

Financial Management and Business Sustainability in SMEs in Nampula City

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Abstract: This study examines the influence of financial management on the sustainability of Small and Medium Enterprises (SMEs) in the city of Nampula, Mozambique. The research addresses the persistent challenges SMEs face regarding access to credit and the effective management of financial resources in a constrained economic environment. The main objective was to analyze how financial management practices contribute to business sustainability among SMEs operating in Nampula. The study adopted a qualitative descriptive and exploratory approach based on a case study involving SME managers. Data were collected through semi-structured interviews and analyzed using content analysis techniques. The findings reveal that although access to financing remains important, business sustainability depends largely on the effectiveness of internal financial management practices. Informal financial controls, limited planning capacity, and weak resource management mechanisms were identified as major constraints affecting SME performance and continuity. The results further indicate that high borrowing costs and strict collateral requirements reduce the positive impact of external financing. The study concludes that effective financial management enhances organizational resilience, supports operational continuity, and reduces financial vulnerability in uncertain business environments. The study recommends strengthening financial management capabilities among SME managers and developing financing policies adapted to the realities of local enterprises.

Keywords: *Financial Management; Business Sustainability; SMEs; Financial Practices; Nampula.*

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I. INTRODUCTION

Small and Medium Enterprises (SMEs) play a crucial role in global economic development, particularly in emerging economies, where they act as engines for job creation, poverty reduction, and local market dynamism (World Bank, 2023). In Mozambique, SMEs constitute the backbone of the business sector and play a strategic role in enhancing economic resilience and contributing to Gross Domestic Product (INE, 2022).

Despite their macroeconomic importance, SMEs face significant operational challenges. The literature identifies limited access to finance as one of the most critical constraints, driven by high interest rates, stringent collateral requirements, and complex bureaucratic procedures (Ferreira & Silva, 2021).

However, the issue extends beyond access to credit. As argued by Gitman and Zutter (2018), the mere availability of financial resources does not guarantee business success unless accompanied by sound financial management practices. Theoretical evidence suggests that business sustainability is closely linked to efficient financial

management, which includes practices such as financial planning, cash flow control, and performance monitoring (Assaf Neto, 2020).

In uncertain environments such as Nampula, the absence of these practices compromises the ability of SMEs to use financial resources strategically, turning financing from a growth enabler into a potential risk factor.

Therefore, this study aims to analyze how financial management influences the sustainability of SMEs in the city of Nampula. It seeks to determine whether business sustainability depends primarily on access to external financing or on the effectiveness of internal financial management practices.

➤ *Problem Statement*

SMEs are fundamental to economic development, especially in emerging economies, where they contribute significantly to employment generation and market development (World Bank, 2023; INE, 2022).

In Mozambique, particularly in the city of Nampula, SMEs represent the foundation of the business sector and

play a key role in economic growth. However, despite their importance, SMEs face several challenges, with access to finance being one of the most critical. High interest rates, collateral requirements, and bureaucratic constraints significantly limit access to credit (Ferreira & Silva, 2021).

Furthermore, the problem is not limited to obtaining financing. According to Gitman and Zutter (2018), financial resources alone do not ensure business success unless they are effectively managed.

Evidence also shows that many SMEs operate with informal financial practices, characterized by a lack of planning and inadequate control, which negatively affects their sustainability (Assaf Neto, 2020; Muhamad, 2023).

In uncertain economic environments such as Nampula, these limitations become even more pronounced, potentially turning financing into a risk factor rather than a growth opportunity. Thus, a critical gap emerges: understanding whether SME sustainability depends more on access to financing or on how financial resources are managed.

- **Research Question:** *How does financial management influence the sustainability of SMEs in the city of Nampula?*

➤ *Justification*

This study is justified by the importance of SMEs in Mozambique's economic and social development, as well as the structural challenges they face in accessing and managing financial resources. According to the Bank of Mozambique (2025), despite efforts to promote financial inclusion, limitations related to the cost of credit and access conditions persist.

From a theoretical perspective, the literature highlights that financing alone does not ensure business sustainability; effective financial management practices are essential (Gitman & Zutter, 2018; Assaf Neto, 2020).

From a practical standpoint, this study is relevant for SME managers, as it highlights the importance of adopting proper financial planning, control, and resource allocation practices. Additionally, the findings may contribute to the development of more effective public policies tailored to the realities of SMEs (Ferreira & Silva, 2021).

The choice of Nampula is justified by its role as one of the main economic centres in Mozambique, where SMEs play a critical role in local economic activity.

➤ *Objectives*

- **General Objective**

To analyze the influence of financial management on the sustainability of SMEs in the city of Nampula.

- **Specific Objectives**

- ✓ To identify the main financial management practices adopted by SMEs in Nampula;
- ✓ To analyze the challenges faced by SMEs in managing financial resources;
- ✓ To examine the relationship between financial management practices and business sustainability;
- ✓ To propose recommendations to improve financial sustainability among SMEs in Nampula.

II. LITERATURE REVIEW

➤ *The Context of SMEs in Mozambique*

The sustainability of SMEs in Mozambique extends beyond conventional financial metrics and emerges as an institutional and adaptive challenge. In business environments characterized by structural constraints, firm survival depends not only on financial strength but also on the manager's ability to navigate uncertainty (Muhamad, 2023).

This perspective positions SME managers as "systemic risk managers," where adaptability often outweighs technical financial expertise. Such dynamics help explain the resilience of SMEs despite limited access to formal financial management tools.

The National Financial Inclusion Strategy (Bank of Mozambique, 2025) highlights a critical paradox: although access points to financial services have increased, access to capital remains restricted. High effective interest rates, driven by elevated spreads, act as a filtering mechanism that excludes most SMEs from formal financial systems. As a result, credit becomes economically inaccessible, forcing SMEs to rely on self-financing strategies that limit their capacity for growth and innovation.

➤ *SME Financing: Access and Cost of Capital*

The literature suggests that SME sustainability in emerging economies is constrained by country risk, which increases collateral requirements and borrowing costs (Silva & Santos, 2021).

In Nampula, this challenge is reflected in the inability of firms to provide sufficient collateral, forcing them into a cycle of dependence on limited internal resources. A critical divergence exists between institutional perspectives and economic realities. While policymakers emphasize financial inclusion through digitalization and banking expansion, empirical evidence suggests that high borrowing costs negate these benefits (Muhamad, 2023).

Interest rates, such as those reported in this study (up to 48% annually), transform credit into a financial burden rather than a growth enabler, contradicting traditional financial theories of leverage.

➤ *Financial Management and Informality*

Scholars argue that SME sustainability depends on the adoption of structured financial management systems,

including digital controls and strategic planning (Muhamad, 2023).

However, in the Mozambican context, informal financial practices are not merely a result of limited knowledge but often represent adaptive strategies to cope with bureaucratic constraints.

Rather than inefficiency, informality can be interpreted as a survival mechanism that allows firms to maintain liquidity and avoid high compliance costs.

This creates a disconnect between academic prescriptions and practical realities, where informal management becomes a rational response to systemic inefficiencies.

➤ *Business Sustainability: Resilience over Profit Maximization*

In volatile markets, sustainability is increasingly defined in terms of resilience rather than long-term profitability (Muhamad, 2023).

SMEs enhance resilience by diversifying income sources and adapting quickly to economic shocks. This approach contrasts with traditional financial theories that emphasize profit maximization and long-term return on investment (Ferreira & Silva, 2021).

In the context of Nampula, sustainability is more closely associated with the ability to maintain daily cash flow and operational continuity.

➤ *Relationship between Financing and Sustainability*

Recent studies highlight that SME financing constraints in developing economies go beyond access limitations and are strongly influenced by structural conditions such as high interest rates and institutional inefficiencies.

According to Ferreira and Silva (2021), this situation can be described as “cost-based financial exclusion,” where firms are technically able to access credit but are effectively excluded due to prohibitive borrowing costs. This perspective is particularly relevant in high-risk environments, where credit conditions undermine rather than support business growth.

Furthermore, Santos (2021) argues that in such constrained contexts, SMEs tend to adopt simplified and informal financial management practices as adaptive strategies. These practices allow firms to reduce compliance costs and maintain operational flexibility, especially in environments characterized by bureaucratic constraints and economic uncertainty.

Similarly, Bila (2025) emphasizes that SME sustainability in emerging economies is more closely linked to adaptive managerial capacity than to access to financial resources. In this sense, resilience and the ability to manage risk become more important than traditional financial optimization.

These perspectives suggest that the relationship between financing and sustainability is not linear, but rather dependent on the interaction between external constraints and internal management practices. Traditional financial theories are useful for understanding financing structures; however, their assumptions may not fully explain SME realities in constrained economies such as Mozambique.

➤ *Conceptual Framework*

This study proposes a conceptual framework that explains the relationship between financial management and SME sustainability in constrained economic environments.

Financial management practices influence how financial resources are allocated and controlled, which in turn affects business sustainability. However, this relationship is moderated by access to credit conditions, particularly interest rates and collateral requirements.

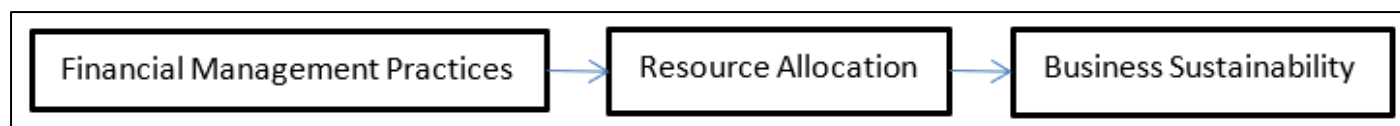


Fig 1 Conceptual Framework of the Study
Source: Author (2026)

III. METHODOLOGY

➤ *Study Area*

The study was conducted in the city of Nampula, located in northern Mozambique. The city is one of the country’s main economic centers, characterized by a high concentration of SMEs operating in sectors such as retail, services, and agro-processing.

➤ *Type of Study*

The study adopted a qualitative descriptive and exploratory approach based on a qualitative case study of

SMEs operating in Nampula. This qualitative approach is consistent with Creswell and Creswell (2023), who argue that qualitative research is appropriate for exploring complex phenomena within their real-life context. Furthermore, the use of a qualitative case study aligns with Flick (2024), as it allows for an in-depth understanding of financial management practices among SMEs.

➤ *Research Design*

The study involved two SME managers through purposive sampling. These participants were chosen due to

their direct involvement in financial decision-making and their interaction with financial institutions.

- ✓ Legal classification as SMEs in Mozambique
- ✓ Operation within the city of Nampula
- ✓ Direct involvement in financial management

The selection criteria included:

➤ *Participant Selection*

Table 1 Participant Profile

Participant	Sector	Type of Business	Position	Experience
P1	Commerce	Small Enterprise	Manager	7 years
P2	Agriculture	Small Enterprise	Manager	10 years

Source: Author (2026)

The participants have significant managerial experience, with 7 and 10 years respectively, which strengthens the reliability of their insights regarding financial decision-making. Although the study is based on a small sample of two participants, the objective is not statistical generalization but analytical depth. The exploratory qualitative approach allows for an in-depth understanding of financial management practices within their real-life context. Therefore, the findings should be interpreted as exploratory but theoretically relevant.

➤ *Data Collection Techniques*

Primary data were collected through semi-structured interviews. This method provides a balance between structure and flexibility, allowing participants to express their experiences in depth. The interview guide was developed based on key themes identified in the literature review and ensured consistency during data collection.

➤ *Data Analysis*

Data were analyzed using content analysis techniques (Bardin, 2016). This approach enabled the systematic interpretation of qualitative data, ensuring transparency and reliability in the findings.

IV. RESULTS

➤ *Sources and Forms of Financing and Access Barriers*

Table 2 Sources, Financing Conditions, and Access Barriers

Subcategories	Participants' Statements
Access to financing	(P1) "We relied on bank financing."(P2) "Yes, we used microcredit, banks, and agricultural programs."
Financing conditions	(P1) "They required collateral and the interest rate was 48% per year."(P2) "The conditions included interest rates, repayment periods, and collateral."
Difficulties faced	(P1) "The process was bureaucratic and had high interest rates."(P2) "Collateral requirements and high borrowing costs were major challenges."
Evaluation of financial institutions	(P1) "We consider the support to be insufficient."(P2) "Support is limited, especially for agriculture."

Source: Author (2026)

The findings indicate that access to financing in Nampula follows a hybrid model. While one firm relies primarily on traditional bank financing, the other diversifies its funding sources by combining microcredit, banking services, and sector-specific programs. However, financing conditions are perceived as highly restrictive. High interest rates (up to 48% annually) and strict collateral requirements significantly limit access to credit.

These constraints contribute to a negative perception of financial institutions, which are considered insufficient and limited in their support to SMEs. The findings highlight a phenomenon of "cost-based exclusion," where credit is available but economically inaccessible, placing SMEs under continuous financial pressure.

➤ *Financial Management and Allocation of Resources*

Table 3 Financial Management and Resource Allocation

Subcategories	Participants' Statements
Decision-making on financing use	(P1) "Decisions are made by management."(P2) "Decisions depend on production priorities."
Resource allocation	(P1) "We invested in equipment and working capital."(P2) "Resources were used for inputs, labor, and equipment."
Financial control practices	(P1) "We use simple records of expenses and revenues."(P2) "We perform basic planning according to production cycles."
Management challenges	(P1) "High interest rates created financial pressure."(P2) "Input costs and climate risks are major challenges."

Source: Author (2026)

The results show that financial decisions are centralized and focused on immediate operational needs. Resources are primarily allocated to equipment, working capital, and production inputs. Financial management practices are largely informal, relying on basic record-keeping and simplified planning approaches. This indicates the absence of advanced financial tools such as forecasting systems or structured financial controls.

The challenges identified highlight the interaction between internal and external pressures. High interest rates reduce profitability, while external factors such as input price volatility and climate risks increase financial vulnerability.

➤ *Business Sustainability Practices and Future Perspectives*

Table 4 Sustainability Practices and Future Outlook of SMEs

Subcategories	Participants' Statements
Current strategies	(P1) "We control costs and reinvest profits."(P2) "We adopt production diversification and cost control."
Support needs	(P1) "Lower interest rates are necessary."(P2) "We need SME-specific financing lines and technical support."
Future financing intentions	(P1) "Yes, we intend to expand our activities."(P2) "Yes, if better conditions are available."
Recommendations for other SMEs	(P1) "Evaluate carefully before taking loans and control finances."(P2) "Plan carefully and avoid borrowing beyond capacity."

Source: Author (2026)

The findings show that SMEs adopt defensive strategies focused on cost control, profit reinvestment, and diversification of activities to ensure sustainability. Managers emphasize caution in financial decision-making, particularly regarding debt. This cautious approach reflects the lack of favorable financing conditions and limited institutional support.

These findings are consistent with Silva and Santos (2021), who argue that country risk significantly increases borrowing costs and collateral requirements, limiting SMEs' access to formal financing in developing economies.

Although there is an intention to seek future financing, this decision is conditional upon improved lending conditions. Overall, sustainability is not driven by institutional support but by internal managerial capabilities, particularly the ability to balance self-financing and risk avoidance.

While Gitman and Zutter (2018) and Assaf Neto (2020) emphasize structured financial planning and control systems, the findings reveal that SMEs in Nampula adopt simplified and adaptive approaches, prioritizing liquidity over formal financial optimization.

V. RESULTS AND DISCUSSION

➤ *Sources of Financing and Access Barriers*

The findings reveal that access to finance in Nampula follows a hybrid pattern. While one firm relies primarily on traditional bank financing, the other combines multiple sources, including microcredit schemes and sector-specific agricultural programs. This diversification suggests that conventional credit mechanisms are insufficient, particularly for agriculture-based SMEs.

➤ *Financial Management Practices and Resource Allocation*

The results indicate that financial decision-making is highly centralized and primarily driven by immediate operational needs. Resources are allocated to working capital, equipment, labor, and production inputs, reflecting a short-term survival orientation.

However, financing conditions are perceived as highly restrictive. One participant reported interest rates as high as 48% per annum, coupled with strict collateral requirements. These findings align with Santos (2021), who characterizes this phenomenon as "cost-based financial exclusion," where credit is technically available but economically inaccessible.

Financial management practices remain largely informal. Firms rely on basic record-keeping systems and simplified planning approaches, rather than advanced financial tools such as forecasting models or digital control systems. While this appears inconsistent with the recommendations of Muhamad (2023) and Assaf Neto (2020), who advocate for structured financial systems, the findings suggest a different interpretation.

From a theoretical perspective, this contradicts traditional financial theories of leverage, which assume that debt enhances firm value. This suggests that in high-risk environments, expensive credit can erode firm capital rather than stimulate growth. Thus, financing in Nampula often operates not as a growth enabler but as a financial burden.

In the context of Nampula, informality emerges not as a deficiency but as a rational adaptive strategy. As highlighted by Gitman and Zutter (2018) simplified financial management can reduce compliance costs and increase operational flexibility in environments characterized by bureaucratic constraints and economic uncertainty.

As highlighted by Ferreira and Silva (2021) simplified financial management can reduce compliance costs and increase operational flexibility in constrained environments. This suggests that informality is

not merely a lack of knowledge, but a strategic response to systemic constraints.

Furthermore, external pressures such as high interest rates, input cost volatility, and climate risks intensify financial vulnerability. This reinforces the argument that SME financial management in Nampula is less about optimization and more about risk containment and liquidity preservation.

➤ *Business Sustainability Strategies and Future Perspectives*

SMEs in Nampula adopt defensive strategies to ensure continuity, including cost control, profit reinvestment, and diversification of activities. These practices are consistent with Ferreira and Silva (2021), who emphasize diversification as a key mechanism for resilience in volatile markets.

However, the findings introduce an important nuance: sustainability is not defined in terms of long-term profitability or return on investment, but rather by the firm's ability to maintain daily operations and ensure liquidity. From a theoretical standpoint, this finding contradicts traditional financial theories proposed by Brigham and Houston (2019), which assume that financial leverage enhances firm value. In contrast, the evidence from Nampula suggests that high-cost debt increases financial vulnerability rather than promoting growth.

Managers demonstrate a cautious attitude toward external financing, recommending careful evaluation before taking on debt. Although there is an intention to expand, future borrowing is conditional upon improved lending conditions, particularly lower interest rates and more accessible credit lines.

Overall, sustainability is driven more by internal managerial capabilities than by institutional support. This finding suggests that resilience in emerging economies is strongly associated with adaptive managerial practices.

These results are aligned with Ferreira and Silva (2021), who emphasize that in volatile markets, sustainability is strongly linked to firms' ability to diversify income sources and manage financial risks effectively.

VI. CONCLUSION

This study concludes that the sustainability of SMEs in the city of Nampula depends less on access to external financing and more on the effectiveness of internal financial management practices. In contexts characterized by high borrowing costs, excessive interest rates can transform debt into a risk factor, contradicting traditional financial theories that associate leverage with growth and value creation. Instead, SMEs adopt what can be described as a "resistance management" approach, prioritizing liquidity, cost control, and risk avoidance.

The prevalence of informal financial practices, such as basic record-keeping and simplified planning, should not be interpreted solely as a technical limitation. Rather, it reflects an adaptive response to structural constraints, including bureaucratic inefficiencies and high compliance costs.

The study contributes to the literature by highlighting the non-linear relationship between financing and sustainability in emerging economies. It demonstrates that, under adverse financial conditions, sustainability is achieved not through increased access to credit, but through internal resilience and strategic resource management. However, the study is limited by the small sample size, which restricts the generalizability of the findings. Future research should adopt mixed-method approaches and larger samples to validate these results and explore the role of digital financial literacy and alternative financing mechanisms.

From a policy perspective, there is a need to reduce the effective cost of credit and develop SME-specific financing instruments aligned with the economic realities of local sectors. Strengthening financial management capabilities through targeted training programs is also essential to enhance SME performance and sustainability.

These findings reinforce Brigham and Houston (2019), who argues that SME sustainability in emerging economies is primarily driven by adaptive managerial capacity rather than access to financial resources.

VII. LIMITATIONS OF THE STUDY

This study presents some limitations that should be acknowledged. First, the small sample size, consisting of only two participants, limits the generalizability of the findings. Although the qualitative approach allows for in-depth insights, the results should be interpreted as exploratory rather than representative of all SMEs in Nampula. Second, the reliance on self-reported data may introduce bias, as participants may subjectively interpret their financial practices and challenges. Third, the study focuses on a specific geographic context, which may restrict the applicability of the findings to other regions with different economic conditions. Future research should consider larger samples, mixed-method approaches, and comparative regional analyses to enhance the robustness and external validity of the results.

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