# Analysing Determinants of SME Business Growth: A Case Study of Lusaka Tevet Aligned SMEs

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**Abstract:** This study examines the financial, market, and regulatory constraints affecting Technical Education, Vocational and Entrepreneurship Training (TEVET)-aligned small and medium enterprises (SMEs) in Lusaka, Zambia. Despite their critical role in job creation, innovation, and industrial diversification, these enterprises face persistent barriers that hinder growth and sustainability. Guided by the Constraint Theory of Entrepreneurship, Institutional Theory, and the Resource-Based View (RBV), the study adopted a mixed-methods approach involving 47 TEVET-SME owners and 141 TEVET graduates. Data were analysed through descriptive and inferential statistics and thematic analysis. Findings reveal that TEVET-aligned SMEs are vital to Zambia's local economy but remain constrained by limited access to finance, weak managerial capacity, unstable markets, and bureaucratic regulatory environments. The paper concludes that integrating skills development with financial inclusion, institutional coordination, and digital innovation can transform TEVET from a training system into a driver of industrialisation and inclusive growth.

## I. INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognised as engines of economic growth and job creation. In Zambia, SMEs contribute approximately 40 per cent of GDP and employ over 70 per cent of the workforce (ZDA, 2022). Among them, enterprises aligned with the TEVET system play a strategic role by transforming vocational skills into productive ventures. Yet, despite this potential, TEVET-aligned SMEs continue to struggle with financial exclusion, market isolation, and complex regulatory frameworks. These constraints are mutually reinforcing, limiting the translation of technical skills into sustainable enterprises.

This study explores how financial, market, and regulatory factors affect the growth of TEVET-aligned SMEs in Lusaka, and how vocational education can be leveraged to overcome these barriers. The study's motivation derives from the observation that skills without systems remain insufficient—and that sustained SME growth requires an enabling ecosystem linking training to finance, markets, and policy support.

## II. THEORETICAL FOUNDATION

➤ *The Study Integrates Three Theoretical Perspectives:*

- Constraint Theory of Entrepreneurship, which posits that structural barriers—such as finance, infrastructure, and regulation—limit entrepreneurial success.
- Institutional Theory, which emphasizes the role of institutions in shaping enterprise behaviour and opportunity structures.
- Resource-Based View (RBV), highlighting how firm-level capabilities (skills, knowledge, innovation) determine competitiveness.

Together, these frameworks explain why TEVET-aligned SMEs with strong technical foundations may still underperform when institutional, financial, or policy support systems are misaligned.

## III. STATEMENT OF THE PROBLEM

SMEs are recognized as the backbone of Zambia's economy, contributing substantially to GDP and employment (ZDA, 2022). Among these, TEVET-aligned SMEs possess significant potential to drive industrial innovation, promote self-employment, and reduce youth unemployment (TEVETA, 2023). However, evidence suggests that these enterprises face persistent barriers that undermine their sustainability and competitiveness.

Financial constraints remain a key challenge. Beck (2007) and the IFC (2010) established that small firms in developing economies face more severe financing obstacles than large enterprises due to information asymmetry, high collateral demands, and conservative lending practices. In Zambia, the Bank of Zambia (2023) reported that commercial lending rates range from 20 to 25 per cent annually, with collateral requirements exceeding 150 per cent of the loan amount. Consequently, most SMEs depend on personal savings or informal lending, which restricts growth and innovation. TEVET graduates, while technically skilled, often lack financial literacy and management experience, further limiting their access to credit (Phiri and Chisanga, 2019).

Market barriers are equally significant. MENON (2010) noted that African SMEs operate within fragmented markets with poor distribution systems and limited integration into regional value chains. In Lusaka, SMEs face intense competition from cheaper imported goods and established corporations, as well as low consumer confidence in locally produced products. Lewis and Gasealahwe (2017) found that limited marketing skills, poor branding, and minimal use of digital tools further weaken competitiveness. Mazumdar (2021) added that weak management and market research capabilities among SME owners exacerbate these challenges.

➢ *Objectives of the Study*

• *General Objective*
To examine the financial, market, and regulatory constraints affecting the growth and performance of TEVET-aligned SMEs in Lusaka District.

• *Specific Objectives*
The specific objectives of the study are:

✓ To analyze the influence of financial management on SME business growth.
✓ To ascertain the effects of access to the market on Business Growth. .
✓ To understand the challenges that SMEs face in meeting Government regulatory requirements.
✓ To establish the role of TEVET training in SME business growth.

## IV. SIGNIFICANCE OF THE STUDY

This study is significant for academic, policy, and socio-economic reasons, each reinforcing the broader imperative of positioning Technical Education, Vocational and Entrepreneurship Training (TEVET) as a strategic driver of inclusive industrialization in Zambia. The relevance of this research lies not only in its empirical contribution to the understanding of TEVET-linked enterprise development but also in its potential to influence national policy and contribute to the re-industrialization of the Zambian economy through skills empowerment.

## V. METHODOLOGY

This study adopted a mixed-methods design, integrating both quantitative and qualitative strands to ensure a holistic understanding of the multifaceted constraints facing TEVET-aligned small and medium enterprises (SMEs) in Lusaka, Zambia. This design was guided by the principle of triangulation, which enhances validity by cross-verifying findings derived from different data sources and analytical approaches (Creswell & Plano Clark, 2018). The rationale for employing this approach stems from the complex, interrelated nature of SME constraints—financial, market, and regulatory—which cannot be adequately captured through a single methodological lens.

## VI. DATA SOURCES AND SAMPLING

Primary data were collected from 47 SME owners and managers through structured interviews and supplemented by focus group discussions (FGDs) with 141 TEVET graduates and key institutional stakeholders representing TEVETA, CEEC, ZDA, and local councils. A stratified purposive sampling strategy was used to ensure disciplinary diversity across major trades, including construction, automotive mechanics, tailoring and garments, cosmetology, electrical installation, and agro-processing. Stratification enabled representativeness across both gender and occupational domains, while purposive sampling ensured that only respondents with active or recent SME experience were included.

Within each stratum, convenience and snowball techniques were employed to identify participants who were available and willing to provide in-depth insights into their entrepreneurial experiences. This approach was particularly useful in reaching informal or home-based enterprises that might not be listed in formal registries. It also facilitated inclusion of women- and youth-led SMEs, thereby enhancing the inclusivity and representativeness of the sample (AfDB, 2019; Krueger & Casey, 2015).

## VII. DATA COLLECTION INSTRUMENTS

Quantitative data were gathered through structured questionnaires designed to capture key variables such as access to finance, marketing practices, regulatory compliance, and business performance. Each instrument included both closed and Likert-scale questions, allowing for measurement of perceptions and experiences across comparable indicators. Qualitative data, on the other hand, were collected through semi-structured FGDs and key informant interviews. These explored contextual issues such as barriers to accessing credit, the role of TEVET training in entrepreneurial success, and the influence of policy implementation on SME performance.

## VIII. DATA ANALYSIS

Quantitative data were coded and analysed using descriptive and inferential statistics, including frequency distributions, percentages, and cross-tabulations. This

facilitated identification of trends and patterns related to access to finance, market participation, and compliance behaviours. Qualitative data were subjected to thematic analysis, allowing the researcher to identify recurring themes, patterns, and mechanisms emerging from participants' narratives. The integration of both strands occurred at the interpretive stage, where convergent and divergent findings were cross-compared to ensure analytical depth.

## IX. ETHICAL CONSIDERATIONS

All participants provided informed consent prior to data collection. Confidentiality was maintained by anonymizing responses and storing data securely. Ethical clearance was obtained from the appropriate institutional review body to ensure compliance with research ethics pertaining to human participants.

## X. RESULTS AND DISCUSSION

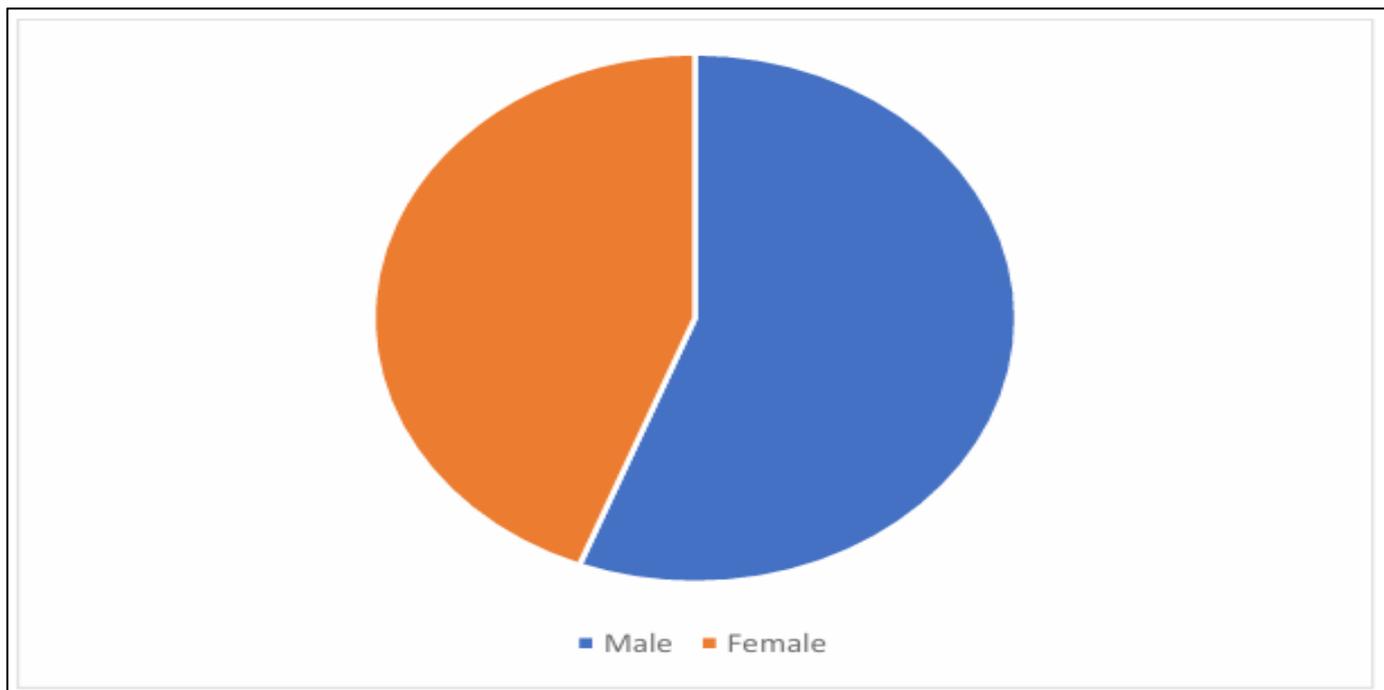➢ *Gender Distibution*



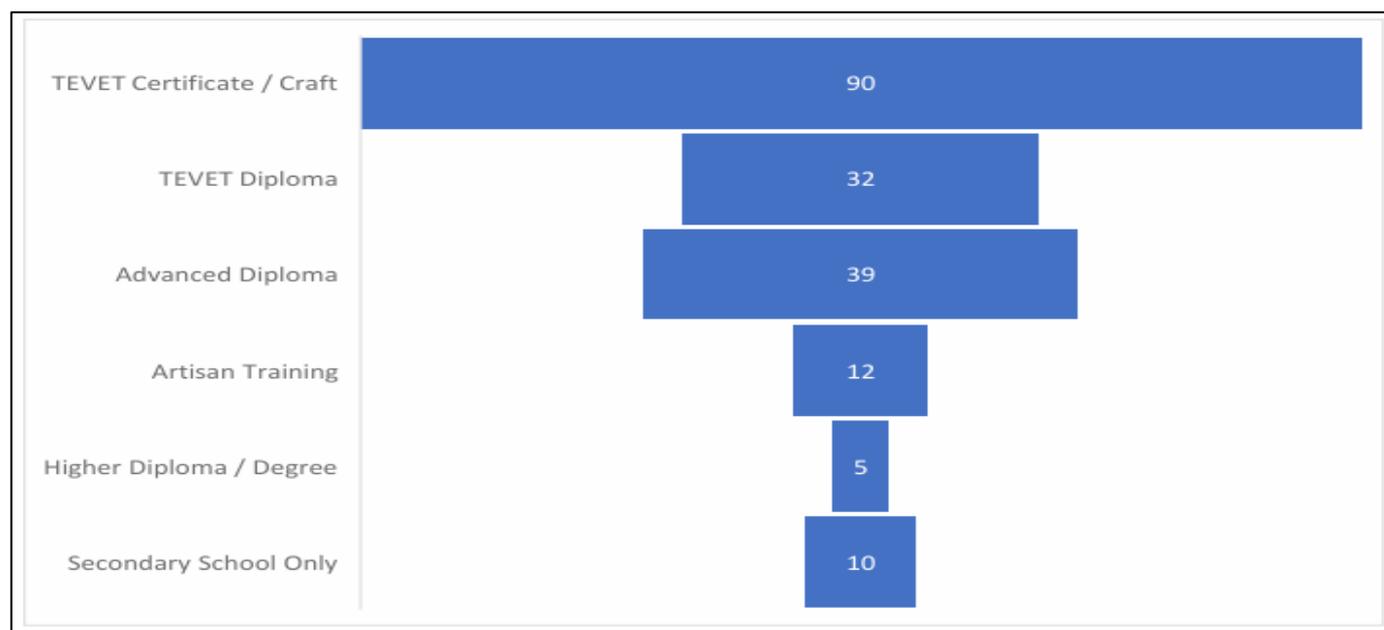Fig 1 Gender Distribution

➢ *Educational Level*



Fig 2 Educational Level
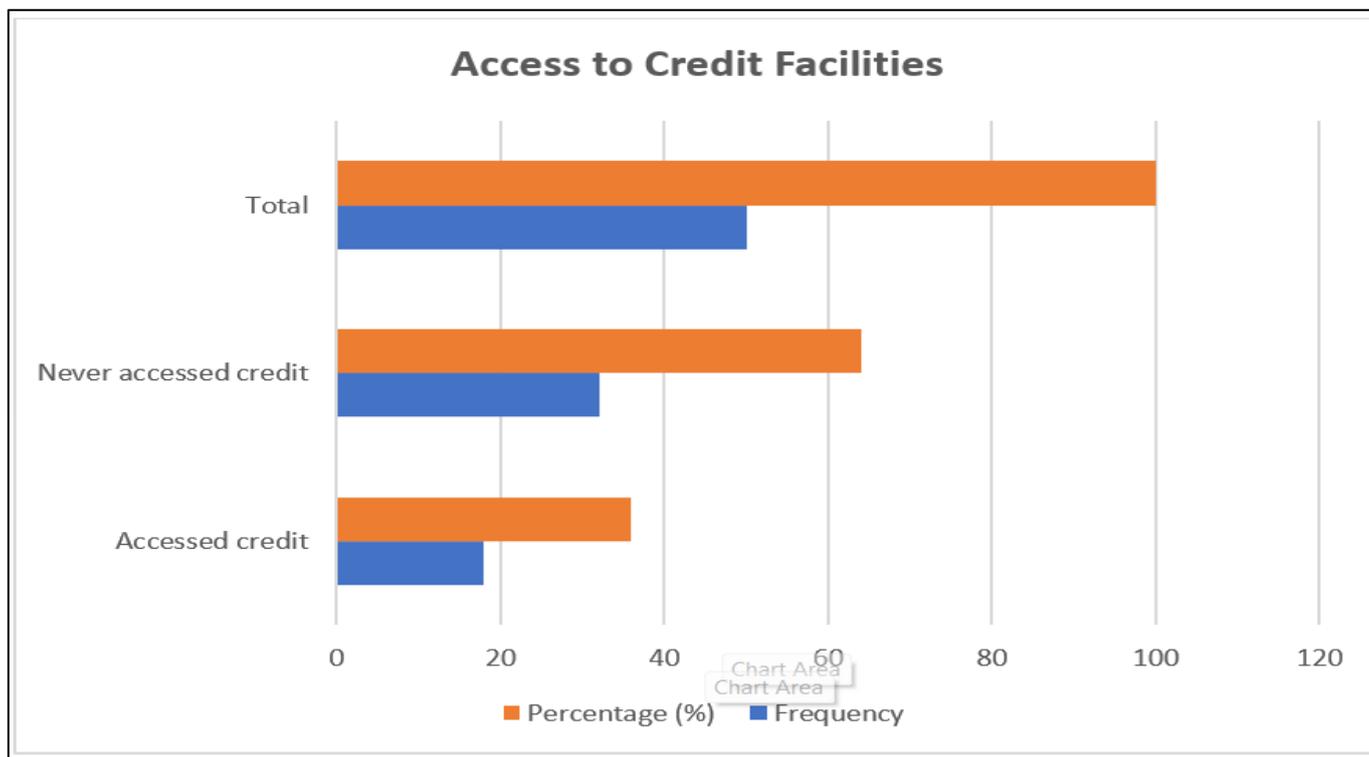
➤ *Financial Constraints*



Fig 3 Financial Constraints

➤ *Sources of Business Finance (n = 50)*

A significant 64% of respondents indicated they had never accessed formal credit facilities. Most SMEs operate through personal savings and informal networks, restricting their ability to expand or invest in equipment.
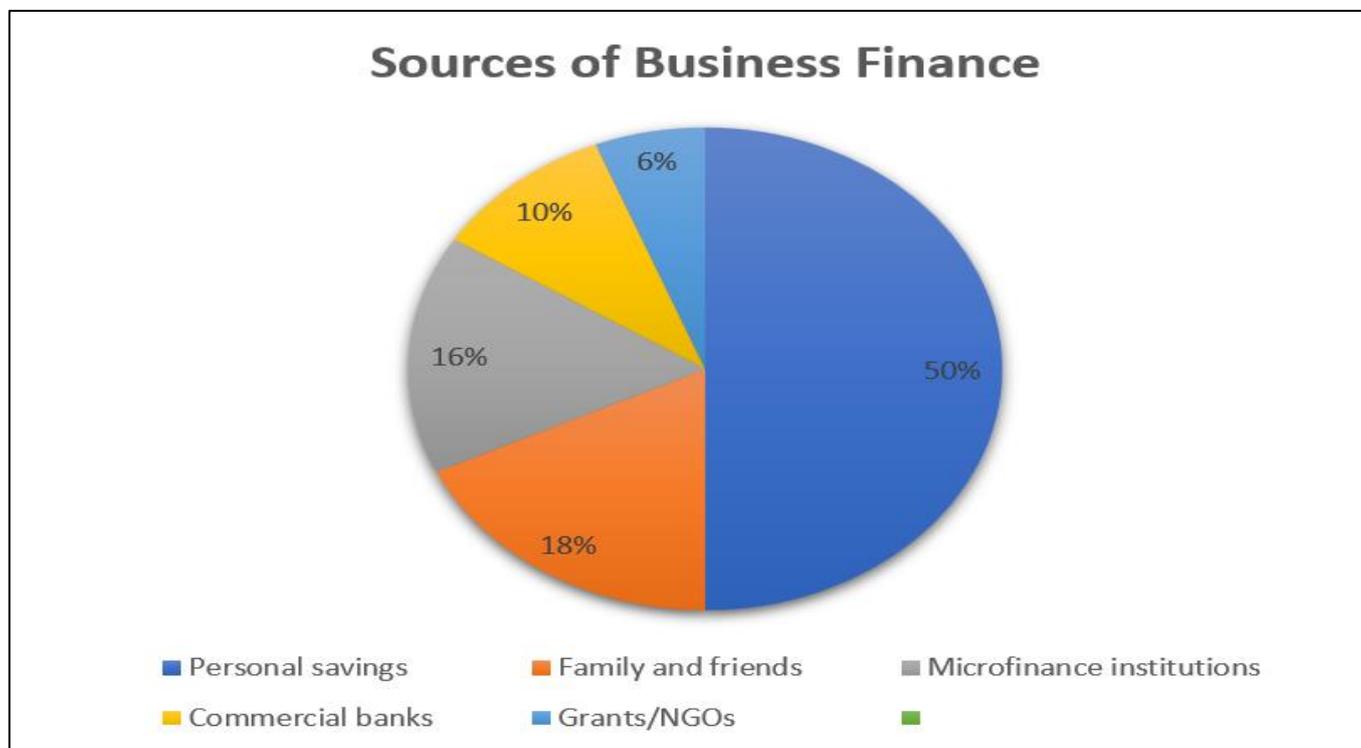


Fig 4 Sources of Business Finance

The dominance of personal savings (50%) underscores a pervasive reliance on self-financing. Only 10% of SMEs had accessed loans from commercial banks, confirming that most TEVET entrepreneurs remain financially excluded from formal lending systems.

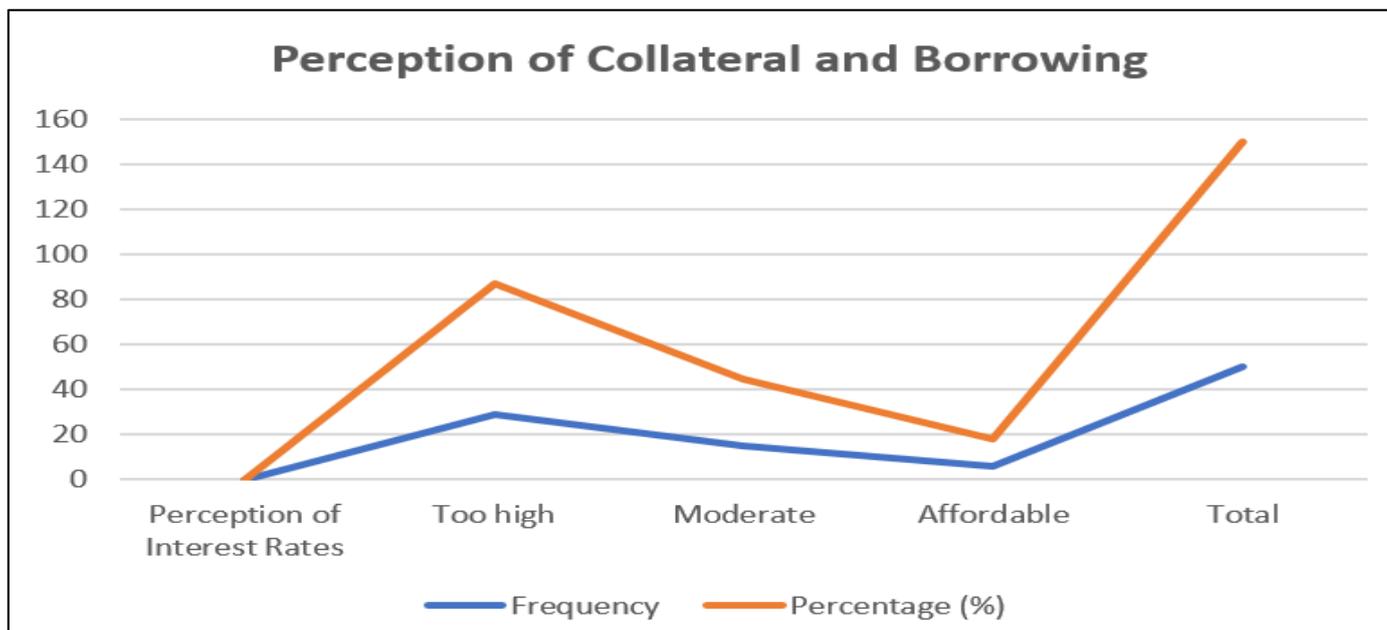➢ *Perception of Collateral and Borrowing Costs (n = 50)*



Fig 5 Perception of Collateral and Borrowing

More than two-thirds (66%) described collateral requirements as very restrictive, and 58% felt interest rates were excessively high. The results suggest that even when credit opportunities exist, borrowing conditions are prohibitive for small enterprises.

➢ *Management Challenges (n = 50)*



Fig 6 Management Challenges

Managerial weaknesses were also prevalent. Nearly 40% of respondents admitted to inadequate record-keeping, while 24% lacked structured budgeting systems. These findings demonstrate that poor internal management compounds financial constraints, leading to inefficiencies in operations.

➢ *Qualitative Findings*

*Insights from focus group discussions provided context to the quantitative data, revealing how financial and management barriers manifest in daily business operations.*

Participants frequently emphasized the inaccessibility of formal loans, attributing it to collateral demands and mistrust between lenders and small business owners.

"Banks want collateral like title deeds, which we don't have. Most of us rent our homes."
*(Female TEVET graduate, Tailoring – Chawama)*

"Even if you qualify, the interest is too high. You end up working just to pay the loan."
*(Male SME owner, Auto Mechanics – Lilayi)*

Others highlighted weak financial discipline and lack of managerial training as internal obstacles:

"We learned the technical side of the trade, but not how to keep records or budget properly."
*(Male graduate, Electrical Installation – Chalala)*

The findings reaffirm that limited access to affordable finance is the most significant constraint impeding SME development in Lusaka. More than two-thirds of respondents indicated that commercial bank loans were inaccessible due to high interest rates, excessive collateral requirements, and prolonged processing periods. Only a minority of TEVET-aligned enterprises reported successful loan acquisition, and these were primarily through microfinance institutions rather than mainstream banks.

Respondents cited personal savings (50%) and informal borrowing networks (25%) as their primary capital sources, aligning with previous studies by Beck (2007) and Akang (2023), which identify credit market imperfections as structural barriers to SME growth. Although empowerment funds exist under the Citizens Economic Empowerment Commission (CEEC) and the Zambia Development Agency (ZDA), awareness and accessibility remain low. The bureaucratic application processes, combined with limited monitoring and mentorship, restrict their effectiveness (Phiri & Chisanga, 2019).

Moreover, weak financial literacy and inadequate record-keeping were found to compound these financial barriers. Over 40% of SME owners admitted to lacking formal bookkeeping systems, and 24% had no structured budgeting practices. These internal weaknesses reduce creditworthiness and increase default risk, reinforcing what the International Finance Corporation (IFC, 2010) describes as a self-perpetuating cycle of financial exclusion and managerial inefficiency. The evidence therefore underscores the dual challenge of external exclusion (institutional barriers) and internal capacity deficits (entrepreneurial weaknesses) in SME financing.

➢ *Quantitative Findings*

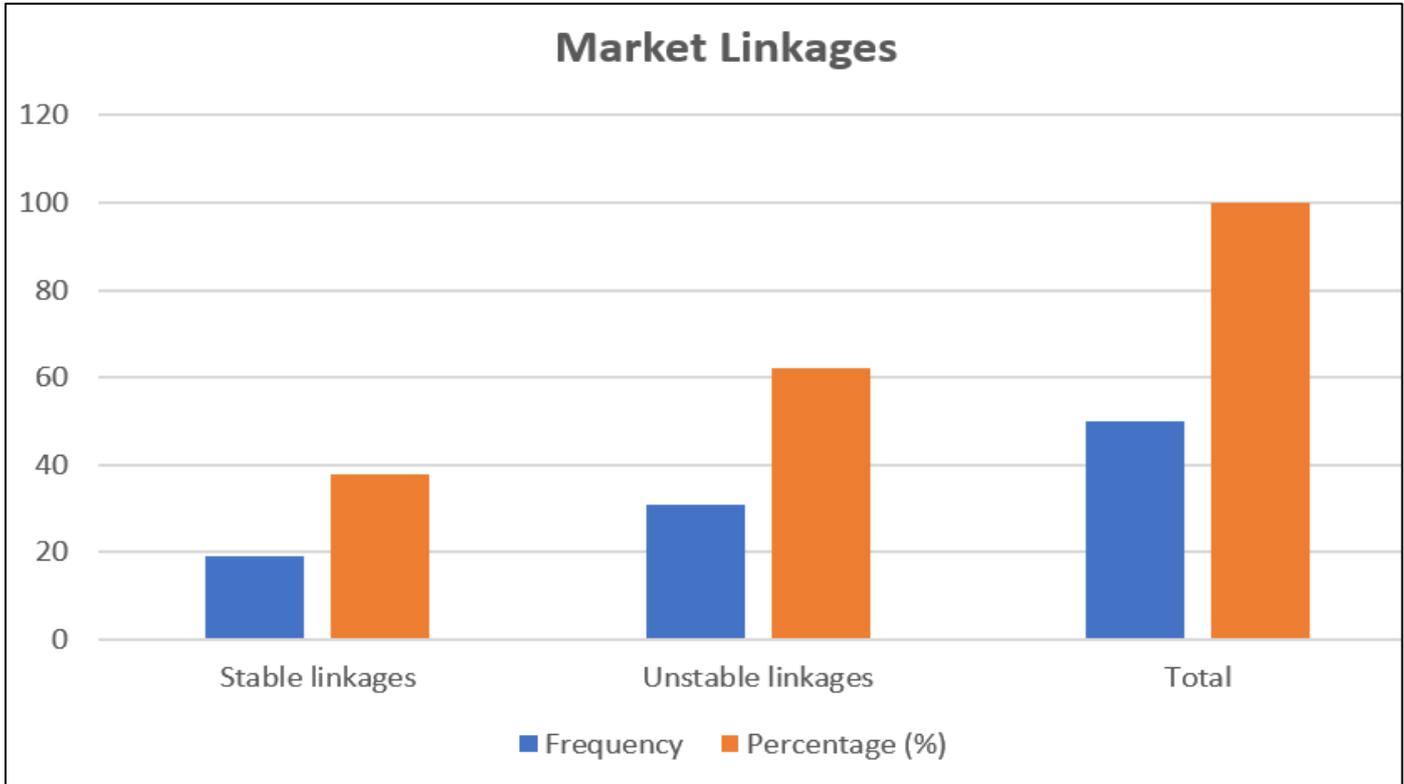• *Market Linkages (n = 50)*



Fig 7 Market Linkages

The majority (62%) of SMEs reported lacking stable market linkages, relying mainly on walk-in customers or personal referrals. This instability limits business predictability and revenue growth.
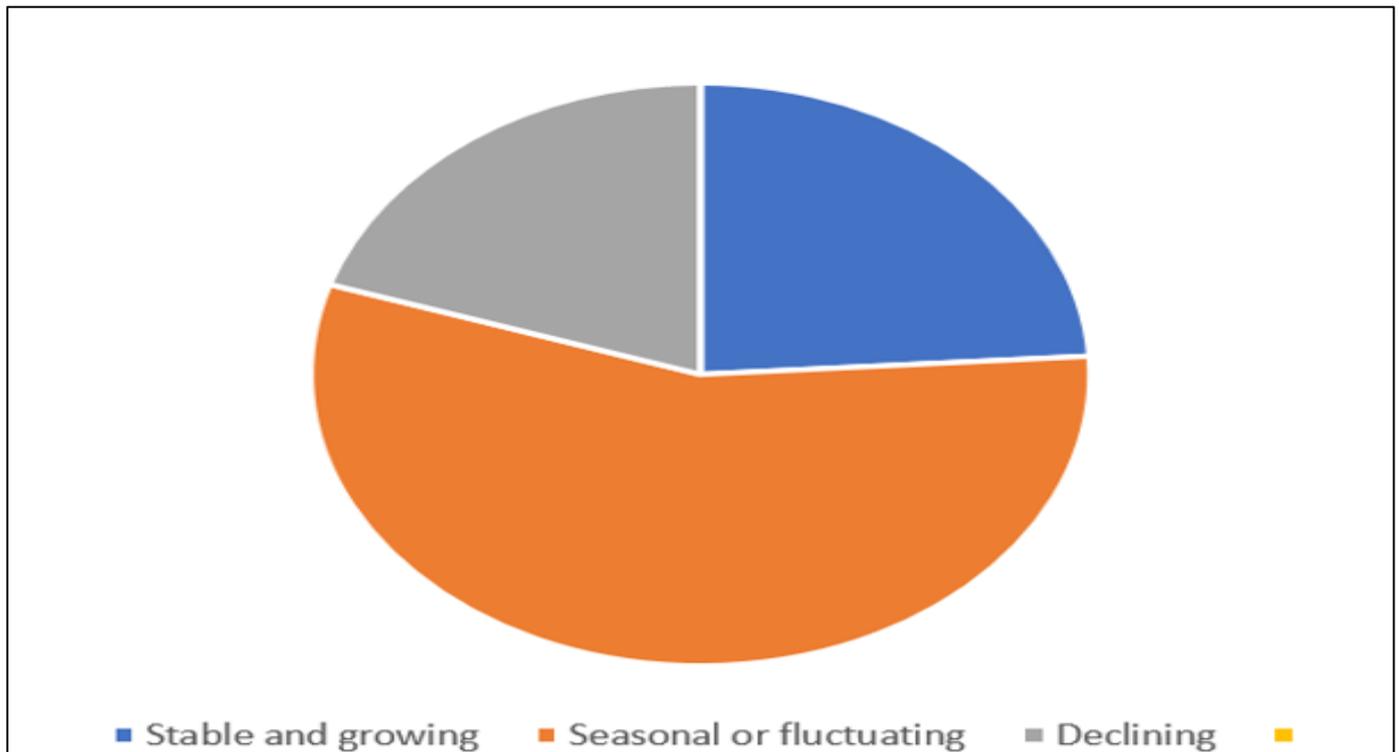
- *Customer Base Stability (n = 50)*



Fig 8 Customer Base Stability

More than half (56%) described their customer base as *seasonal*, reflecting inconsistent demand that undermines business stability.

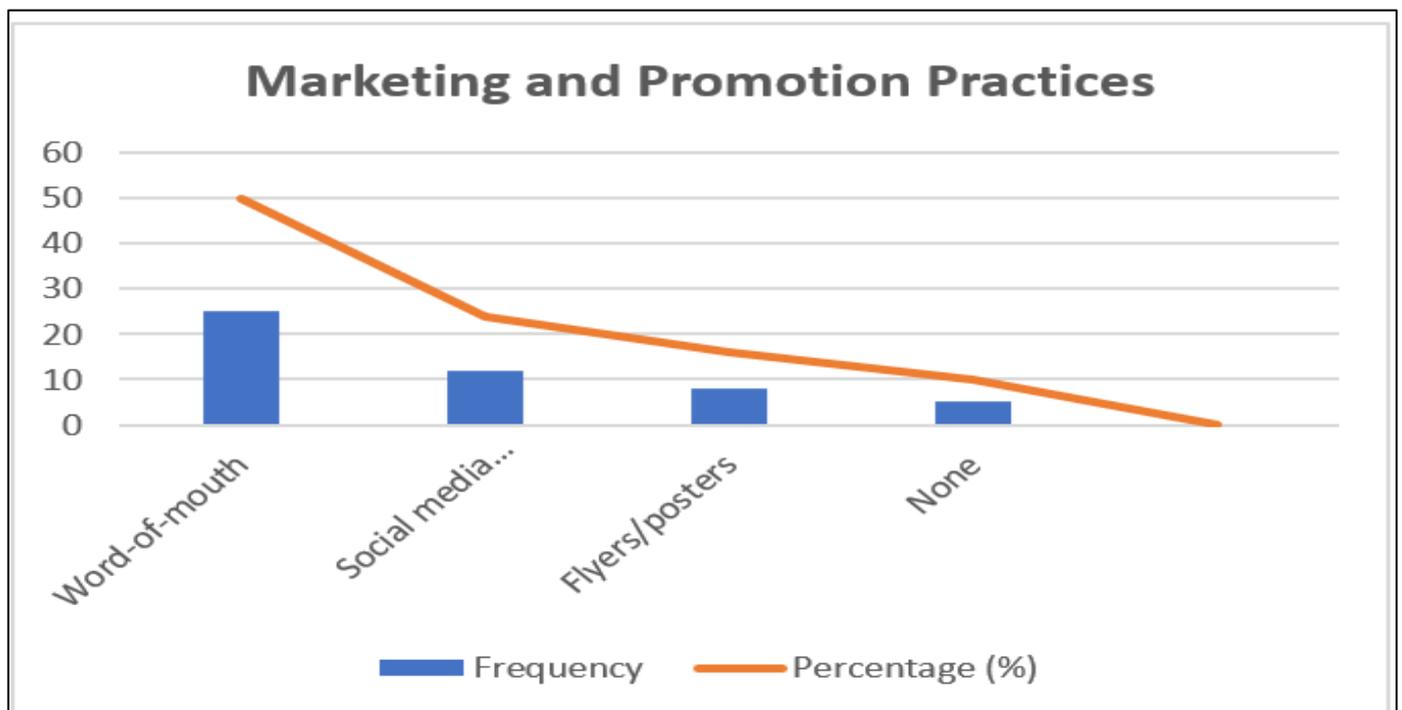- *Marketing and Promotion Practices (n = 50)*



Fig 9 Marketing and Promotion Practices

Half of the respondents relied on word-of-mouth marketing, while only 24% used social media. These results suggest a lack of structured marketing skills and limited awareness of digital tools that could enhance visibility.
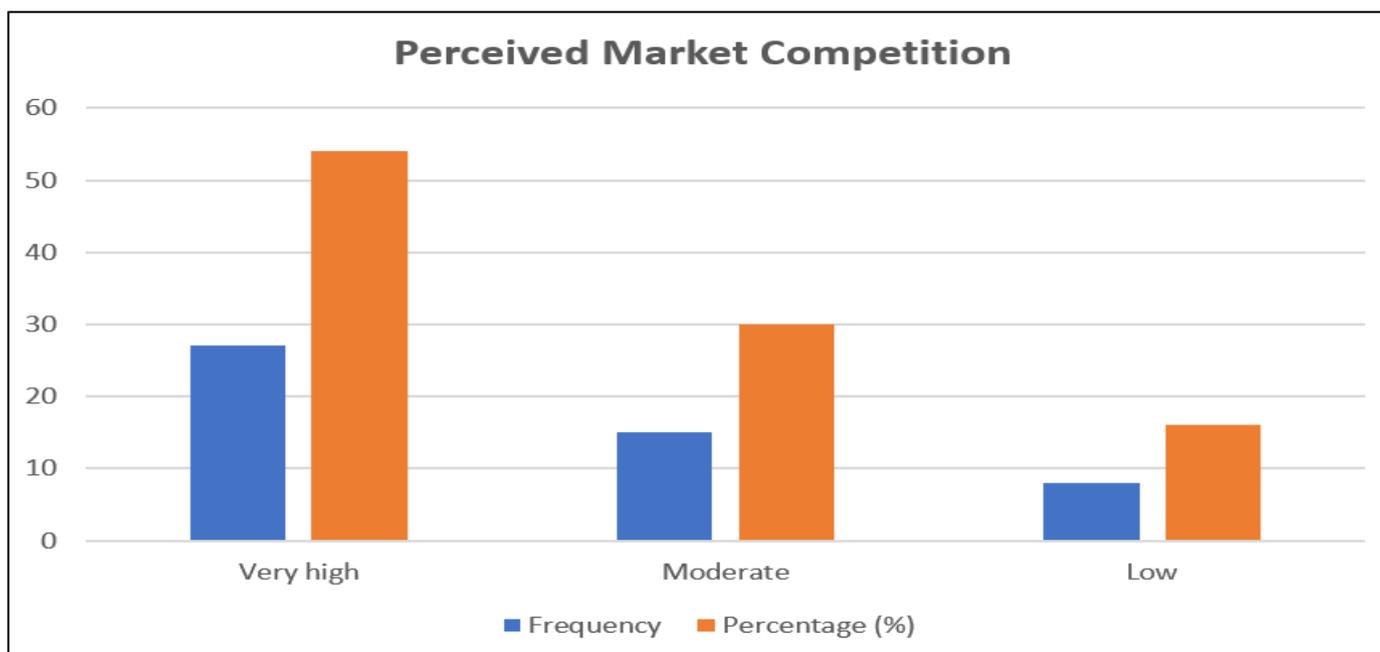
- *Perceived Market Competition (n = 50)*



Fig 10 Perceived Market Competition

Over half (54%) cited *very high competition*, particularly from imported goods and well-established local brands.

> *Qualitative Findings*

Focus group participants emphasized that market access and competition are major daily struggles.

"We rely on WhatsApp and personal referrals because we can't afford to advertise."
*(Female graduate, Beauty Therapy – John Howard)*

"Imported items are cheaper and look more attractive; people prefer them."
*(Male SME owner, Carpentry – Chalala)*

"Most of us don't have links with big clients or companies. We sell to whoever walks in."
*(Female graduate, Fashion Design – Lilayi)*

The results indicate that market access and competitiveness represent equally severe challenges for TEVET-aligned SMEs. While graduates possess strong technical competencies, they lack exposure to modern marketing techniques, customer relationship management, and brand development. More than 60% of respondents reported unstable or seasonal customer bases, relying heavily on word-of-mouth referrals rather than structured marketing or contracts. Only 24% had used social media or online advertising, reflecting low levels of digital adoption.

Competition from imported goods, particularly from South Africa and China, further exacerbates these difficulties. Local SMEs often struggle to match the pricing, packaging, and quality standards of imported alternatives, leading to

shrinking market shares. These findings mirror continental trends noted by MENON (2010) and AfDB (2019), who observe that African SMEs remain trapped in low-value segments of domestic markets due to weak branding and limited access to formal value chains.

Additionally, the absence of institutional market linkages between TEVET institutions and private sector buyers limits graduates' transition into commercial networks. Respondents emphasized the need for trade fairs, product expos, and public procurement inclusion, which could expose local enterprises to larger markets. Without such linkages, TEVET training outcomes remain under-leveraged, confining graduates to survivalist entrepreneurship rather than scalable business operations.

## XI. REGULATORY CONSTRAINTS

Regulatory inefficiencies emerged as another major theme. Respondents highlighted the complexity and cost of business registration, inconsistent taxation systems, and limited decentralisation of key regulatory services. Agencies such as the Patents and Companies Registration Agency (PACRA) and the Zambia Revenue Authority (ZRA) were perceived as inaccessible—particularly for small entrepreneurs lacking digital access or formal documentation.

Although Zambia's SME policy framework is comprehensive, implementation gaps persist. The National MSME Development Policy (2020) and the Industrialisation Policy (2022) both advocate for streamlined procedures, yet respondents reported that actual service delivery remains slow, costly, and urban-biased. This disconnect supports institutional theory, which posits that governance fragmentation and policy incoherence can impede enterprise

formalisation even within policy-rich environments (North, 1990). Consequently, many TEVET entrepreneurs operate semi-formally to avoid compliance burdens, thereby missing opportunities for credit access, business visibility, and formal growth.

## XII. ROLE OF TEVET TRAINING

Despite the structural barriers identified, TEVET training continues to serve as a transformative foundation for enterprise development. Graduates demonstrate strong technical proficiency, adaptability, and entrepreneurial ambition. However, the study identifies a critical ecosystem gap between skill acquisition and business sustainability. TEVET institutions currently emphasise technical competence but provide limited exposure to financial literacy, innovation management, and market engagement.

Participants advocated for curriculum enhancements, including modules on strategic management, digital marketing, and innovation systems, to equip graduates with the entrepreneurial mindset necessary for modern business environments. Collaborative frameworks between TEVET institutions, financial agencies, local authorities, and private sector partners were also recommended to facilitate smoother transitions from training to enterprise establishment. This finding resonates with global evidence that effective TVET systems integrate skills, mentorship, and financing, producing more sustainable entrepreneurial outcomes (ILO, 2021; World Bank, 2020).

## XIII. CONCLUSION

The study concludes that addressing SME growth constraints in Zambia demands systemic realignment rather than isolated interventions. TEVET-aligned SMEs represent a critical engine for inclusive industrialisation, but their potential remains underutilised due to fragmented institutional linkages, limited financial inclusion, and weak post-training support.

To unlock this potential, a coordinated framework is required—linking vocational training, financial intermediation, and market development into an integrated ecosystem. Such an approach would ensure that technical skills translate into viable businesses and sustainable livelihoods. As the findings demonstrate, skills alone do not create industries; rather, it is the synergy between skills, systems, and supportive institutions that drives long-term economic transformation.

This research therefore contributes to policy and practice by demonstrating that when TEVET institutions partner strategically with financial bodies and regulatory authorities, Zambia can accelerate the shift from skill acquisition to enterprise creation—anchoring its broader vision for a diversified and industrialised economy by 2030.

## RECOMMENDATIONS

In light of the research findings and the conclusions drawn, the following recommendations are proposed to strengthen the contribution of TEVET-aligned SMEs to Zambia's socio-economic transformation. These are organized into four thematic areas corresponding to the major challenges identified during the study.

➢ *Financial and Managerial Strengthening*

• *Develop a TEVET–SME Financing Window*
The Ministry of Small and Medium Enterprise Development, in collaboration with the Bank of Zambia and TEVETA, should establish a dedicated financing facility tailored to TEVET graduates. This could take the form of a youth enterprise fund, credit guarantee scheme, or equipment leasing program. Such mechanisms would reduce collateral requirements and de-risk lending for financial institutions. The financing window could be anchored under the CEEC or DBZ to ensure that funds target productive sectors such as agriculture, construction, and light manufacturing where TEVET graduates are active.

• *Promote Financial Literacy and Record Keeping*
TEVET institutions must embed practical financial management modules within all training programs, covering bookkeeping, pricing, taxation, and budgeting. Post-graduation refresher workshops and digital accounting tools should also be introduced to strengthen entrepreneurs' record-keeping and financial discipline. Improved financial literacy enhances creditworthiness and helps SMEs meet the loan eligibility standards set by commercial banks and microfinance institutions.

• *Encourage Business Cooperatives and Savings Groups*
Graduates should be encouraged to form cooperatives or joint savings schemes to mobilize resources, share risks, and achieve economies of scale. Cooperative enterprises can facilitate bulk purchasing of inputs, collective marketing, and access to institutional financing. This approach aligns with Zambia's Cooperative Development Policy and can foster community-based enterprise growth, particularly in rural and peri-urban areas.

• *Introduce Business Mentorship Networks*
A national mentorship framework should be established linking experienced entrepreneurs and business consultants with TEVET graduates. Such mentorship would provide guidance in market expansion, innovation, leadership, and regulatory compliance. Industry associations, chambers of commerce, and alumni networks could serve as partners in this initiative.

• *Include and Promote Venture Capital Participation in TEVET SMEs*
To complement traditional financing, the government and private sector should promote venture capital investment targeted at TEVET-aligned SMEs. Venture capitalists can provide not only equity financing but also strategic business guidance, innovation support, and market access.

Establishing a TEVET Venture Capital Fund in collaboration with development partners and local investors would attract funding for scalable start-ups in manufacturing, renewable energy, agro-processing, and construction. Encouraging venture capital participation would diversify SME financing options, reduce overreliance on bank loans, and accelerate the growth of high-potential TEVET-driven enterprises.

➤ *Market Development and Competitiveness*

• *Create TEVET Trade Fairs and Innovation Expos*
   Organizing annual TEVET enterprise exhibitions at provincial and national levels would allow graduates to showcase their products, attract investors, and exchange ideas. These events should also include innovation competitions that reward creativity and problem-solving among youth entrepreneurs.

• *Support Product Branding, Quality, and Certification*
   TEVETA, ZDA, and the Zambia Bureau of Standards (ZABS) should collaborate to help SMEs improve product quality, branding, and packaging. Access to certification enhances credibility and enables SMEs to penetrate formal retail chains and export markets. This is crucial for expanding the footprint of Zambian-made goods under AfCFTA.

• *Integrate Digital Marketing and E-Commerce Training*
   The entrepreneurship curriculum should be updated to include digital marketing, e-commerce platforms, and customer relationship management. Practical training on social media advertising, content creation, and online transactions can empower graduates to reach wider audiences and compete effectively in digital marketplaces.

• *Facilitate Market Linkages and Procurement Inclusion*
   Partnerships should be established between TEVET-based SMEs and large firms or government procurement systems. Inclusion in public supply chains—such as school feeding programs, infrastructure projects, and institutional catering—can provide consistent demand for TEVET-aligned products and services.

➤ *Regulatory and Institutional Reforms*

• *Simplify Business Registration and Licensing Procedures*
   PACRA and the Zambia Revenue Authority (ZRA) should expand online registration and licensing platforms to reduce bureaucratic delays. The establishment of district-level "one-stop business service centres" would make it easier for young entrepreneurs to formalize their ventures and comply with regulatory requirements.

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