

## Unlocking rural entrepreneurship access to microfinance services in Zimbabwe- the moderating role of business performance

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### Abstract

Informed by the huge financing gap for Micro, small and medium enterprises (MSMEs), this study aims to identify the extent of intensity and significance of constraints to rural Micro, Small and Medium Enterprises (MSMEs) in accessing funding from microfinance institutions in Zimbabwe. The paper further explores potential avenues of unlocking rural MSME access to microfinancing. This study uses path modelling to investigate key demand side obstacles by rural MSMEs in accessing microfinance funding in the rural Matabeleland region of Zimbabwe and adopts a questionnaire based survey design targeting 301 rural micro entrepreneurs. The study shows that financial skills and knowledge, access to markets and technical skills are the main impediments to rural entrepreneurial access to microfinancing, however these predictors have more influence on rural entrepreneurial access to microfinancing when mediated by business performance. For successful sustainable poverty alleviation and employment creation for the bottom of the pyramid leveraging on a vibrant rural MSME sector, there is need for direct policy interventions to advance the financial literacy, financial management and technical skills for rural MSMEs as well as mechanisms to assist the MSMEs in securing markets. This paper makes significant contributions to the discourse of rural microenterprise financing debate by identifying significant constraints.

**Keywords:** Poverty alleviation, entrepreneurship, bottom of the pyramid, financial performance, financial inclusion, theory of constraints.

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### 1. Introduction

Micro, Small and Medium Enterprises (MSMEs) have gained tremendous attention and recognition due to their impact on poverty alleviation, employment creation and economic growth particularly for less developed economies. Worldwide MSMEs constitute in excess of 90% of the businesses and provide more than 50% of employment (The World Bank, 2020). In Zimbabwe MSMEs provide employment to more than 5.7 million people (Mangudya, 2017) whilst other estimates put the contribution of the MSME sector to national economy at more than 90% (Magaisa and Matipira, 2017). Historically this sector has largely suffered from serious financial exclusion with as much as 14% of Zimbabwean MSMEs unbanked whilst only 18% of MSMEs are served by formal financial institutions (RBZ, 2016). Consequently the microfinance sector has received significant support as it has been discovered that microfinance is an effective tool in enhancing financial inclusion and reducing poverty (Munyoro, Chirimba and Tinashe Chirimba, 2017; MoF, 2018). This has seen a significant growth in both the number of registered Micro Finance Institutions (MFIs)

as well as the MFI branch network (RBZ, 2021a). Paradoxically, despite the significant contribution of MSMEs, entrepreneurial access to microfinance for the sector remains severely constrained (RBZ, 2021a; IFC, 2018; Woldie, Laurence and Thomas, 2018; Chilembo, 2021). Entrepreneurial access to microfinance seems to be a worldwide challenge although very much evident in developing countries where an estimated 65 million firms (consisting 40% of MSMEs) have an unmet financing need of \$5.2 trillion (The World Bank, 2020; IFC, 2018) which amounts to more than 56% of their funding needs.

Extreme and general poverty in Zimbabwe rose significantly, whilst rural extreme poverty remained much higher (ZIMSTAT & WorldBank, 2020; ZIMSTAT, 2019). Around 86% of the rural populace in Zimbabwe are poor whilst 41% live in extreme poverty (ZIMSTAT, 2019; MoFED, 2021) which calls for attention to rural poverty given that an estimated 67% of the adult population live in rural areas whilst 33% live in urban areas. Efforts to address poverty in rural areas have often been centred in the

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development and nurturing of vibrant and sustainable rural MSMEs sector (IFC, 2018; Saleem, 2013). Globally, entrepreneurship has been recognised as a key driver to economic development, poverty alleviation as well as employment and wealth creation (Nyadu-Addo and Mensah, 2017; Ngorora & Mago, 2018). The 2030 Agenda for Sustainable Development, sets to eradicate poverty through supporting the rural micro entrepreneurs with the resources such as specialized inputs, knowledge, financing and markets. Development finance institutions (whose lending approach mimics the MFI profile) have become pivotal in financing the sector. Disturbingly the MSME sector, particularly rural MSMEs, continues to be highly excluded from accessing microfinance services.

Studies have empirically shown that financing is key to the stimulation of rural MSMEs and smallholder farmers (Johnstone, Perera, & Garside, 2020; Banerjee et al., 2010; Christopher, 2010). In developing economies, MSMEs are in greater need of access to finance in order to sustainably invest in the requisite productive capacity that will allow them to successfully compete in their markets, thereby creating employment and significantly contribute to poverty alleviation. With more than 60% of the financial need of the MSMEs sector unmet, sustainable development and growth of rural entrepreneurs and hence the eradication of rural poverty remains a pipedream. Based on this discussion, and cogniscent of the huge gap in meeting the financing needs of rural MSMEs, this study examines constraints to rural entrepreneurship access to microfinance in the Matabeleland north province of Zimbabwe.

## 2. Literature review

Studies have shown that access to micro loans raises the probability of one becoming an entrepreneur (Karymshakov, Sultakeev and Sulaimanova, 2015) and also increases the profit margins of rural entrepreneurs (Fiamohe et al., 2021). SMEs that take loans from microfinance institutions have been found to experience an increase jobs created by as much as 100% (Makorere, 2012) as well as a significantly improvement in sales volumes. However the rural entrepreneurs especially in the Sub Sahara do not have convenient and reliable access to microfinance assistance for their entrepreneurial activity (Chilembo, 2021; Makina et al., 2015).

Out of the need to support SMEs, microfinance has evolved to be universally accepted as a medium to provide financial services to poor people, rural populace and their businesses (Mensah, 2015) who would otherwise fail to access the financial services from the conventional banking system due to financial exclusion. Most of the bottom of the pyramid populace is very poor, living in rural areas and lack basic access to financial services (Mohamed, 2015; AFI, 2021). Proponents of microfinance believe that the institutions can better understand, assess and better serve and bring financial services to the very poor segments of society.

With MSMEs being vouched as the avenue for poverty reduction, many governments and development institutions put in place policies and mechanism to promote the microfinance sector with the hope that these will serve and uplift the poverty stricken segments of society from the poverty trap. Based on the Scott and Twomey model, studies such as Makorere, (2012) have highlighted that the entrepreneurship supply largely hinges on three sets of variables classified as predisposing, triggering and constraining factors. Whilst predisposing factors relate to perception and personality of the entrepreneur as well as the background entrepreneur such as work experience, education and personal ties, the triggering factors are the variables believed to prompt entrepreneurial activity. Such factors include demand increase or market opportunity or existence of production capacity. Although the triggering and disposing factors jointly constitute underlying requisite conditions for entrepreneurial supply (Makorere, 2012), successful supply of entrepreneurship is limited by constraining factors such lack of access to markets, information asymmetry, lack of access to finance and lack of training. The link between microfinance services and financial performance of small and medium enterprises has often shown evidence that MFIs' funding contributed to increase in the number of entrepreneurs who started new ventures (Mutuma, 2019).

The study grounds the theme of rural entrepreneurial challenges in accessing finance on the Theory of Constraints (TOC) as submitted by Goldratt & Cox, (2004) and Goldratt, (2010). As put forward by Dion, Kumar, Javli, & Sreenand, (2017) the Theory of Constraints (TOC) is an overall management philosophy that submits that any manageable system is limited in achieving its goals by a set of constraints, or at least one constraint. Recent scholars such as Alipour et al., (2013); Pozo, Tachizawa, Takeshi, & Picchiai, (2009) view TOC as an orientation to gain or a remedial tool than a theory as it is used to identify the constraint and restructure remedial processes around it in order to succeed. Goldratt, (2010) provides a five step process for TOC; (1) identify the system's constraint(s); (2) decide how to exploit the constraint(s); (3) subordinate everything else to the above decision; (4) elevate the constraint; (5) If, in any of the above steps, the constraint has been broken, go back to step 1. This process entails that businesses should forecast and understand potential challenges, assess their impacts, develop remedies or treatment options and institute required changes based identified treatment options. The theory implies that organisations that fail to identify potential constraints would fail to optimize performance and growth because they fail to limit losses arising from occurrence of the constraints. Based on the prediction of the TOC, MSMEs need to assess and recognize potential challenges that limit their performance or growth (Mensah, 2015). Given the immense empirical evidence on the positive association between access to

microfinance and business growth and sustainability for MSMEs especially in the less developed economies, by implication of the theory of change, there is need to assess existing and potential challenges faced by MSMEs in accessing microfinance services.

In the sub-Saharan region, information asymmetries often impinge MSMEs' chances of accessing microfinance services (Johnstone et al., 2020; RBZ, 2016; Ganbold, 2008) as a majority of rural households do not understand how formal financial service providers operate and hence have misconceptions about their products leading to low usage. Most MSMEs are susceptible to information opaqueness (Turyahikayo, 2015; World bank and ACET, 2014; Kessey, 2014; Ramachandran and Yahmadi, 2019) which makes it difficult for financial institutions to assess the capacity to pay or willingness of MSMEs repay. Due to lack of financial management knowledge and bookkeeping skills most MSMEs do not maintain proper financial records that are needed by financial institutions in assessing the credit risk of the borrower and hence financial institutions are reluctant to extent loans to the sector (Vasilescu, 2014; Aldaba, 2011; Chimucheka and Rungani, 2013; John and Mbohwa, 2015). Technology entrepreneurs & MSMEs in developing countries equally face information asymmetry dilemma (Zavatta, 2008; IFC, 2010) which is exacerbated mostly by the existence of the evidently higher intrinsic risk associated with small scale activities, because they operate in a more competitive environment (Kambwale, Chisoro and Karodia, 2015; Waked, 2016; Avevor, 2016), and have less capacity to withstand adverse developments. MSME are regarded as riskier enterprises by financial institutions such as micro financiers (Zavatta, 2008; CFC, 2013 Ganbold, 2008) as they are unable to calculate accurate risk profiles due to inadequate accounting systems. On top of dealing with very volatile economic environments, financial institutions find it difficult to estimate profitability and repayment capacity for MSMEs operating in developing countries. In most cases entrepreneurs have better understanding and information regarding the nature and characteristics of their products as compared to the financing institution (Vasilescu, 2014).

The low uptake of financial services by rural MSMEs has been attributed to inadequate technical skills (Agri-ProFocus Zambia, 2014; Mangudya, 2017; Schiff, Schmidt, & Troncoso, 2003) as most rural MSMEs have little knowledge on technical issues about business (Ifelunin and Elizabeth, 2013) which affects business performance. Most rural entrepreneurs have been found to suffer from low incomes levels (RBZ, 2016) which limits their access to microfinance assistance. Empirical evidence in the developing economies indicates a strong interdependence between human capital, social capital and financial capital (Turyahikayo, 2015) wherein the amount of social and financial capital that MSMEs are able to generate is dependent on management and technical skills. Woldie, Laurence and Thomas, (2018)

bemoan the inability of SMEs to develop attractive and bankable projects, which hinders them from accessing credit while studies such as Eskesen, Agrawal and Desai, (2017); Fredu and Edris, (2016) lament the poor management culture among MSMEs which puts them at a disadvantage in accessing credit. Empirical studies in Sub Sahara Africa submit that entrepreneurs who received business training performed significantly better than those that did not (eg. World bank & ACET, 2014; Makorere, 2012; Omondi and Jagongo, 2018; Woldie, Laurence and Thomas, 2018; Mutuma, 2019). Most MSMEs that liquidated were chiefly as a result of failure due to lack of business training for the owners (Kambwale, Chisoro, & Karodia, 2015) although some factors such as lack of management skills, a lack of financial support contributed to the demise of the institutions.

Whereas firm performance is directly determined by access to both long-term and short-term finance (Sibanda, Hove-Sibanda and Shava, 2018), the lack of long term credit for the rural MSMEs is prevalent especially in the less developed economies (Agri-ProFocus Zambia, 2014; Porter Chilsen & Company, 2003) in which most MFIs do not offer long term finance to support capital for development. The bulk of loans are short term and restricted to working which makes it difficult for the rural MSMEs to acquire capital goods that need long term financing. In contrast finance theory requires that the permanent portion of working capital be financed through long-term debt (Johnstone, Perera and Garside, 2020; Sibanda, Hove-Sibanda and Shava, 2018). With most MFIs concentrating on short term loans that are repaid within three months, the needs of most MSMEs (which are long term) do not match with the conditions of micro financiers with respect to the tenure dimension. The pitfalls of this mismatch are worsened by the irregular incomes in the MSMEs sector that are expected to support consistent loan repayment requirements (RBZ, 2016). Turyahikayo, (2015) and Mensah et al., (2015) show that stringent lending criteria by financial institutions significantly influenced access to funding by SMEs and that most SMEs failed to access loans due to a short repayment window demanded by financial institutions and an inability of MSMEs to meet the criteria for long term financing. However in developed nations, studies such as Nogueira, (2017) found evidence that microcredit institutions had a proclivity to give higher amounts of credit with longer maturities to entrepreneurs wherein these entrepreneurs had lower likelihood of repayment as they were mostly necessity entrepreneurs.

The lack of financial skills and knowledge has become quite a hindrance for rural MSMEs access to finance (RBZ, 2016 ; Schiff et al., 2003) especially for rural households, most of whom lack basic appreciation on the operations of formal financial service providers. Access to microcredit for SMEs is significantly dependent on among others, financial training, household income, age of the enterprise as well as ownership (Ruslan,

1994), Omondi & Jagongo, 2018; Mutuma, 2019) and evidence show that MSMEs that received financial skills training had significantly higher performance than those that did not. Some studies link poor access to markets to the stunted growth of rural MSMEs, most of whom usually operate in marginalized places where existing markets, and potential markets, are limited (Eskesen, Agrawal and Desai, 2017; Schiff et al., 2003; Vasilescu, 2014; Mangudya, 2017). With limited growth micro enterprises find it difficult to access micro finance services. The probability of a micro entrepreneur being credit constrained decreases as firm size increases (World Bank, 2018; Ramachandran and Yahmadi, 2019; Fredu and Edris, 2016). In Asia and sub-Saharan Africa, the size and age of the firms are among the biggest hurdles that MSMEs face in accessing credit from financial institutions (Chowdhury & Alam, 2017, Wilfred et al., 2013). The significant contribution of transportation and infrastructure (such as road networks and telecommunications) hinders access to markets and hence financial performance of the business (Ganbold, 2008).

There has been a considerable debate on the link between interest rates and SME access to finance (eg, Makorere, 2012; Qubbaja and Jaradat, 2019; Mensah, 2015; Chilembo, 2021; Khalid and Kalsom, 2014). Evidence suggest that high interest rates and bank charges by financial institutions scare away rural micro entrepreneurs from accessing microfinance services in preference of their savings and cooperative society's credit (RBZ, 2016; Aladejebi, 2019; Kwaning, Nyantakyi and Kyereh, 2015). Default by most of the rural MSMEs has often been observed to be caused by high interest requested by the microfinance institutions. Most of those who manage to get credit are suffocated by high interest rates and short repayment periods (Ackah & Vuvor, 2010; gichuki, Njeru and Tirimba, 2014) which precludes these MSMEs from any developmental or expansion projects. Similarly, lack of collateral needed by financial institutions often stalls credit access for rural MSMEs (Chilembo, 2021; Evans, Josephine and Yeboah, 2015) as lenders are most concerned about the moral hazard issues when advancing credit to MSMEs which leads them to demand collateral cover as guarantee for loan recovery. Much of literature in the sub-Saharan economics (eg, Hassan et al., 2010; Turyahikayo, 2015; Guruwo and Segolame, 2018; Osano and Languitone, 2015) confirm a positive relationship between lack of collateral assets and rejection of credit for MSMEs. Whilst there are financial institutions willing to extend credit to SMEs the majority of the SMEs fail to meet the collateral requirements (Ackah and Vuvor, 2010; Osano and Languitone, 2015; Naidoo and Hilton, 2006; Kessey, 2014; Chilembo, 2021). Due to high poverty levels especially in rural areas, rural MSMEs lack the most in terms of the collateral needs of financial institutions (Chimucheka and Rungani, 2013; Chimucheka and Rungani, 2013; Evans, Josephine and Yeboah, 2015) hence miss out most on potential funding. The problem

of lack of collateral in accessing funding in developing countries is aggravated by unfavourable institutional factors related to limited protection of creditors and investors by laws (Zavatta, 2008; Chowdhury and Alam, 2017; Ackah and Vuvor, 2010; Gichuki, Njeru and Tirimba, 2014) and compounded by inappropriate or incongruent information infrastructures.

Most rural MSMEs are molded around informal business models that are not properly registered (Balogun, Agumba and Ansary, 2018; World bank and ACET, 2014; Evans, Josephine and Yeboah, 2015; IFC, 2018) as most are individual or family owned resulting in lack of separation between personal transactions and business tractions. In such circumstances business operations and sustainability is greatly influenced by personal lifestyle of the owner (Christopher, 2010; IFC, 2018). The business profile is heavily influenced by the registration status or documentation or form of the business in the economy (Balogun, Agumba and Ansary, 2018) hence it is necessary formerlise MSME business operations in order to enhance chances of getting credit from financial institutions.

#### Hypothesised model

Based on contributions of earlier studies in the review of literature above, we develop the following model.

The model hypothesises that business performance is at the core of MSMEs's access to microfinance funding, mediating four variables (technical skills, access to markets, collateral, and financial skills and knowledge) that influence the MSME's access to finance.

### 3. Materials and Methods

The study adopted a survey design, targeting rural entrepreneurs in Matabeleland North province chiefly in Lupane, Nkayi and Tsholotsho districts. Out of 324 survey questionnaires that were distributed, a total of 301 were received. The Structural Equation Modeling (SEM) analysis was used to test the hypothesized model. The study adopted a 5 point Likert scale questionnaire to record responses. A survey questionnaire was used as it allowed collection of a large amount of data in a standardised form and would give respondents a chance for a considered response and reference to records. A preliminary assessment through a pilot test was used to ensure questionnaire validity and reliability. Chronbach's alpha coefficients were generated to test the reliability of the instrument and the Chronbach's alpha results were the used to remove scale items that were redundant or did not materially hang together with other score items. The hypothesis was collapsed into two main categories as follows

H01: There is no direct relationship between any of collateral, financial skills and knowledge, access to market, technical skills, business performance, and access to microfinance funding.

H02: There is no indirect relationship between



any of collateral, financial skills and knowledge, access to market, technical skills and access to microfinance funding.

SPSS AMOS was used to analyse the structural relationships between the constructs through structural equation modelling based on the maximum likelihood estimation method (MLM). This allowed the measurement of the multiple and interrelated dependence among the variables, specifically enable the analysis of both latent and observed variables as well as providing measurement error estimates in line with Aryadoust & Raquel, (2019). The structural equation modelling allowed the generation of path modeling estimating the size and strength of the direct and indirect influence between the exogenous variables and access to microfinance funding.

Measurement instrument and questionnaire design

The study applied research measures based on extant literature after instituting relevant adjustments to ensure the measures align with the study's objectives in line with Sibanda et al., (2018). We adapt constructs definitions and measurement scales from Contessi & Working, (2013) for the variables based on a five-point Likert-scale, coded as follows: 1 = strongly disagree to 5 = strongly agree.

## 4. Results

### Reliability and Factor Analysis of the variables

In line with Pallant, (2016) the degree to which the scale items hang together and measure the same underlying construct was assessed using Cronbach's Alpha coefficients. After removing redundant scale items in the analysis, significant scale items had good internal constituency. All the variables had Cronbach's alpha coefficients exceeding the generally prescribed minimum threshold of 0.7 (Pallant, 2016) indicating quite a good level of reliability. The reliability values were all less than 0.95 confirming that there was no redundancy among the scale items.

### Model validation

Confirmatory factor analysis was run to assess model fit and the results suggest a good fit for data. The extent to which the specified model fits well and reproduces the observed data was assessed directly through absolute fit measures such as GFI, RMSEA, CMIN/DF and results indicate an acceptable fit in line with Poterla, (2012) and Jain & Sharma, (2012). However the results indicated a significant P-value that suggests a poor fit (Cheung and Rensvold, 2002) whereas scholars have suggested that having a significant p-value in itself does not invalidate the model fit. With a large sample size it is difficult to obtain nonsignificant chi-square, one that is indicative of good fit, especially samples exceeding 200 (Poterla, 2012). Studies have indicated that as larger samples result in larger chi-squares that are significant regardless of having very small discrepancies between implied and obtained covariance matrices.

The relative fit indices such as the Normed Fit Index (NFI), Tucker-Lewis Index (TLI), Adjusted Goodness of Fit which show how the chi-square for the tested model compare to a baseline/ independence model indicated quite acceptable model fit in line with the minimum thresholds as prescribed by scholars such as Jain & Sharma, (2012); Jain & sharma (2012) and Maria & Portela, (2012). The Parsimonious Fit Indices (PRATIO, PNFI, PCFI) measure model fit based on adjusted absolute and relative fit measures and are designed to penalize less parsimonious models and favour less complex models. The fit analysis suggest the model has quite an acceptable parsimony in line with Jain & sharma (2012) who recommended that the measures should be above 0.8 for a good fit and above 0.7 for an acceptable fit.

### Path estimates

The regression weights for the hypothesized relationship show that access to markets has a positive significance influence on business performance with a regression weight of 0.163 and a p-value of 0.000 as indicated in table 1. Having strong technical skills was found to have a positive significant influence on the financial performance of the business. A unit increase in technical skills for the managements of MSMEs is expected to generate an improvement in the financial performance of the business by 0.805 units. The results also indicate that MSMEs that have strong financial skills and knowledge are likely to have significantly better results in terms of financial performance. This result supports the studies by Agri-ProFocus Zambia, (2014); Mangudya, (2017); Schiff, Schmidt, & Troncoso, (2003) ; Woldie, Laurence & Thomas, (2018); Turyahikayo, (2015); Mangudya, (2017); Fredu and Edris, (2016); Chowdhury & Alam, (2017), Wilfred et al., (2013) and Kwaning, Nyantakyi and Kyereh, (2015) among others.

### Table 1: Path estimates

The relationship between collateral assets and access to finance has been topical over the past decade with many scholars stressing on the need for collateral assets to enhance access to finance. However, the results from the study indicate that collateral does not have a significant influence on the financial performance of MSMEs as indicated by a p-value of 0.295 thus refuting the findings of Chilembo, (2021); Evans, Josephine and Yeboah, (2015) who posit that business performance is mainly hinged on access to finance and the amount of collateral a firm may offer against loans. Results on the link between financial performance of MSMEs and access to micro financing indicate there is a positive significant relationship between the two. This implies that MSMEs that exhibit strong financial performance are likely to obtain financial assistance from microfinance institutions. This is in line with the findings of World Bank Group, (2018); Chowdhury & Alam, (2017); Wilfred et al., (2013) and Kwaning,

Nyantakyi & Kyereh, (2015) among others.

Access to markets was found to have a significant direct influence on the MSMEs's access to microfinance funding. An improvement in the MSMEs' access to markets by one unit is expected to improve the MSMEs' access to funding by 1.69 units. This suggests that microfinance institutions prefer MSMEs that have access to markets in line with studies by Eskesen, Agrawal and Desai, (2017); Schiff et al., (2003); Vasilescu, (2014); Mangudya, (2017) and World Bank Group, (2018) who reported a positive relationship between access to markets and access to finance. The results show that having strong technical skills has a direct significant influence on the MSME's access to funding from microfinance institutions, with a unit increase in technical skills expected to result in an increase in access to funding by 1.44 units. This confirms the results from studies by Turyahikayo, (2015); Schiff, Schmidt, & Troncoso, (2003); Mangudya, (2017); and Woldie, Laurence & Thomas, (2018); Agri-ProFocus Zambia, (2014) who posit that financial institutions prefer MSMEs that demonstrate strong technical skills.

The study findings on the relationship between access to funding and collateral indicate that collateral does not have a direct significant relationship with MSMEs' access to funding as indicated by a p- value of 0.063. This implies that Zimbabwean microfinance institutions have not been much concerned with the value of collateral when assessing creditworthiness of rural MSMEs. This contrasts with results by Chilemba, (2021); Evans, Josephine and Yeboah, (2015) Ackah and Vuvor, (2010) and Chimucheka & Rungani, (2013). The direct link between financial skills & knowledge and access to funding was found to be significantly positive with a p- value of 0.000. The results imply that a unit increase in financial skills & knowledge would result in an improvement in the MSME's access to microfinance funding by 0.805 units. This suggests that rural MSMEs must invest in financial literacy and book keeping skills in order to enhance chances of securing finance from microfinance institutions as suggested by Vasilescu, (2014); Aldaba, (2011); Naidoo and Hilton, (2006); Kessey, (2014); RBZ, (2016) and Schiff et al., (2003).

### Indirect effects

The indirect (mediated) effect of the predictors are presented indicated in table 5. The indirect effect of technical skills on access to microfinance funding is 2.49 indicating that if technical skills improve by one unit, this would, through its impact on business performance, result an improvement in the MSMEs access to finance by 2.49 units. Given that the factor loading for the directly relationship between technical skills and access to finance is 1.436, it suggests that having strong technical skills is most effective via its influence on the financial performance of the business.

### Table 2: Indirect effects

Access to markets has in indirect of 0.260 units. The result suggests that access to market is more

influential to access to microfinance funding when there is no mediation as indicated by the direct regression weight of 1.69 in table 2. The predictors financial skills & management as well as collateral appear to more effective when mediated by business performance where their regression weights appear to be higher.

### Study Implications and interventions

Rural MEMEs are at a natural disadvantage with respect to market access relative to urban MEMEs hence there is need to ensure access to markets for rural MSMEs so as to enhance the performance of these MSMEs which will generate a better access microfinance funding. It is noted rural entrepreneurs that have more access to markets are preferred by microfinance institutions possibly due to an expectation that access to markets guarantees firm survival, profitability and growth. It is more difficult to develop and expand businesses in rural areas as a result of challenges relating to distance. Development stakeholders need to dialogue around strategies that promote rural cooperative models for MSMEs that help rural MSMEs better market their products and source dependable markets for the products. The cooperative model can help in ensuring quality standards are maintained among members which helps in securing markets.

The results suggest the need for deliberate interventions to improve the financial literacy and financial management skills set of the rural entrepreneurs. Rural entrepreneurs lack in their appreciation of financial products and the processes involved in accessing loans from microfinance institutions. Targeted government literacy interventions on how the rural entrepreneurs can access financial products are needed order to unlock rural MSMEs access to funding from microfinance institutions. As discussed earlier rural MSMEs face high competition which is exacerbated by scarce availability of inputs deliver, which threatens their fundamental contribution to employment and income creation. There is need to incentives and promote the adoption of production cooperative models which provide a platform joint engagements through the pooling human and material resources. Evidence provided by Anna Stancher, Galtieri, & Russo, (2007) proves that cooperative model help producers and participant's perform better in the whole chain form the production to the sale of their products. This will address production challenges through group purchase of inputs and sharing of production equipment technical, managerial resources as well as logistics needs such as warehousing and transportation of products. The cooperative model can also be applied to assist rural MSMEs in market information gathering and dissemination, targeted training in new competitive production methods as well as in training in advertising, and marketing.

With most rural MSMEs suffering from lack

of technical skills about business operations and management and which negatively impact on business performance. The rural entrepreneurs need to be trained and equipped with skills required for problem solving; design, operation, rethinking to constantly improve product offering to match the constantly changing market expectations. Such training is expected to boost operational and financial sustainability which will boost the credit profile of the entities resulting in improved access to microfinance funding. Improvement in business performance requires that the rural entrepreneurs are equipped with requisite skills in human capital management, knowledge management and technical expertise. Several studies such as Fanelli, (2021); OECD, (2004) and Stancher et al., (2007) have found evidence significantly linking the adoption of innovative production technologies to MSMEs' competitiveness and profitability. Thus development stakeholders need to develop measures that result in the use of innovative production technologies by MSME sector. This calls for supportive skills upgrading for MSMEs so that their skills set matches the adopted innovative technologies.

The study revealed that MSMEs have challenges in financial recordkeeping which hinders them to produce financial statement documents whereas

financial institutions demand the financial statements in assessing eligibility to funding, without which the financial institutions are unable to assess the risk profile for the MSMEs. There is need for the government, development institutions and NGOs to prioritise offering training and assistance to MSMEs in financial management and baseline book keeping skills. Many rural MSMEs have viable projects that matching and qualify for financial assistance but either fail to apply for funding or get applications for loans turned down due to absence of financial records to prove and demonstrate their current and potential business performance. Training in financial management and bookkeeping will enable them get properly assessed and funded for the viable projects.

Public sector, private sector and civil society stakeholders with interest in MSME sector development need to dialogue and partner in order to engage in interventions that strengthen the rural MSME business support system and business services capacities through directed and sponsored programmes that give rural MSMEs access to subsidised bookkeeping services so that the MSMEs can afford to main financial documents required to access loans.

The study has highlighted that a very small proportion MSMEs have access to adequate collateral

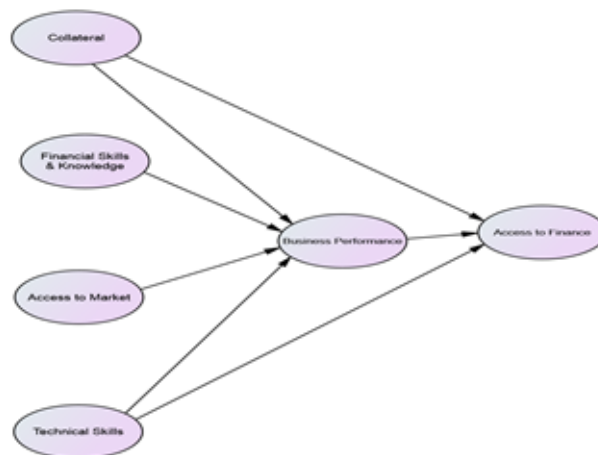


Figure 1: Hypothesised model

Table 1: Path estimates

Variables		Estimates	P value
Business Performance	←----- Access to markets	0.163	***
Business Performance	←----- Technical skills	0.805	***
Business Performance	←----- Financial skills and knowledge	0.404	***
Business Performance	←----- Collateral	0.150	.295
Access to Finance	←----- Business Performance	0.945	***
Access to Finance	←----- Access to markets	1.689	***
Access to Finance	←----- Technical skills	1.436	***
Access to Finance	←----- Collateral	0.337	.063
Access to Finance	←----- Financial skills and knowledge	0.805	***

**Table 2: Indirect effects**

	TS	AM	FSK	C	BP	ATF
BP	.000	.000	.000	.000	.000	.000
ATF	2.497	0.260	1.990	1.400	.000	.000

needed to access funding. Many MSMEs especially those in the early stages of their life cycles do not have tangible assets which may be used as collateral and lack the necessary business and social support networks to offer surety or guarantee assistance as needed by financial institutions. As highlighted by the The World Bank, (2017), there is need for the government to expedite the establishment of a Credit Guarantee Scheme which will assist MSMEs overcome credit worthiness challenges and enable them to access credit at affordable cost. To this end, the RBZ, (2022) in its monetary policy statement reported that significant progress had been made towards the operationalisation of the Collateral Registry whose launch was delayed due to challenges emanating from the Covid-19 pandemic.

## 5. Conclusion

With the increasing centrality of rural MSMEs in rural poverty eradication world over, there is need to address issues that impact on survival, sustainability and growth of these entities. Based on evidence of a huge financial gap in the financial needs of the rural entrepreneurs, this study tried to examine the challenges faced by rural entrepreneurs in accessing microfinance funding. The study identifies lack of access to markets, technical skills, financial skills and knowledge as well as low business performance as key barriers to access to microfinance funding for the rural MSMEs. Access to markets, technical skills and having financial skills and knowledge were found to be more effective when mediated by evidence of improved business performance. The study did not find a significant link between collateral and access to finance. The implications of this study are that efforts to improve rural MSMEs access to microfinance funding should focus on measure that improve access to markets for the rural MSMEs as well as targeted training that improves technical skills financial literacy and financial management capabilities for the rural MSMEs.

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