

SMALL AND MEDIUM ENTERPRISES FUNDING IN ZIMBABWE: CHALLENGES, GAPS AND OPPORTUNITIES

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Abstract

Small and Medium Enterprises (SMEs) in Zimbabwe play a central role in employment creation, poverty alleviation, innovation and inclusive economic development. Despite their critical role, access to adequate and sustainable funding remains one of the most pressing challenges limiting their growth and competitiveness. The article investigates the barriers that small businesses face in accessing funding, including high collateral requirements, rigid lending criteria by traditional banking institutions, limited financial literacy among entrepreneurs and the absence of SME-friendly financial products. It examines broader macroeconomic challenges such as currency volatility, inflation and policy inconsistency that undermine investor confidence and restrict the development of capital markets that could serve as alternative funding sources. The study employed a qualitative, exploratory approach, using secondary data sources. Data was analysed thematically to identify the barriers, gaps, and emerging opportunities in SME funding in Zimbabwe, providing a comprehensive understanding of both macroeconomic and micro-level constraints. However, amid these constraints, the study identifies emerging opportunities that could transform the small business funding landscape. These include the growing penetration of financial technology solutions, digital banking and mobile money platforms that improve financial access and crowdfunding models and the strategic role of impact investing and public-private partnerships in mobilising finance for SMEs.

Keywords: financing challenges, collateral, financial literacy, macroeconomic instability, capital markets

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INTRODUCTION

Small and Medium Enterprises (SMEs) are widely recognised as the backbone of economic activity and employment in developing economies. Zimbabwe is no exception. SMEs contribute substantially to job creation, household income generation, innovation and the diversification of economic activities beyond the historically dominant large-scale mining and agriculture sectors (Makanyeza *et al.*, 2023). As the formal economy struggles with structural challenges and contraction in large industries, the informal and small business sectors have absorbed increasing labour. They also drive local enterprise and provide resilience against poverty. This central role highlights the critical importance of ensuring that SMEs have access to sustainable financial resources. Without adequate funding, these enterprises cannot fulfil their potential as drivers of inclusive economic development.

Despite their significance, access to affordable and reliable funding remains a serious barrier to SME growth and competitiveness in Zimbabwe (International Trade Centre, 2023; Mncube, 2025). Formal lending institutions, such as commercial banks, often perceive SMEs as high-risk clients. Insufficient collateral, poor credit histories, and the informal nature of many enterprises drive this perception. The risk perception is compounded by an unstable macroeconomic environment characterised by currency volatility, persistent inflation, and shifting policy frameworks (Matsongoni and Mutambara, 2021). These conditions undermine investor confidence and limit long-term financial planning. As a result, some SMEs rely on informal financing arrangements, including family loans, rotating savings groups or short-term supplier credit. While these sources provide some liquidity, they rarely offer sufficient capital for meaningful expansion or technological upgrading.

Institutional and structural gaps further constrain Zimbabwe's small business funding landscape. Capital markets are underdeveloped and largely inaccessible to SMEs. Diversified financial products tailored to the specific needs of small enterprises at different growth stages remain limited (Nkwinika and Akinola, 2023). Low levels of financial literacy

and limited awareness of funding options weaken entrepreneurs' ability to engage with formal financing processes. Moreover, government initiatives and policy interventions intended to support SME funding often suffer from inadequate implementation and poor targeting. As a result, many informal businesses are excluded from formal support structures.

Despite these challenges, emerging trends provide opportunities for improving SME funding. Financial technology has begun to reshape access to credit and payments. Mobile banking and digital money platforms are bridging the gap between SMEs and the formal financial system (Udo and Jacob, 2025). Crowdfunding, impact investing, and diaspora-backed funding channels offer alternative sources of capital. Public-private partnerships and donor-supported initiatives also demonstrate how coordinated efforts can mobilise resources overlooked by traditional markets. The article critically examines the challenges and emerging opportunities within Zimbabwe's small business funding ecosystem. It focuses on three main areas: access to formal and alternative funding, institutional and regulatory constraints and innovative funding models that could enhance SME sustainability. The study aims to provide insights and practical recommendations for strengthening SME funding.

CONCEPTUAL FRAMEWORK

The conceptual framework for the study explains how key factors interact to shape access to finance for Small and Medium Enterprises (SMEs) in Zimbabwe. The dependent variable at the centre of this framework is SME access to funding. This outcome is influenced by a combination of structural, institutional, internal and macroeconomic factors. One major set of independent variables relates to structural and institutional financing constraints. These include high collateral requirements, strict lending criteria by commercial banks, high borrowing costs, and underdeveloped capital markets. Macroeconomic instability, such as currency volatility, persistent inflation, and shifting policy frameworks, worsens the situation. These factors reduce investor confidence and encourage risk-averse behaviour among lenders.

Collectively, they create a significant funding gap that limits SMEs' ability to expand, modernise, or innovate. For example, many SMEs in Zimbabwe and across sub-Saharan Africa are unable to obtain loans from formal banks due to these rigid requirements, leaving them reliant on personal savings or informal credit mechanisms (Nyakake and Sulaiman, 2022).

Another key factor is internal enterprise capacity. SMEs often have low levels of financial literacy, weak management skills, and poor record-keeping. Many entrepreneurs cannot produce credible financial statements or business plans that meet lender requirements. This limitation increases information asymmetry and discourages formal lenders from offering credit. Makanyeza *et al.* (2023) note that SMEs' internal capacity gaps prevent many businesses from qualifying for existing financial products. Consequently, even when funding mechanisms exist, small enterprises struggle to access them.

Systemic gaps also influence SME access to finance indirectly. These include poor implementation of government SME development policies, the absence of SME-friendly financial products, and the exclusion of informal businesses from formal financial systems. Weak linkages between SMEs and alternative funders, such as venture capitalists, development finance institutions, and impact investors, further limit funding options. For instance, Zimbabwean SMEs often cannot tap into venture capital or diaspora-backed investment due to limited networks and formal structures. Alongside barriers, there are factors that can enhance SME access to finance. Financial technology solutions, mobile money platforms, and digital banking innovations reduce transaction costs and broaden access to working capital. Crowdfunding, diaspora remittances, and impact investing provide complementary funding streams that can fill gaps left by conventional finance. Public-private partnerships, when well implemented, can also mobilise resources and support more inclusive financial products. SME access to funding is constrained by structural, internal, and systemic barriers. Macroeconomic instability intensifies these constraints. Meanwhile, innovative financial technologies, alternative funding mechanisms, and

supportive policies act as moderating factors. These can mitigate constraints, expand funding opportunities, and promote a more inclusive and resilient SME funding ecosystem.

LITERATURE REVIEW

Access to adequate and reliable funding is universally recognised as one of the most critical determinants of the survival, growth and competitiveness of small businesses (Nkwinika and Mashau, 2023). In developing countries SMEs contribute substantially to employment creation, poverty alleviation, innovation and economic diversification. Despite this importance, it is evident that SMEs face significant barriers in mobilising financial resources for start-up capital, working capital and expansion activities. The review considers traditional financing channels such as bank loans, explores the persistent finance gap caused by information asymmetry and collateral demands and examines the implications of underdeveloped capital markets. It also analyses emerging financing alternatives such as microfinance, peer-to-peer lending, crowdfunding, diaspora-backed capital and fintech solutions, alongside the role of government support and public-private partnerships. Additionally, it considers how infrastructural deficits, regulatory inefficiencies, weak financial literacy and poor management capacity intersect with the funding landscape to constrain the growth of SMEs.

ALTERNATIVE FINANCING CHANNELS: MICROFINANCE, CROWDFUNDING AND FINTECH

While conventional financing remains problematic, recent empirical studies highlight the growing importance of alternative and innovative funding models. Globally, Kuma *et al.* (2024) and Del Sarto (2025) have shown how crowdfunding and peer-to-peer lending have emerged as critical alternatives, particularly for start-ups and businesses unable to meet strict bank criteria. In Asia, fintech solutions have become especially popular among SMEs, bridging gaps in formal lending through digital lending platforms and streamlined credit assessment processes (Verma, 2024).

Zimbabwe's fintech landscape has made strides in replicating such models. Mobile money platforms and digital banking services are increasingly used by small businesses to transact, save and access microloans. However, Del Sarto (2025) cautions that limited digital literacy and weak disclosure habits among informal businesses often undermine the full adoption of such tools. Despite this, the potential for fintech to address Zimbabwe's SME financing gap remains substantial, particularly when coupled with improvements in regulatory oversight and financial education. Moreover, impact investing and diaspora-backed funding models are increasingly recognised as feasible pathways to unlock much-needed capital. Verma (2024) highlights an emerging trend in global finance where sustainability principles are increasingly shaping lending practices and investment decisions. This shift reflects a growing preference among investors and financial institutions to channel capital towards businesses that demonstrate a commitment to responsible and ethical operations.

EQUITY FINANCING, VENTURE CAPITAL AND CAPITAL MARKET GAPS

Equity financing has been instrumental in promoting entrepreneurial growth. Umeaduma (2024) and Tanchangya *et al.* (2025) stress that equity channels enable small firms to scale up and modernise without the pressure of debt repayments. China's experience illustrates this vividly through platforms such as the Beijing Securities Exchange (BSE) and the STAR Market that have expanded financing for 'little giants', small, technology-focused firms that benefit from direct public listings and venture capital support (Xu *et al.*, 2020). In Zimbabwe, however, the development of capital markets accessible to SMEs remains limited by policy instability, inflation and shallow investor confidence.

Equity financing remains underdeveloped in much of Africa, but recent progress is evident. Rwanda, for example, established the SME Market Segment on the Rwanda Stock Exchange (RSE) in 2014, seeking to bring capital markets closer to small businesses (Cyuzuzo, 2018). Its outreach campaigns aimed at improving financial literacy and demystifying capital market processes for SMEs provide a useful model for developing countries, where capital market access remains narrow and

public listings are rare. Nigeria's AseM, Kenya's GEMS and South Africa's AltEx have similarly created SME boards to channel equity capital into promising enterprises. Yet, as Kotturi *et al.* (2021) argue, fear of losing control often discourages entrepreneurs from seeking external equity, with many preferring to wholly own small firms rather than share ownership of potentially larger ones.

Kumar *et al.*'s (2021) study in Pakistan also suggests that informal sources of finance alone do not spur the technological upgrading or expansion necessary for sustainable competitiveness. This supports the view that while equity financing holds significant promise, realising it requires foundational improvements in governance, market stability and investor protection frameworks. Without such reforms, SMEs remain cut off from potentially transformative capital that could otherwise be mobilised through venture capital, angel investors, or SME-focused equity boards.

Faced with these structural limits, African SMEs have historically turned to innovative community-based models and emerging capital market initiatives (Abdulquadir, 2021). In Kenya, the entrenched culture of Chamas informal group investment in which members pool savings to invest collectively, exemplifies how local solutions fill gaps left by inefficient formal banking systems. Such informal models, though not a direct substitute for robust formal finance, illustrate the lengths to which communities adapt to plug funding shortfalls. Impact investing is another growing trend, but it brings its contradictions. While it has unlocked significant funds for early growth-stage companies, the emphasis on achieving specific social metrics sometimes forces businesses to adapt their core models to suit donor or investor expectations, rather than following commercial priorities. Some start-ups in Africa's 'missing middle' firms, too large for microfinance but too small or risky for mainstream equity or debt, reorient their strategies purely to secure impact capital, a practice that can distort long-term sustainability.

FINANCIAL LITERACY AND ENTREPRENEURIAL MANAGEMENT CAPACITY

Numerous studies have identified limited financial and management capacity as critical internal barriers exacerbating external financing constraints for SMEs. Hellriegel *et al.* (2008) argue that managerial competence is vital for the survival and growth of small businesses, a view echoed by Agboh (2021), who links business failure rates directly to poor management experience and weak financial systems. In Zimbabwe, Chitiyo *et al.* (2019) found that a significant proportion of SMEs do not maintain proper accounting records due to the high costs of hiring professional accountants and a general lack of bookkeeping knowledge. Lutfi, Idris & Mohammed (2016) add that while accounting information systems offer clear benefits for financial transparency and planning, many SMEs still lag in adopting such systems due to initial costs and limited training.

Nkwinika and Akinola (2023) define management as the integrated process of planning, organising, directing and controlling resources. In practice, however, SMEs, especially sole proprietorships, depend on a single owner to manage all operational and strategic tasks. This often results in poor strategic planning, inadequate cash flow management and an inability to produce credible business plans, all of which erode lenders' confidence and reinforce perceptions of risk. Without targeted interventions to improve financial literacy and build entrepreneurial competencies, the broader objective of improving access to finance is likely to remain elusive.

INFRASTRUCTURE DEFICITS AND THE REGULATORY ENVIRONMENT

In addition to financial and capacity constraints, infrastructural and regulatory barriers play a defining role in shaping the SME funding landscape. Unreliable electricity supply, persistent water shortages and poor transport networks raise operating costs and constrain productivity. Despite government efforts such as the planned Harare–Nyamapanda highway upgrade, other key routes like the Harare–Karozi road after Chinhoyi remain in urgent need of rehabilitation, causing logistical challenges that particularly disadvantage small businesses dependent on timely delivery and supply chain reliability.

Beyond goods and commodities, rigid restrictions on the cross-border movement of people also undermine the full potential of trade, tourism, and regional economic cooperation in the wider Southern African region. Human mobility is a critical enabler of knowledge transfer, innovation and the exchange of ideas that drive entrepreneurial growth. However, strict visa regimes, cumbersome border controls and poorly coordinated immigration policies continue to frustrate traders, tourists and professionals alike (Shadreck *et al.*, 2024). For SMEs that depend on cross-border linkages, whether to source inputs, attend trade fairs, or acquire skills and partnerships, these restrictions translate into missed opportunities for collaboration and market expansion. Moreover, tourism that has long been recognised as a driver of economic diversification, is equally constrained when potential visitors face unnecessary bureaucratic hurdles (Chitiyo *et al.*, 2019). In this context, more progressive and harmonised policies on the free movement of people within regional blocs are critical if the benefits of cross-border trade are to be fully realised.

CREDIT CONSTRAINTS AND CAPITAL MARKET INEFFICIENCIES

Empirical evidence across Africa consistently demonstrates that small and medium enterprises (SMEs) experience a severe shortage of reliable financing that stifles their potential for expansion and innovation. In many African contexts, the inefficiency of local capital markets remains a critical barrier. Kuma *et al.* (2024) and Chiukira (2021) describe this enduring ‘finance gap’ which traps SMEs in a vicious cycle of insufficient capital, limited growth and constrained competitiveness. According to Dzawanda and Matsa (2023), Zimbabwe’s informal SMEs are particularly disadvantaged because they are rarely able to meet the collateral and disclosure standards demanded by formal banks, while insufficient alternative capital channels leave them heavily reliant on personal savings or informal lending from family and friends.

Nyakake and Sulaiman (2022) found that 40% of SMEs in Africa regard access to finance as the principal factor constraining their growth, with an estimated funding shortfall exceeding US\$140 billion. Many enterprises continue to face a persistent funding shortfall that stifles

expansion, hinders innovation and limits their ability to withstand economic shocks. Despite the critical role that SMEs play in national economies, accounting for the overwhelming majority of businesses and providing employment for large segments of the population, countless small businesses across the continent collapse within their first months of operation due to chronic undercapitalisation. In Kenya, for example, numerous small enterprises struggle to sustain operations because they are unable to secure sufficient working capital, a situation made worse by a challenging macroeconomic environment. Similar conditions are mirrored in Nigeria, where, despite the dominance of SMEs in the business landscape, entrepreneurs grapple with restrictive access to credit, unfavourable tax regimes and bureaucratic hurdles that limit their competitiveness (Udo and Jacob, 2025). The implication of this persistent financing gap is that without deliberate and innovative interventions to unlock affordable and sustainable capital, African economies risk losing the transformative potential of SMEs as engines for inclusive growth, job creation and local value addition.

STRUCTURAL CAPACITY GAPS: SKILLS, GOVERNANCE AND TRANSPARENCY

Beyond finance, SMEs across Africa, frequently grapple with internal deficiencies that undermine their bankability. Nkwinika and Akinola (2023) underline the importance of managerial competence, yet weak governance, poor financial reporting and minimal strategic planning remain widespread. The International Finance Corporation has trained over 2,000 East African companies to use a corporate governance scorecard, recognising that credible governance frameworks help attract external investors. Nonetheless, fear of losing managerial control, rudimentary branding, and a lack of board structures persist as barriers to attracting equity capital. In Zimbabwe, Shadreck *et al.* (2024) found that many SMEs do not keep proper accounting records due to the high costs of professional services and a general absence of financial management skills. Tshuma *et al.* (2025) note that this lack of robust financial reporting diminishes investor confidence and limits SMEs' eligibility for loans or external investment. Entrepreneurs often do not understand the value of audited statements that remain a non-

enforceable requirement in some African jurisdictions, further weakening transparency and accountability.

Another crucial aspect relates to sustaining growth and managing talent. Many SMEs, as observed by Cronje & Smith (1992), lack a coherent strategy for expansion or for attracting and retaining skilled employees, a weakness that ultimately constrains competitiveness. The Global Entrepreneurship Monitor highlights that fear of failure remains a major psychological barrier in South Africa, suppressing innovation and deterring risk-taking, dynamics equally relevant to the Zimbabwean context, where economic uncertainty compounds such fears.

METHODOLOGY

The study employed a qualitative, exploratory approach to investigate the barriers, gaps and opportunities surrounding small business funding in Zimbabwe. The research relied on secondary data sources. Key documents reviewed included national policies and legislative frameworks. These sources were selected based on their relevance, credibility and timeliness, with priority given to publications issued within the last ten years. The review focused on identifying macroeconomic challenges such as currency volatility, inflation and policy inconsistency that hinder SME access to finance and restrict capital market development. In addition, a comprehensive literature synthesis was conducted. Academic journal articles, policy reports and international studies were analysed to map both traditional and emerging funding models. These included bank loans, digital banking, mobile money platforms, crowdfunding, financial technology solutions and impact investing. Data from the policy review and literature synthesis were analysed using thematic analysis. Key documents were coded iteratively to identify patterns, themes and relationships relating to macroeconomic, institutional and practical barriers. Opportunities arising from emerging financing models were also categorised thematically. This approach allowed for triangulation across multiple sources, enhancing the validity and reliability of the findings. Ethical

research standards were maintained throughout, including careful citation and responsible use of all secondary data.

FINDINGS

This section presents the findings on the barriers, gaps and opportunities in small business funding in Zimbabwe. It highlights the critical role of SMEs in the national economy, showing that they contribute significantly to GDP, employment and inclusive growth, yet remain constrained by structural and institutional weaknesses. Key barriers identified include limited access to affordable credit due to rigid bank lending conditions, high collateral requirements, and high interest rates, as well as macroeconomic instability characterised by inflation, currency volatility, and policy inconsistency. Informality and information asymmetry further restrict access, as many SMEs lack formal registration, audited accounts and financial literacy, pushing them towards insufficient informal funding sources. The findings also highlight emerging opportunities through innovative financing models, including digital banking, mobile money, crowdfunding, impact investing and commodity-linked financing. These offer potential pathways to expand access to capital and promote sustainable SME growth in Zimbabwe.

THE CRITICAL ROLE OF SMEs IN ZIMBABWE'S ECONOMY

Small and Medium Enterprises (SMEs) are indispensable to Zimbabwe's economic landscape, aligning with global perspectives that position SMEs as drivers of employment, poverty reduction and inclusive growth (Matsongoni and Mutambara, 2021; Musabayana *et al.*, 2023). Empirical evidence shows that Zimbabwean SMEs account for a large share of GDP and employ over 60% of the national workforce (Tshuma *et al.*, 2025). They operate across diverse sectors, supplying essential goods and services that sustain households and local communities. Their widespread presence demonstrates how they function as practical tools for grassroots development, enabling marginalised communities to participate more actively in the formal economy.

However, despite their economic and social significance, SMEs in Zimbabwe have not been able to realise their full transformative capacity (Tshuma *et al.*, 2025). Unlike developed economies where state-backed support is robust and diversified, Zimbabwe's SME sector remains vulnerable due to structural and institutional gaps (Matsongoni and Mutambara, 2021). Although institutions such as the Small Enterprises Development Corporation have been created to provide targeted funding, the effectiveness of such measures is undermined by broader macroeconomic weaknesses and a fragile business environment (Msomi, 2023). These dynamics limit SMEs' resilience and sustainability, especially during periods of economic shocks and policy inconsistency.

BARRIERS TO ACCESSING FORMAL CREDIT

The central finding is that limited access to affordable credit remains a critical barrier constraining SME growth in Zimbabwe (Mutsonziwa and Fanta, 2021). Many entrepreneurs face rigid borrowing conditions from traditional banks, such as the need for high-value collateral that most do not possess (Hamadziripi and Jana, 2023). The findings mirror patterns noted elsewhere in Africa, such as South Africa, where bank loans are difficult to access for new and informal businesses (Msomi, 2023). High interest rates and strict loan conditions discourage borrowing, while fears of losing personal assets make many business owners reluctant to take on debt, especially in a volatile economy where revenues can drop suddenly.

The study also finds that government-supported finance channels, such as Small Enterprises Development Cooperation (SEDCO) loans, have mixed outcomes (Samudzimu and Munkumba, 2022). The SEDCO that is under the Ministry of Small and Medium Enterprise and Cooperative Development, is responsible for SMEs development financing as well as strictly following the loans they give to the SMEs to recover the funds, and this is done for the continuity of funding SMEs in a revolving fund format of sorts (Samudzimu and Munkumba, 2022). While these facilities demonstrate a policy-level commitment to funding small businesses, the associated high interest rates and rigid recovery

processes often result in asset loss for SMEs that default. This punitive cycle reduces entrepreneurs' willingness to pursue further borrowing. Many promising businesses choose to forgo expansion opportunities rather than risk losing family properties pledged as collateral. Thus, while finance exists in theory, in practice it remains largely inaccessible, especially for start-ups and informal businesses seeking flexible terms.

MACROECONOMIC CONSTRAINTS AND STRUCTURAL WEAKNESSES

Zimbabwe's macroeconomic conditions have exacerbated the SME funding challenges. High inflation, unstable currency exchange rates, and policy inconsistencies continue to disrupt business planning and cash flow (Dzawanda and Matsa, 2020). Fluctuating input costs and unpredictable consumer demand make it extremely difficult to project revenue and meet fixed repayment obligations. This macroeconomic fragility discourages lenders from providing affordable long-term finance and increases the perceived risk of SME lending, reinforcing strict collateral and screening requirements.

Consequently, even where government-backed revolving funds exist, many SMEs fail to repay loans not due to mismanagement alone but because the economic context is hostile to predictable growth. Evidence from Mugano (2023) and Dzawanda and Matsa (2020) confirms that many SMEs collapse under loan repayment pressure when market conditions worsen. Therefore, while the intention of state interventions is clear, their impact remains limited without broader macroeconomic stability to create a conducive environment for sustainable repayment and business expansion.

INFORMALITY AND INFORMATION ASYMMETRY

Another key finding is that a large proportion of SMEs operate informally that perpetuates the persistent problem of information asymmetry that characterises much of the small business funding landscape in Zimbabwe and across Africa (Irene *et al.*, 2025). When enterprises lack formal registration, audited financial statements, or documented governance structures, it becomes extremely difficult for

them to demonstrate their financial health and creditworthiness to formal lenders. As Mumbire (2025) observes, the absence of reliable performance data, verifiable revenue streams, and transparent management systems creates a trust deficit between SMEs and potential funders. This lack of credible information feeds into a vicious cycle: banks and investors, faced with high perceived risks and poor visibility of returns, hesitate to provide loans or equity finance, further marginalising these businesses from mainstream financial systems.

Consequently, many entrepreneurs fall back on informal and limited funding sources such as personal savings, family contributions, or small rotating savings and credit associations. While these mechanisms offer short-term relief, they are rarely sufficient for scaling up operations, acquiring new technology, or funding capital-intensive projects that could transform small businesses into stable, job-creating enterprises (Dzawanda and Matswa, 2023). The reliance on informal sources also limits the capacity of SMEs to participate in larger supply chains, bid for contracts, or enter into partnerships that demand financial transparency. The implication of this is profound: unless deliberate policy interventions are made to incentivise formalisation, build entrepreneurial capacity in financial management, and develop tailored products that accommodate the transitional realities of informal businesses, the potential of SMEs to drive sustainable economic growth and structural transformation will remain severely underutilised. The study finds that the absence of tailored financial literacy and capacity-building initiatives further deepens this credibility gap (Koskelainen et al., 2023). Informal SMEs often do not maintain proper records, are unfamiliar with formal loan requirements, and lack awareness of how to package proposals for institutional funders. This keeps them locked out of opportunities for affordable growth finance. Addressing this asymmetry requires targeted interventions, such as affordable bookkeeping services, training in financial management, and simplified compliance frameworks to encourage gradual formalisation and trust-building with lenders.

CROWDFUNDING AND ACCESS TO ALTERNATIVE FINANCE

The research findings reveal that Zimbabwe's small businesses and start-ups continue to face severe difficulties in securing conventional loans due to rigid collateral demands, lengthy approval processes and the general perception among banks that small enterprises are high-risk borrowers. Many small business owners, especially women and informal traders, lack the assets required to secure traditional credit and therefore struggle to access the capital necessary for growth (Matambar, 2021). This situation is worsened by tight liquidity in the local market and hyperinflation that further erodes the value of delayed loans. Delays in loan approvals of up to several months have made it nearly impossible for small traders, such as cross-border operators, to maintain profitable operations, as any funds eventually secured lose purchasing power rapidly in Zimbabwe's volatile economic climate.

Against this backdrop, there is growing support for the development and regulation of crowdfunding as an alternative source of finance for SMEs and start-ups. Crowdfunding that enables businesses to raise capital from a large pool of individual investors through peer-to-peer models, has gained traction globally and is beginning to show promise in Africa (Kum *et al.*, 2024). Success stories like Sun Exchange's crowd sale for a solar project in Zimbabwe highlight its potential. Local stakeholders, including women's business associations and economists, emphasise that crowdfunding could help bridge the funding gap by offering flexible, low-cost capital without the burden of high upfront fees or rigid collateral requirements. In response, Zimbabwe's central bank has started regulatory testing under its Fintech Regulatory Sandbox, signalling a positive step towards creating a legal framework that could unlock new streams of capital and promote wider financial inclusion for small enterprises that remain outside the reach of conventional banks.

CENTRAL GOVERNMENT SUPPORT

Africa's abundant natural resources, ranging from vast mineral reserves to fertile agricultural land and rich biodiversity, have long been acknowledged as key assets with immense economic potential. Yet,

despite this wealth, many African countries continue to grapple with pervasive poverty, underdevelopment, and underfunded local enterprises. One of the core reasons for this paradox is that governments have historically failed to fully leverage these natural endowments as a basis for sustainable domestic capital mobilisation. Nkwinika and Akinola (2023) argue that the so-called “resource curse” persists when natural wealth is poorly managed, exploited through inequitable contracts, or used to benefit narrow elites rather than the broader population. In the context of Zimbabwe and other resource-rich African states, creating mechanisms that translate natural resource wealth into accessible funding for small and medium-sized enterprises (SMEs) is thus not only desirable but necessary for inclusive development.

DISCUSSION

The findings of the study strongly reinforce the persistent argument in global and regional literature that access to adequate and reliable financing remains one of the most fundamental constraints facing the development and competitiveness of Small and Medium Enterprises (SMEs) in Zimbabwe. Studies by Tshuma *et al.* (2025), Mutsonziwa and Fanta (2021), and Nyamwanza *et al.* (2016), this research confirms that the entrenched ‘finance gap’, first described by Stiglitz and Weiss (1981) and continues to shape the structural disadvantage under which Zimbabwean SMEs operate. Despite the proliferation of microfinance institutions, government-backed schemes and the gradual emergence of digital financial services, SMEs remain largely cut off from affordable and flexible credit due to the interplay of restrictive collateral demands, information asymmetries, and a volatile macroeconomic environment.

The study’s findings align with the broader African narrative where SMEs account for the bulk of employment and local economic activity, yet continue to battle severe financing constraints. Similar to South Africa, where only an estimated small percentage of new SMEs secure bank loans (Msomi, 2023), Zimbabwean SMEs face widespread loan rejections due to perceived risk and limited credit histories. This convergence with the regional literature underscores that conventional

banking systems in developing countries remain structurally biased against small and informal businesses, a pattern that resonates with Mumbire (2025).

An important dimension that emerges from the study and resonates with literature from Pakistan (Kumar *et al.*, 2022) and Kenya (Nasimiyu, 2023) is the persistent reliance on informal financing channels such as family savings and small group investments that, while filling urgent liquidity gaps, are rarely sufficient to sustain meaningful capital accumulation or technological upgrading. This reinforces Dzawanda and Matsa's (2023) observation that debt financing alone, especially in informal forms, is often inadequate to propel SMEs into sustained competitiveness without complementary equity financing, venture capital, or impact investing. Despite these constraints, the study's findings highlight a glimmer of opportunity through Zimbabwe's budding fintech ecosystem, echoing global evidence presented by Udo and Jacob (2025) and Verma (2024). Mobile money platforms, digital banking, and online lending mechanisms have begun to address some of the rigidities inherent in conventional banking, yet the literature and the findings both caution that limited digital literacy, weak disclosure habits, and trust deficits continue to undermine the transformative potential of these innovations.

Additionally, this research affirms the literature's warning that Zimbabwe's underdeveloped capital markets deprive SMEs of a critical pathway for growth and risk-sharing. In China, the success of SME-focused exchanges like the STAR Market has shown how capital markets can provide an equity-based alternative that shields small firms from unsustainable debt burdens (International Trade Centre, 2023). In contrast, the absence of vibrant SME equity boards or angel investor networks in Zimbabwe leaves what global SME finance discourse terms the 'missing middle' enterprises too large for microfinance but too small or risky for traditional bank credit especially vulnerable. This reflects the same structural funding gap observed in Nigeria, Kenya, and parts

of Southern Africa, where capital market development has not sufficiently catered to small business needs.

Moreover, the study confirms that internal capacity gaps significantly amplify the impact of external financing constraints. Consistent with Koskelainen *et al.* (2023), the evidence points to widespread deficiencies in financial literacy, formal accounting practices, and strategic management among Zimbabwean SMEs. Many owners lack the skills and systems required to generate credible business plans, maintain reliable records, or navigate formal loan application processes. These managerial shortcomings reinforce lender perceptions of risk and perpetuate a cycle where poor internal governance discourages external investment that in turn limits opportunities for growth.

Equally significant is the infrastructural and regulatory context that shapes SME financing in Zimbabwe. The literature and the study jointly point to unreliable electricity, poor road infrastructure, and burdensome regulatory processes as indirect but powerful deterrents to SME expansion. Entrepreneurs remain reluctant to formalise operations, fearing tax obligations, compliance costs, or opaque bureaucratic hurdles, a reluctance that further excludes them from formal credit channels and structured support programmes (Samudzimu and Munkumba, 2022). This echoes the regional pattern seen across sub-Saharan Africa, where structural barriers compound the finance gap and lock millions of small enterprises into a cycle of low productivity and fragile survival.

The study's findings deepen and localise the discourse on small business financing by situating Zimbabwe's experience within a broader regional and global context. They confirm that addressing the SME finance gap requires more than expanding credit supply; it demands integrated reforms: stable macroeconomic policies, robust alternative financing models such as venture capital and crowdfunding, strengthened capital markets, digital literacy programmes, and targeted support to build entrepreneurial and financial management capacity.

Without tackling these interlinked constraints, the transformative potential of SMEs in driving inclusive economic growth and sustainable development will remain severely underutilised.

CONCLUSION

The study has reaffirmed that small and medium-sized enterprises (SMEs) remain central to Zimbabwe's socio-economic development, especially in employment creation, poverty reduction and broad-based economic participation. However, their growth continues to be constrained by entrenched barriers to affordable and sustainable finance. The findings confirm that rigid collateral requirements, high interest rates and persistent information asymmetries within the banking sector limit SMEs' access to formal credit. Macroeconomic instability further undermines lender confidence and constrains long-term investment. Although government initiatives and microfinance institutions have attempted to close this gap, their impact remains limited due to structural weaknesses, policy inconsistencies and high borrowing costs.

To address these challenges, the study recommends a coordinated reform agenda that strengthens financial infrastructure and enhances SME capacity. Priority measures include expanding credit guarantee schemes to reduce collateral burdens, lowering the cost of capital through targeted policy incentives and promoting simplified compliance frameworks to support gradual formalisation. There is also a need to scale financial literacy programmes to improve record-keeping, governance and loan preparedness among SME owners. In addition, Zimbabwe should accelerate the development of alternative financing channels including crowdfunding, venture capital and fintech-based solutions. This helps in bridging the 'missing middle' gap and complement conventional banking systems.

The study's reliance on secondary data restricts the ability to capture real-time behavioural perspectives from SME owners, lenders and policymakers. Future research should incorporate primary data, such as interviews and case studies, to provide deeper insights into enterprise-

level financial behaviour, the effectiveness of existing funding programmes and the adoption of fintech tools. Comparative studies across Southern African countries could further illuminate best practices for adapting innovative financing models to Zimbabwe's context. The research highlights that unlocking the transformative potential of SMEs requires holistic, evidence-based reforms that address both structural constraints and institutional weaknesses. Strengthening the financing ecosystem is not only vital for SME competitiveness but also essential for promoting inclusive and sustainable economic development in Zimbabwe.

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