ZCAS UNIVERSITY

MASTER'S DISSERTATION

Effects of Monetary Policy on Small and Medium Enterprises Financing for Hardware Stores in Kabwata Constituency of Lusaka District

(State the complete research title exactly as approved by your supervisor)

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Presented to the Panel of Examiners • Directorate of Postgraduate Studies

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DECLARATION

I, Thembela Kakoma Sefulo, declare that this dissertation is a result of my own original research work, and that during the period of registered study, I have not used the information contained in this document for any other academic award or qualification, nor has any part of this material been submitted, solely or in part, for any other award. Where the work of other researchers has been used, it has been duly acknowledged and referenced.

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CERTIFICATE OF APPROVAL

This dissertation by Thembela Kakoma Sefulo, Student Number 202403080, entitled "Effects of Monetary Policy on Small and Medium Enterprises Financing for Hardware Stores in Kabwata Constituency of Lusaka District" has been read and approved as meeting the requirements of ZCAS University for the award of Master of Business Administration (Finance).

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DEDICATION

I dedicate this dissertation to my beloved daughter. Though you are still too young to understand the significance of this achievement, I hope that one day it will inspire you to believe in yourself, pursue your dreams with courage, and never give up, no matter the challenges you face.

To my dear sisters, thank you for your unwavering love, encouragement, prayers, and steadfast support throughout this journey. Your belief in me gave me the strength to persevere, and this achievement is a testament to the invaluable role you have played in my life.

To my husband, thank you for being part of this journey. Finally, I dedicate this work to Almighty God, whose grace, wisdom, and faithfulness sustained me every step of the way.

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ABSTRACT

Monetary policy, including high-interest rates and tight credit conditions, significantly constrains financing for hardware store SMEs in Kabwata, leading to high financing costs and limited growth, while poor record-keeping and lack of collateral further exacerbate credit access challenges. Based on this background, this study aims to investigate the specific effects of monetary policy on small- scale enterprise financing focusing on the experiences of hardware stores in Kabwata constituency of Lusaka, Zambia. This study is important because it addresses a gap in existing literature by focusing specifically on how monetary policy affects small-scale enterprises in the hardware retail sector. The study adopted an explanatory research design. An explanatory research design is a structured qualitative research method used to investigate why and how a phenomenon occurs by testing hypotheses and establishing causal relationships between variables. The study was qualitative which adopts an inductive approve in its investigation. Purposive sampling was used to select the study participants. Furthermore, primary data collected from the study participants which was purposively sampled and analyzed through thematic analysis. The study findings note that monetary policy primarily affects hardware stores in Kabwata by dictating the cost of borrowing and the availability of credit through commercial banks and microfinance institutions. The monetary policy has both negative and positive effects on SME financing for hardware stores in Kabwata constituency of Lusaka KEY WORDS: Monetary policy, Small and medium-sized enterprises (SMEs) and Kabwata v

Keywords: Monetary Policy, SME Financing, Hardware Stores, Access to Credit, Kabwata

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LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation	Meaning
CBD	Central Bussiness District
CSO	Central Statistical Office
GDP	Gross Domestic product
GRZ	
ITC	International Trade Centre
NGO	Non Governmental Organization
SME	Small and Medium Enterprises
ZCAS	Zambia Centre for Accountancy Studies
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CHAPTER ONE: INTRODUCTION AND BACKGROUND

Monetary policy is one of the major economic management techniques that governments apply to pursue economic fortunes. Monetary policy is widely acclaimed to be faster at tackling economic shocks (Uchenna and Audu, 2022). Based on this notion, this study seeks to investigate the effects of monetary policy on Small and Medium Enterprises financing among hardware stores in Kabwata constituency of Lusaka District. In this chapter, the study back ground, statement of problem, research aim, study objectives, research scope, research contributions among other sub sections will be presented. At the end of the chapter, a summary will be brought forth to summarize all that was presented in the chapter.

1.1. Background of the Study

Over the years, Monetary policy has evolved with the development of the money economy. Following the collapse of the gold standard, central banking expanded to use tools like interest rates and open market operations to manage inflation, unemployment, and economic stability, becoming more sophisticated through the 20th century with developments in economic theory (Isola and Mesagan, 2019). Accordingly, monetary policy has been used as a tool for economic growth and advancing growth for various sectors of the economy. It has hence been with no doubt that monetary policy has various effects on sectors of the economy at macro and micro level. Among the key economic drivers that over the years have been affected by monetary policy are Small and Medium Enterprises (SMEs) (Adekunle, 2023).

In Zambia SMEs also play a vital role in the economy. They produce goods and services, create employment and are a source of income for thousands of people. According to the International Trade Centre (ITC) Survey (2018), SMEs in Zambia represent 70 percent of Gross Domestic product (GDP), 88 percent of employment and contribute 97 percent of all businesses in the economy. SMEs in Zambia are dispersed throughout a variety of industries, such as retail, manufacturing, and construction, and they play an essential part in the economy of both urban and rural areas (Chanda and Mumba, 2019). The SMEs in different parts of the country such as in Kabwata constituency of Lusaka city are also affected by monetary policy resulting to changes in on interest rates, credit availability, inflation, and exchange rates among other factors.

1 According to Maila (2020), monetary policy, including high-interest rates and tight credit conditions, significantly constrains financing for hardware store SMEs in Kabwata, leading to high financing costs and limited growth, while poor record-keeping and lack of collateral further exacerbate credit access challenges. Based on this background, this study aims to investigate the specific effects of monetary policy on small-scale enterprise financing focusing on the experiences of hardware stores in Kabwata constituency of Lusaka, Zambia.

1.2. Research Problem

Small and Medium Enterprises (SMEs) in the hardware sector within Kabwata Constituency serve as an important pillar for local construction, employment, and economic growth of Zambia. According to The Ministry of Commerce, Trade and Industry (2020), SMEs which also operate hardware stores are believed to be the Zambia's economic driver that creates about 18% employment for low-income poor people among which 47% are women. They account for 97% of all the living businesses and contribute about 70% towards the GDP of the country. Despite these contributions, SMEs face significant challenges in accessing the financing necessary for their operations and growth. While the Bank of Zambia frequently adjusts monetary policy instruments to stabilize the macroeconomy, these interventions create unintended credit constraints for local businesses (Chilembo, 2021). Tight monetary policy pushes commercial lending rates to restrictive highs and forces financial institutions to enforce strict, heavily collateralized credit requirements. Because many hardware SMEs in Kabwata operate informally or lack high-value assets, they are disproportionately excluded from formal credit markets during periods of monetary tightening. Chanda (2019) notes that SME who are also operating hardware stores in Lusaka, Zambia are particularly vulnerable to changes in monetary policy. High interest rates, stringent lending conditions, and restricted access to credit, which often accompany contractionary monetary policies, make it difficult for these SMEs to secure the financing they need to operate efficiently.

Chanda and Mumba (2019) also note that during periods of tight monetary control, borrowing costs increase and liquidity in the banking sector declines, further reducing the availability of loans for small businesses in the country. This situation not only affects the ability of SMEs operating hardware stores to maintain their operations but also has broader implications for Zambia's construction sector and overall economic development (Chanda, 2019). Furthermore, while general literature exists on monetary policy and SME financing in Zambia, 2 there is a critical geographic and sector-specific gap regarding how retail hardware businesses in high-density commercial hubs such as Kabwata navigate these credit shocks. Without targeted empirical evidence, policymakers and financial institutions will continue to design credit frameworks that systematically sideline urban hardware SMEs, threatening their survival and the broader local construction supply chain.

1.3. Justification for the Research

This study is important because it addresses a gap in existing literature by focusing specifically on how monetary policy affects small-scale enterprises in the hardware retail sector. Previous studies such as Musonda and Mulenga (2020) Kambole (2017) and Chanda (2019) have examined monetary policy in a broader economic context but have not focused on the unique challenges faced by hardware stores in Lusaka. By exploring these issues, the study provides valuable insights for both policymakers and business owners The findings from this research also help in informing the development of more inclusive monetary policies that support small businesses, improve access to credit, and foster economic growth. Additionally, the study contributes to the academic understanding of the relationship between monetary policy and small-scale enterprise financing, offering a foundation for future research in this area

1.4. Research Aim

The aim of this study is to investigate the effects of monetary policy on Small and Medium Enterprises financing among hardware stores in Kabwata constituency of Lusaka District.
1.5. Research Objectives i. To analyze the effects of monetary policy on access to financing for hardware stores in Kabwata constituency of Lusaka District. ii. To assess the effects of interest rate fluctuations on the profitability of SME hardware stores in Kabwata constituency of Lusaka District. iii. To identify the challenges faced by SME hardware stores in Kabwata in accessing credit during periods of restrictive monetary policy.

3 1.6. Research Questions

i. How does Zambia’s monetary policy influence the availability of credit for SME hardware stores in Kabwata constituency of Lusaka District.? ii. What effects do fluctuations in interest rates have on the profitability of SME hardware stores? iii. What challenges do hardware stores in Kabwata constituency of Lusaka District face

1.7. Research Scope

The study focused on investigating the effects of monetary policy on Small and Medium Enterprises financing among hardware stores in Kabwata constituency of Lusaka District. Its delimitation boundaries were in Kabwata constituency of Lusaka District in Lusaka province, Zambia and did not go beyond these boundaries. The study participants were only be made up of hardware stores Small and Medium Enterprises in Kabwata constituency. Therefore, Small and Medium Enterprises that are not involved in hardware business but are in Kabwata constituency were be part of the study. Equally, hardware stores outside Kabwata constituency were not be part of the study investigation. The area was selected because it a comprehensive number of hardware stores that were used as the target audience for the study investigations (Chanda, 2019). Kabwata constituency provided a mirror reflection of the existing characteristics of the topic under investigation in other places of Lusaka city. This is due to close proximity to the Lusaka CBD and existence of various hardware stores in this constituency.

1.8. Research Contributions

The study contributes to the body of knowledge that seeks to understand the effects of effects of monetary policy on Small and Medium Enterprises financing among hardware stores in Kabwata constituency of Lusaka District. The study findings as such provide valuable insights academicians, policymakers and business owners in relation to the topic under investigation.

1.9. Research Design

The study adopts an explanatory research design. An explanatory research design is a structured qualitative research method used to investigate why and how a phenomenon occurs
4 by testing hypotheses and establishing causal relationships between variables (Cresswell & Creswell, 2018). Explanatory research design aims to explain why and how specific phenomena occur by identifying cause-and-effect relationships between variables. It moves beyond description to answer why questions, typically testing hypotheses through structured, quantitative methods like experiments, surveys, and, in mixed methods, follow-up qualitative interview (Mohammad, 2021).

1.10. Research approach and method

The study was qualitative which adopts an inductive approve in its investigation. This is a "bottom-up" method in research and thinking that starts with specific observations and data, identifies patterns, and then develops broader theories or general conclusions from those patterns (Cresswell and Creswell, 2018).

1.11. Dissertation Layout

The dissertation begins with an introductory chapter that outlines the study background, study aim, objectives, research questions, study justification and the scope of the investigations. This will be followed by literature review which will shows details of reviewed studies, the conceptual and theoretical framework and the existing knowledge gap in the reviewed literature. The third chapter of the dissertation will be the methodology highlighting the different methods such as the research design, approach, sampling method and data analysis methods that the study adopted.

1.12. Chapter Summary

This chapter presented the study background, study aim, objectives, research questions, study justification and the scope of the investigations. The chapter highlighted that the aim of the study is to investigate the effects of monetary policy on SME financing among hardware stores in Kabwata constituency. It was also highlighted in the chapter that the justification for undertaking this is because the study findings provide valuable data for academicians, policymakers and business owners in relation to the topic under investigation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Chapter one provided the introductory section of this research proposal. It introduced the topic under investigation through stating its aim, objectives, research questions, scope and other introductory sub-sections. This chapter as a continuation from chapter one presents a review of literature based on the studies that related to the topic of investigations. The review is done from a global perspective up until the local Zambia context to understanding the existing knowledge gaps on the effects of effects of monetary policy on Small Scale and Medium enterprises financing.

2.2 The concept of monetary policy

Reviewed literature shows that monetary policy is one of the major economic management techniques that governments apply to pursue economic fortunes. Monetary policy is widely acclaimed to be faster at tackling economic shocks (Uchenna and Audu, 2022). According to Tokunbo (2015) monetary policy is a critical tool in the management of multiple monetary targets among price stability, promotion of economic growth, attainment of employment opportunities, smoothing the business ventures as well as preventing financial crises, stabilizing long-term interest rates and the real exchange rate. Bartik et al (2020) adds on to stat that these objectives are usually targeted at maintaining price stability or ensuring low inflation rates.

A reviewed study by Oguche (2024) notes that Monetary policy is a sum of activities targeted at managing the growth of money supply during a period to its optimal target. To this end, it is relevant irrespective of the economic framework in place. This suggests that the monetary authorities implement discretionary measures to manage and influence the flow, cost, and direction of money supply and credit within the economy. These measures are designed to ensure that monetary expansion occurs at a pace that aligns with the rate of economic activity, while also maintaining overall macroeconomic stability (Malik and Audu, 2023).

2.3 The concept of small and medium enterprises

Small and medium scale enterprises is seen as that the kind of business with few numbers of employees, sales volume and which area of operations is within a particular locality (Imanche et

6 al, 2020). Though, it is difficult to use a single variable to conceptualize small and medium scale enterprises as Alexander et al (2020) noted that there are several indices to describe small and medium-scale enterprises (SMEs) however, the major indices include managerial techniques, accounting procedure, area of operations, sales volume and among others.

Olufemi (2020) revealed that one of the key constraints facing researchers in defining SMEs is the complexities of indices such as the number of employees, sales, capital, market share, profit, energy consumption, value added, managed by owner-managers, lower level of hierarchy and specialization, insufficient financial resources and absence of modern managerial techniques thus, posing the challenge of having a unified concept of SMEs. However, it is important to point out here that this concept varies with locations for example, of SMEs are usually derived in each country, for instance, a small and medium scale enterprises in the developing economies could be a medium or large-scaled enterprises in other less developed nations. Again, the definition of SMEs also varies with time frame and from one agency or developing institutions to another, depending on their policy direction (Imoughele and Ismail 2014).

2.4 Monetary policy rate and small and medium-scale enterprises

A number of studies have been undertaken to show the effects of monetary policy rate on small and medium scale enterprises. Studies by Adekunle (2023) and Isola and Mesagan (2019) have shown that Monetary policy significantly impacts Small, and Medium Enterprises (SMEs) by affecting interest rates, credit availability, and inflation, which influence their borrowing costs, investment capacity, and operational costs. Expansionary policies (lower rates, higher money supply) generally improve SME growth by reducing borrowing costs and encouraging lending.

A reviewed study by Adekunle (2023) notes that effects of monetary policy on SMEs can be observed through its influence on interest rates, credit availability, inflation, and exchange rates, shaping the business environment and determining their growth and survival prospects. Interest rates, a primary lever of monetary policy, directly affect the cost of borrowing for SMEs. Central banks often adjust interest rates to control inflation or stimulate economic growth. When interest rates are lowered, borrowing becomes more affordable, encouraging SMEs to invest in expansion, purchase equipment, or increase inventory. Lower rates also reduce the burden of existing loans, 7 improving cash flow and enabling businesses to allocate resources to other operational needs. Unlike large corporations, SMEs typically lack the financial reserves to withstand prolonged periods of high borrowing costs, making them particularly vulnerable to restrictive monetary policies (Jiang and Jia, 2023).

Effects of monetary policy in Africa

A study by Schumukler (2017) shows that due to nonexistence favorable monetary policy framework, the small and medium businesses that depend on acquiring loans from the lending institutions find it hard to expand their businesses due to the limited resources as a result of high interest rates. In their study of small businesses in sub-Saharan Africa, Ncube and Ndou (2013) found that tight monetary policies, characterized by high-interest rates, have a disproportionately negative effect on small businesses, particularly in terms of accessing credit. These businesses typically lack the collateral needed to secure loans at competitive interest rates, making them vulnerable to the fluctuations in the money supply induced by monetary policy changes.

Similarly, a study by Kiyota (2019) on the impact of monetary policy on small businesses in East Africa found that small firms were more likely to experience credit constraints during periods of contractionary policy. The study concluded that small-scale enterprises in the region faced higher borrowing costs, which reduced their ability to invest in growth opportunities and led to increased business failures. In their analysis of small businesses in Nigeria, Omolade and Nwankwo (2019) demonstrated that rising interest rates increase the cost of borrowing, which in turn reduces profitability for small businesses that rely on external financing. The authors found that small hardware stores were particularly vulnerable to interest rate hikes, as their operations typically require substantial working capital to purchase inventory.

Effects of monetary policy in Zambia

In Zambia, the central bank has little or no focus on the operations of the small businesses especially the micro and sub-sector and thus despite the government emphasis on macroeconomic framework, there has not been a proper consideration of monetary policies that will indicate a favorable interest rate, exchange rate or inflation rate that satisfies the SMEs but rather the central bank in Zambia only focuses on the stabilization of prices (IMF, 2015).

8 A similar study by Musonda and Mulenga (2020) on the effects of monetary policy in Zambia revealed that higher interest rates led to a decline in the profitability of small-scale hardware stores in Lusaka. The study highlighted that these stores often operated with tight cash flows, and

increased borrowing costs made it difficult to maintain inventory levels, leading to reduced sales and profitability. According to Chileshe and Mulenga (2021) a significant obstacle to expansion for small firms in the nation is the low availability of finance. Within the context of the financial environment in which these companies function, monetary policy has a direct influence in determining the environment. As an illustration, when the central bank seeks to contain inflation by implementing a contractionary monetary policy, it does so by increasing interest rates and restricting the amount of money that is available. Small firms will have a more difficult time gaining access to credit as a result of this, since financial institutions will be less willing to lend money and loans will become more costly. On the other hand, an expansionary monetary policy has the potential to alleviate these conditions; but it is possible that it may not always result in greater loan availability for small businesses due to other structural financial restrictions (Kambole, 2017).

Studies by Kambole (2017) and Chanda (2019) also undertaken in Zambia have shown that small- scale enterprises, particularly hardware stores, experience difficulties in accessing loans during periods of high-interest rates and tight credit conditions. These studies found that banks were more likely to prioritize lending to larger, more established firms during such periods, leaving small businesses with limited access to formal credit markets

2.5 Conceptual Framework

The conceptual framework for this study provides a structured approach to understanding the relationship between monetary policy and the financing of small-scale hardware stores in Lusaka District. The framework outlines the key variables that influence this relationship, including monetary policy, credit accessibility, interest rates, and the financial performance of small businesses (Cresswell & Creswell, 2018). The independent variables for the study as shown in figure one was monetary policy. The characteristics of the hardware stores in Kabwata were the moderating variables whereas SMEs financing was the dependent variables.

An illustrative diagram of the study conceptual framework is as shown in figure 1.

9 • Fiscal policy • Interest Rate Independent Monetary Policy • Exchange Rate Variables • Money Supply • Open Market Operation

• Size of the hardware stores (number of Hardware Stores employees & turnover) Characteristics

• Years in operation for the SMEs Intervening • Availability of Variables collateral & type of collateral

• Access to credit • Cost of borrowing SMEs Financing • Loan repayment terms Dependent • SMEs' financial Variables performance

Figure 1: Conceptual Framework. Source: Researcher (2026)

2.6 Theoretical Framework

The theoretical framework establishes the key economic and financial theories that explain the relationship between monetary policy and access to finance for small-scale enterprises. The relevant theories that were used to aid the study investigations include the monetary transmission mechanism, the credit channel theory, and Keynesian economic theory.

2.6.1 Monetary transmission mechanism

The monetary transmission mechanism. The monetary transmission mechanism theory was John B. Taylor in the 1990s. It refers to the process through which changes in monetary policy, particularly interest rates,

10 affect the broader economy, including investment, consumption, and ultimately, output. According to Bernanke and Gertler (1995), central banks implement monetary policies such as increasing or decreasing interest rates or altering reserve requirements that influence the cost of borrowing. These policies, in turn, affect firms' access to credit and their investment decisions. For small-scale enterprises, which rely heavily on external financing due to limited internal capital, the transmission mechanism is particularly significant. When the central bank raises interest rates, commercial banks typically pass these increases on to their customers, leading to higher borrowing costs for small businesses (Bernanke & Gertler, 1995). This effect is especially pronounced in the case of small hardware stores, which often operate on thin margins and require credit for working capital and inventory management.

2.6.2 The Credit Channel Theory

The credit channel theory was authored by Ben Bernanke and Mark Gertler in 1995. It states that the bank-lending channel, extends the monetary transmission mechanism by focusing on the role of financial intermediaries in influencing the supply of credit to firms. Mishkin (1996) argues that monetary policy affects the ability of banks to lend, which, in turn, determines the accessibility of credit for businesses, particularly those with limited financial options like small-scale enterprises.

Under this theory, contractionary monetary policy can lead to a reduction in bank reserves, causing banks to curtail their lending activities. For small-scale hardware stores in Lusaka, this translates into reduced access to credit, making it more difficult to finance inventories or expand operations. Empirical studies, such as those by Kashyap and Stein (2000), show that small firms are disproportionately affected by the credit channel due to their reliance on bank loans and their inability to access alternative sources of financing. 2.6.3 Keynesian Economic Theory

Keynesian economic theory also plays a significant role in explaining the relationship between monetary policy and small-scale enterprises. John Maynard Keynes (1936) emphasized the importance of aggregate demand in determining economic activity and argued that government interventions, such as monetary policy, are necessary to stabilize the economy during periods of recession or inflation.

In a Keynesian context, small businesses is highly sensitive to changes in aggregate demand. When monetary policy tightens, leading to reduced consumer spending and lower business investment, small businesses like hardware stores are among the first to feel the impact. This is because they typically lack

11 the financial buffers that larger firms possess and are more dependent on short-term credit to manage their operations (Keynes, 1936).

2.7 Gaps in the Literature

Based on the literature review available, there is no study that has been done to investigate the effects of monetary policy on Small and Medium Enterprises financing among hardware stores in of Kabwata constituency Lusaka District. There are is any existing knowledge gap to provide effective recommendations for effective monetary policy management to stimulate growth for SMEs in the country.

2.8 Chapter Summary

In this chapter, a review of literature was provided on the topic of investigation from a global perspective, African perspective and the Zambian perspective. The conceptual framework and the theoretical framework of the study were equally given to provide more in-depth of the study was undertaken. The gaps in literature were also provided in this chapter.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This section of the proposal presents methods that were used during the study investigations. The research onion, philosophical paradigm, research design, sampling procedure among other methods for the study are presented in this chapter.

3.2. Research Onion

The research onion was developed by Saunders et al. (2007). The research onion provides a comprehensive structure for designing research, with layers representing the different elements involved in the process, including research philosophies, approaches, strategies, choices, time horizons, and data collection methods.
Figure 2: Research Onion. Source: Researcher (2026)

13 3.3. Research Philosophy

The philosophical paradigm of this study was guided by interpretivism. This is a research paradigm in the social sciences that emphasizes understanding human reality through subjective experiences and meanings, rejecting the idea of a single, objective, and universal reality. The ontological position of this paradigm is that reality is not an objective fact, but rather a product of social interactions and interpretations (Weaver and Olson, 2006). It is subjective and exists in the minds of individual. Reality is shaped by the social, cultural, and historical context in which it is experienced. Accordingly, the epistemological position for interpretivism is that knowledge is constructed through the subjective experience and interpretation of individuals. It recognizes that knowledge is shaped by the social, cultural, and historical context in which it is situated (Elgeddawy and Abouraia, 2024).

3.4. Inductive approach

This study used an inductive approach in its investigative reasoning. An inductive approach is a method of reasoning in which the premises are viewed as supplying some evidence, but not full assurance, of the truth of the conclusion (Rainbolt and Dwyer, 2014). In this study, this approach was made up from the research questions in order to reach a conclusion and align the study findings to a theory of motivation.

3.5. Research approach and method

The research approach that was used for this study is a qualitative research approach to be adopted through the inductive approach of study investigation. This approach explores in-depth, non-numerical data such as opinions, experiences, and motivations to understand complex phenomena, often through methods such as interviews, focus groups, and observations (Cresswell and Creswell, 2018).

3.6. Strategy Justification

A qualitative research strategy was used because its ensures that the researcher is able to efficiently collected data within a specific limited time frame. The strategy allows for better understanding of the research investigations as it is resource efficient and does not consume a lot of time. This strategy is particularly useful for exploring complex issues, understanding human experiences, and can act as a precursor to quantitative research by helping to form hypotheses and design surveys (Saunders, Lewis, and Thornhill, 2016).

14 3.7. Research Design

Research design is a wide framework that explains the total plan of performing research work. It designates objectives, data accumulation and method of analysis, hours for work, price, duty, conclusion, and actions. There are various types of research such as pure research, applied research, descriptive research, analytical research, fundamental research, conceptual research, empirical research, longitudinal research, laboratory research, exploratory research, and conclusion-oriented research (Pawar, 2020).

This study therefore adopted an explanatory research design. An explanatory research design is a structured qualitative research method used to investigate why and how a phenomenon occurs by testing hypotheses and establishing causal relationships between variables (Plano & Ivankova, 2016). It goes beyond description to explain the underlying reasons for an event and often uses quantitative methods like experiments and surveys to collect and analyze data (Cresswell & Creswell, 2018).

3.8. Time Horizon

The study adopted a cross-sectional or single point in time horizon or for its investigations. This entails that the qualitative research data based was collected and analyzed once within a specified period of time. This approach entails that the researcher did not repeatedly collect the same data as done in other approach such as longitudinal studies (Saunders, Lewis and Thornhill, 2016).

3.9. Target Population

The target population is the specific, total group of individuals or units that researchers or marketers aim to study, survey, or reach. It defines the scope for generalizing findings, such as adults aged 18-65 in Greene County (Willie, 2023). The target population for the study were Small Scale and Medium Enterprises running hardware stores found in Kabwata constituency, Lusaka city in Lusaka province, Zambia. Owners of the hardware stores formed part of the study participants

3.10. Sampling Procedure

Purposive sampling was used to select the study participants. Purposive sampling involves selecting participants who have specific characteristics or experiences that are relevant to the research question. The Small-scale enterprises hardware stores within Lusaka city were therefore be purposively selected to be part of the study sample because the researcher believes that they provided relevant and valuable data for the study investigation. This sampling method was also used because it ensured selecting participants who have specific experiences or characteristics so that the researches can gain in-depth insights into the research 15 phenomenon. It allowed for reduction of large sample sizes and increasing the efficiency of data collection. Purposive sampling allows the researcher to adapt their sampling strategy as needed, based on emerging themes and theories (Etikan et al., 2016).

3.11. Sample Size

A sample size refers to the number of participants, observations, or replicates included in a study or experiment to represent a larger population. An appropriate sample size is crucial for ensuring statistical power, reducing margin of error, and enhancing the reliability of research results. It is calculated based on desired confidence levels, population variance, and margin of error (Serdar et al., 2021)

For this study, the sample size was made up of 65 owners of SME hard ware enterprises in Lusaka city and 5 financial institution representatives. This sample size was sufficient to provide variable and insightful data for the study investigations. The sample size of 70 provided adequate data saturation thereby adequately responding to the research questions. This number is justified in qualitative research. In qualitative research, 70 if it was all meant for interview as analysis of data becomes too difficult to arrive at. Once saturation is reached, researchers are prompted to stop. Creswell (2012) states It is typical in qualitative research to study a few individuals or a few cases. This is because the overall ability of a researcher to provide an in-depth picture diminishes with the addition of each new individual or site. In some cases, you might study a single individual or a single site.

3.12. Data Collection Methods and Instruments

The qualitative research data was collected through in-depth interviews using semi-structure interview guides. Semi-structured interviews allow for the exploration of participants' perspectives on how monetary policy affects their access to financing and business operations. This qualitative method provides richer, more detailed data (Saunders et al., 2016).

3.13. Data Analysis

By definition, research data analysis is a process used by researchers to reduce data to a story and interpret it to derive insights. The data analysis process helps reduce a large chunk of data into smaller fragments, which makes sense. Three essential things occur during the data analysis process. The first is data organization. Summarization and categorization together contribute to becoming the second known method used for data reduction. It helps find patterns and themes in the data for easy identification and linking. The third and last way is data analysis researchers do it in both top-down and bottom-up fashion (Cresswell and

16 Creswell, 2018).

In this study, the qualitative data from the semi-structured interviews was analyzed using thematic analysis. This method involves identifying, analyzing, and reporting patterns (themes) within the data. Thematic analysis helped to uncover insights into the perceptions and experiences of hardware store owners regarding monetary policy and its impact on their access to finance (Braun and Clarke, 2006).

3.14. Validity of Research Findings

According to Kothari (2004) validity is the extent to which a test measures what it is supposed to measure. It is the effectiveness, accuracy and meaningfulness of a study. In this study as such, content validity was used. External validity was done by comparing the research findings and existing literature. However, internal validity was achieved by specifying the units of analysis of collected data.

3.15. Venerability of Research Findings

The study data collection tools were uniform in order to ensure reliability of the study. The collected data from all study participants was uniformly analyzed so that study findings are credible, consistency and stable. This ensured that the conclusion drawn from the study can be reproduced if the study was to done again using the same methods (Plano and Ivankova, 2016).

3.16. Generalizability of Research Findings

Research results are considered generalizable when the findings can be applied to most contexts, most people, most of the time. Accordingly, this ensured by comparing how the study results confirm to exiting theories or study findings that have been undertaken in broader contexts (Mohammad, 2021)

3.17. Ethical Considerations

Accessibility

The study proposal was first be submitted to ZCAS university Ethics committee in order to obtain ethical clearance and approval. During the data collection process informed consent was obtained from all the study participants. It was written and orally shared to all the participants to ensure that they fully understand the research. The participants were informed that the data collected from them was used for nothing else but academic purpose only. They were informed that their participation in the study was on voluntary basis and are free to withdraw at any point of the data collection process.

17 Conduct

The study participants were informed that their involvement in the study will not result to any financial or monetary award to avoid ambiguity and compromise. Anonymity and confidentiality of the study participants was ensured by not recoding names of the study participants (Creswell and Plano, 2018). Instead, all the data collection tools were assigned codes for easy identification during data analysis.

3.18. Chapter Summary

In this chapter, the methods were used in the study investigation were discussed. These among them included the research onion, approach, strategy, design, time horizon, target population, sampling procedures, sample size, data collection and data analysis methods as well as the ethical considerations of the study.

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1. Introduction

This chapter presents the study findings and discussion of these findings with reference to other scholars. These are presented with respect to the study objective and also in response to the research questions. The discussions of the study findings also align and brings forth a compression of literature done by other scholars with respect to the topic which was under investigation. The chapter will first present the demographics of the study participants and will thereafter bring for the study findings and discussion with respect to the study objectives.

4.2. Study Demographics

The gender distribution of the study participants is as shown in the figure 3below

Gender

20%

80%

Male Female

Figure 3: Gender Distribution of The Study Participants. Source: Field Data (2026)

According to the study participants, the hardware stores that took part in this study have been operational for an average of 6 years. Furthermore, the interviewed participants were also asked about the position they held at the hardware store. The responses given to this question are as shown in figure 4.

19 Position at the Hardware Store

66.67%

16.67% 16.67%

SALES PERSON OWNER CEO

Figure 4: Position of the Study Participant at the Hardware Stores. Source: Field Data (2026)

4.3.Effects of Monetary Policy on Access to Financing for Hardware Stores in Kabwata Constituency

The study participants were also asked if they had any knowledge about Zambia’s monetary policy and the answers they gave are as shown in figure 5.

Do you have any Knowledge about Zambia's Monetary Policy

No 25%

Yes 75%

0% 10% 20% 30% 40% 50% 60% 70% 80%

Figure 5: Zambia's Monetary Policy. Source: Field Data (2026)

The study found that monetary policy has an effect on access to finance among hardware stores in Kabwata as shown in figure 5 and 6. This is line with the study by Schumukler (2017), 20 Uchenna and Audu (2022), Oguche (2024) and Malik and Audu (2023) who note that due to nonexistence favorable monetary policy framework, the small and medium businesses that depend on acquiring loans from the lending institutions find it hard to expand their businesses due to the limited resources as a result of high interest rates.

The effects of monetary policy rate on the hardware stores in Kabwata constituency can specifically also be seen through higher interest rates by the bank of Zambia which restrict access to finance for the Kabwata hardware stores by increasing borrowing costs and tightening credit conditions. High interest rates and collateral demands limit credit access for small businesses, forcing reliance on self-funding or expensive microfinance (Chowa, Kaira, and Muchoka, 2020). The high interest rates significantly reduce the profitability of hardware stores in Kabwata constituency. This leaves them slim margins after debt servicing (Chilembo, 2021).

The distribution of how the study participants answered when asked if Zambia’s monetary policy influences the availability of credit for SMEs such as the ones running hardware stores in Kabwata constituency is as shown in figure 6.

Does Zambia’s monetary policy influence the availability of credit for SMEs ? 70.00%

60.00%

50.00%

40.00%

30.00%

20.00%

10.00%

0.00% YES NO

Figure 6: Does Zambia’s Monetary Policy Influence the Availability of Credit for SMEs? Source: Field Data (2026)

A study by Ncube and Ndou (2013) found that tight monetary policies, characterized by high-interest rates, have a disproportionately negative effect on small businesses, particularly in

21 terms of accessing credit. These businesses as is with case of most hardware stores in Kabwata typically lack the collateral needed to secure loans at competitive interest rates, making them vulnerable to the fluctuations in the money supply induced by monetary policy changes (Kambole, 2017 and Chowa, Kaira, and Muchoka, 2020).

Due to strict formal credit, many SMEs in Lusaka, including those in Kabwata, often rely on microfinance institutions, though these often come with high transaction cost which attentively affects the business profitability and operations of the hardware stores in Kabwata (Mukunoki, , 2024). It can generally therefore be argued monetary policy primarily affects hardware stores in Kabwata by dictating the cost of borrowing and the availability of credit through commercial banks and microfinance institutions (Kambole, 2017 and Chowa, Kaira, and Muchoka, 2020 and Adekunle, 2023.

4.4.Effects of interest rate fluctuations on the profitability of SME hardware stores in Kabwata constituency

The study participants were also asked on what effects does fluctuations in interest rates have on the profitability of SME operating hardware stores in Lusaka. The responses they gave to this question are as shown in figure 7.

Effects of Ffluctuating Interest Rates on Profitability of SMEs 62.50%

12.50% 12.50%

12.50%

Less p rofi t s wh en Difficulties in High cost of Lower cu st omer interests are high accessing credits borrowing when spending when interests are high interest rates are high

Figure 7: Effects of Fluctuating Interest Rates on Profitability of SMEs. Source: Field Data (2026)

22 The study found that monetary policy has an effect on access to finance among hardware stores in Kabwata as shown in figure 6 and 7. This is line with the study by Schumukler (2017), Uchenna and Audu (2022), Oguche (2024) and Malik and Audu (2023) who note that due to nonexistence favorable monetary policy framework, the small and medium businesses that depend on acquiring loans from the lending institutions find it hard to expand their businesses due to the limited resources as a result of high interest rates.

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23 4.5. Challenges Faced by SME Hardware Stores in Kabwata in Accessing Credit During Periods of Restrictive Monetary Policy

Some of the challenges SMEs of Lusaka District face in accessing financing during periods of contractionary monetary policy are shown in figure 8.

Challenges SMEs of Lusaka District Face in Accessing Financing During Periods of Contractionary Monetary Policy

16.67% Long procedures

16.67% High financial illiteracy

66.67% Inadequate documentation

0 10 20 30 40 50 60 70

Figure 8: Challenges SMEs of Lusaka District Face in Accessing Financing During Periods of Contractionary Monetary Policy. Source: Field Data (2026)

Similar to the study similar to Kambole (2017) and Chanda (2019), this study as shown in figure 8 found that small-scale enterprises, particularly hardware stores in Zambia, experience difficulties in accessing loans during periods of high-interest rates and tight credit conditions. These studies found that banks were more likely to prioritize lending to larger, more established firms during such periods, leaving small businesses with limited access to formal credit markets According Kumar and Rao (2015) lack of access to finance posed as an obstacle to the success of SMEs. They attributed this to the demand and supply gap in information. Accordingly, the study investigations found that SME operating hardware stores in Kabwata, Lusaka, face severe challenges in accessing credit during periods of restrictive monetary policy, primarily driven by high-interest rates, stringent collateral requirements, and a general perception of high risk. When the Bank of Zambia tightens monetary policy to control inflation, commercial banks restrict 24 lending to small firms, intensifying the financing gap for businesses relying on inventory financing and working capital (Musonda and Mulenga, 2020)

The other difficulties operating SMEs often face in accessing these funds include: lack of securable assets, lack of knowledge by finance providers about the nature of respondent’s business, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available finance, high interest rates on loans and bureaucracy (Kisseih, 2017 and Kambole, 2017). These really limit Kabwata hardware stores SMEs’ ability to access funds for their operations. Some of the proposed solutions to some of the challenges shown in figure 8 according to the study participants include providing more financial literacy and education programs to SMEs and ensuring that the process for loan access is made easy and shorter.

CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusion

The study found that monetary policy has an effect on access to finance among hardware stores in Kabwata. The effects of monetary policy rate on the hardware stores in Kabwata constituency is seen through higher interest rates by the bank of Zambia which restrict access to finance for the Kabwata hardware stores by increasing borrowing costs and tightening credit conditions. The monetary policy affects hardware stores in Kabwata by dictating the cost of borrowing and the availability of credit through commercial banks and microfinance institutions. Accordingly, interest rate fluctuations significantly impact the profitability of the hardware stores pr by altering borrowing costs, consumer demand, and operational expenses.. This is because the SMEs often lack large financial reserves, making them more vulnerable to higher interest payments that directly narrow profit margins. In terms of Challenges, the study investigations found that SMEs operating hardware stores in Kabwata, Lusaka, face severe challenges in accessing credit during periods of restrictive monetary policy, primarily driven by high-interest rates, stringent collateral requirements, and a general perception of high risk.. The other difficulties Kabwata hardware stores SMEs often face in accessing these funds include: lack of securable assets, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available finance high interest rates on loans and bureaucracy Based on these findings, it can therefore be concluded that monetary policy has both negative and positive effects on SME financing for hardware stores in Kabwata constituency of Lusaka.

5.2. Recommendations

Based on the study findings the following recommendation should be adopted: • There is need for academic institutions and other organizations in Zambia to undertake further investigations on the effect of monetary policy on SME financing across various sectors of Zambia. • There is need for the government of Zambia and other financial institutions in the country to provide more financial literacy and awareness programs to target the SMEs • There is need for the Bank of Zambia and government of Zambia to develop targeted lending facilities (subsidized loans) for the hardware stores and other SMEs.

26 • There is need for strengthening the Zambia Credit Guarantee Scheme to reduce the collateral requirements that hinder Kabwata hardware store SMEs

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APPENDICES

Interview Guide for Key Informants from Financial Institutions

1. Gender a) Male () b) female ()

2. Name for institution of work……………………………………………….

3. Occupation………………………………………………………………..

4. Years of working with the financial institution……………………………………

5. In your own opinion, do you feel Zambia's monetary policy influences the availability of credit for SMEs such as the ones running hardware stores in Kabwata constituency of Lusaka District?

a) Yes () b) No ()

6. If the previous answer is "yes" in what ways does Zambia's monetary policy influence the availability of credit for SME hardware stores in Kabwata constituency of Lusaka District?

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…………………………………………………………………………………………

7. In your own opinion, what effects does fluctuations in interest rates have on the profitability of SME operating hardware stores in Lusaka?

………………………………………………………………………………………… 8. From your experience, what challenges do SMEs of Lusaka District face in accessing financing during periods of contractionary monetary policy?

…………………………………………………………………………………………

9. What policy measures do you feel can be used to improve SMEs' access to finance for 30 hardware stores in Kabwata Constituency

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…………………………………………………………………………………………

31 Interview Guide for Hardware Stores SMEs in Kabwata

1. Gender c) Male () d) female ()

2. Location of the hardware store……………………………………………….

3. Position at the hardware store …………………………………………………

4. Years of operation for the hardware store ……………………………………

5. Do you know anything about Zambia's monetary policy?

a) Yes () b) No ()

6. If previous answer is "Yes", do you feel Zambia's monetary policy influences the availability of credit for SMEs such as the ones running hardware stores in Kabwata constituency of Lusaka District?

c) Yes () d) No ()

7. In your own opinion, what effects does fluctuations in interest rates have on the profitability of SMEs operating hardware stores in Lusaka? ………………………………………………………………………………………… 8. What challenges do you feel SMEs of Lusaka District face in accessing credit finance?

…………………………………………………………………………………………

9. What policy measures do you feel can be used to improve SMEs' access to finance for hardware stores in Kabwata Constituency

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32 APPENDIX TWO: ETHICAL APPROVAL