Lusaka Zambia. Hence this chapter looks at the background of the study, the statement of the