

Assessing Financial, Compliance and Operational Risks Facing CEEC-Funded Micro, Small and Medium Enterprises in Lusaka, Zambia

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ABSTRACT

Government backed funding schemes are one of the few reliable channels through which Zambia's micro, small and medium enterprises (MSMEs) can raise capital, yet comparatively little is known about the risks these businesses carry once the money has been disbursed. This study examines the financial, compliance and operational risks facing MSMEs in Lusaka District that have engaged with the Citizen Economic Empowerment Commission (CEEC) funding programme. A structured, mixed-methods survey was administered to 100 enterprises selected through stratified random sampling by business sector from CEEC-linked funding registers, of which 77 responded (a 77 percent response rate). Of these 77, only 27 (35.1 percent) had actually accessed CEEC funding at the time of the study, and 26 of the 27 completed the risk-specific sections of the questionnaire in full; these 26 form the base for all risk-awareness, training, confidence and risk-category findings reported below, while the indicators describing the respondent profile and funding uptake are reported against the full sample of 77. Across the full sample, 81.8 percent of respondent firms (63 of 77) were micro-scale operations employing ten or fewer people. Among the 26 CEEC-funded respondents, awareness of risk was uneven across categories: 84.6 percent recognised financial risk as a threat to their business, compared with 53.8 percent for compliance risk and 50.0 percent for operational risk, while 11.5 percent could not identify any of the three (respondents could select more than one category, so these figures do not sum to 100 percent). Only 7.7 percent of this beneficiary sub-sample had ever received formal risk management training, and only 19.2 percent maintained a documented plan for responding to disruption, despite 72.0 percent having experienced one. Loan repayment difficulty (84.6 percent) and machinery breakdown (65.4 percent) were the most frequently cited financial and operational threats respectively, and half of the 26 beneficiaries considered existing compliance requirements disproportionate to the size of their business. Because the risk findings describe the experience of CEEC-funded beneficiaries specifically, they are not generalised to the full 77 enterprise sample or to the wider applicant pool. Overall, the findings suggest that funding access without parallel investment in risk management capacity leaves beneficiary enterprises structurally exposed. The paper closes with recommendations directed at CEEC, sector regulators and MSME owners aimed at narrowing this gap.

Keywords: MSMEs, business risk, CEEC, financial risk, compliance risk, operational risk, Zambia

INTRODUCTION

Micro, small and medium enterprises are often described as the backbone of the Zambian economy, and the description is not much of an exaggeration. They make up many registered businesses in the country and are widely credited with absorbing labour that the formal sector has never been able to accommodate (Ministry of Small and Medium Enterprise Development, 2023). Yet the same firms that policymakers rely on to create jobs and diversify the economy routinely struggle to raise the capital needed to survive their first few years, let alone to grow. Government funding programmes exist precisely to close that gap. In Zambia, the Citizen

Economic Empowerment Commission (CEEC) is the most visible of these instruments, offering loans, grants and business development support to citizen owned enterprises across the country.

What receives far less attention is what happens to a business after the funding has landed in its account. A loan or grant changes an enterprise's risk profile as much as it changes its balance sheet. It introduces a repayment obligation, a set of reporting and compliance conditions attached to the funding agreement, and, indirectly, a set of operational expectations tied to how the money is meant to be used. Whether an MSME can absorb these new obligations depends heavily on its capacity to identify, understand and manage risk, a capacity that is rarely assessed before funding is approved and rarely built afterward (Silwimba, 2022).

This gap matters because the consequences of weak risk management fall on both sides of the funding relationship. For the enterprise, an unmanaged risk can mean default, penalty, or outright business failure. For CEEC, and by extension the public funds it administers, poor risk management among beneficiaries translates into weak recovery rates and a diminished capacity to fund the next cohort of applicants. Despite this, empirical literature on MSME risk in Zambia remains thin, and studies that look specifically at how beneficiaries of government funding programmes experience and manage risk are harder still to come by (Mwanza & Tshuma, 2023).

This paper responds to that gap. It examines the financial, compliance and operational risks facing MSMEs in Lusaka District that have engaged with CEEC's funding programme, starting from a more basic question than is usually asked: how well do these enterprises even understand the risks they are exposed to in the first place? The remainder of the paper is organised as follows. Section 2 reviews the conceptual, theoretical and empirical literature on MSME risk and locates the gaps this study addresses. Section 3 sets out the mixed methods design used to collect and analyse data from the 77 responding enterprises, of whom 27 had accessed CEEC funding and form the basis for the risk-specific analysis in Section 4. Section 4 presents the results, Section 5 discusses them against the literature and theory introduced earlier, and Sections 6 and 7 closes with conclusions and recommendations for CEEC, regulators and MSME owners themselves.

LITERATURE REVIEW

Conceptual Review

MSMEs are typically classified by the number of people they employ, their turnover, and the value of their assets, and Zambia's own MSME policy uses precisely this three tier structure to separate micro from small and medium operations (Ministry of Small and Medium Enterprise Development, 2023). Three categories of business risk are of central interest to this study. Financial risk covers the possibility that an enterprise cannot meet its financial obligations, whether that means repaying a loan, covering routine operating costs, or absorbing a shock to cash flow (Jorion, 2007; Smithson & Horne, 1999). Compliance risk covers the danger of falling foul of tax, licensing or contractual obligations, whether through ignorance of a requirement or a genuine inability to meet it. Operational risk, the broadest of the three, covers disruption arising from people, processes, equipment or external shocks such as power outages and supply failures.

These categories are not as neatly separable in practice as they are on paper. A machinery breakdown looks, on its face, like a purely operational risk, but it quickly becomes a financial one once it interrupts revenue, and a compliance one if it causes a business to miss a reporting deadline tied to its funding agreement. The three-way framing adopted in this paper and mirrored in the CEEC funding agreements that respondents are held to, should therefore be read as an analytical convenience rather than a claim that these risks operate in isolation from one another.

Theoretical Review

Two theoretical strands underpin this study. The first is enterprise risk management (ERM) theory, which holds that risk is best managed holistically across an organisation rather than in disconnected silos (Committee of Sponsoring Organisations of the Treadway Commission [COSO], 2004). Jankensgard (2019) frames ERM as a response to two distinct organisational problems: an agency problem, in which the people who manage

risk do not necessarily share the interests of those who bear its consequences, and an information problem, in which risk relevant knowledge is scattered across an organisation rather than consolidated for decision making. The International Organisation for Standardisation's ISO 31000 framework builds on this logic, setting out generic principles for identifying, assessing and treating risk that are intended to apply regardless of sector or firm size (International Organisation for Standardisation [ISO], 2009).

For MSMEs, however, ERM's underlying premise, that risk management is a formal, resourced function, sits awkwardly against the reality of a five-person retail business run out of a single owner's back pocket. This is where the second theoretical strand, agency theory, becomes useful. Jensen and Meckling (1976) describe the agency relationship as one in which a principal delegates decision making to an agent whose interests may not fully align with their own, generating monitoring and bonding costs on both sides of the relationship. Applied to government funding programmes, CEEC and its beneficiaries stand in something close to a principal agent relationship. CEEC disburses capital on the expectation that it will be used and repaid as agreed, while the beneficiary enterprise, as agent, controls the day-to-day decisions that determine whether that expectation is met. Financial and compliance risk, seen this way, are not simply properties of the business; they are also properties of the funding relationship itself, which is part of why a funder such as CEEC has a direct interest in the risk management capacity of the businesses it supports, and not merely their creditworthiness at the point of disbursement.

Empirical Review

The financial dimension of MSME risk has attracted the most sustained research attention, likely because it is also the dimension most closely tied to the survival of a firm. Evidence from India shows that formal credit reaches only a small fraction of MSMEs despite government backed guarantee schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises, with high guarantee fees and weak credit flow continuing to constrain access (Mund, 2020). Similar patterns emerge from Indonesia, where Marwanto et al. (2023) found that stimulus measures introduced after the COVID-19 pandemic, including loan guarantees and interest subsidies, improved the funding environment for MSMEs in Yogyakarta but were unevenly distributed and poorly understood by the micro enterprises they were meant to help. The finance gap problem is not confined to Asia. Beck and Demirgüç-Kunt (2006) and Berger and Udell (2006) both argue, from different angles, that access to finance is one of the most binding constraints on SME growth worldwide, a conclusion echoed in Ayyagari, Beck and Demirgüç-Kunt's (2007) cross country comparison of the sector's contribution to employment and output. In Zambia specifically, Chilemba (2021) links the difficulty MSMEs have in accessing finance directly to collateral requirements, arguing that the absence of registrable assets, rather than the viability of the underlying business idea, is often what keeps an application from succeeding.

Compliance risk has a smaller but no less instructive literature. Judijanto (2024) found that complex tax regulations in Indonesia consume a disproportionate share of MSME resources, arguing for simplified rules, wider access to incentives, and stronger taxpayer education. Sihombing et al. (2025) reached a related conclusion from a different angle, showing in a survey of businesses in Medan Petisah that audit quality, tax compliance and financial disclosure practices each independently predicted business sustainability, and that MSMEs which invested in these areas were more resilient to post pandemic shocks. Closer to home, Mweetwa (2019) found that compliance with post registration obligations among Zambian businesses remains low, not because owners are unwilling to comply but because many lack the technical understanding required to file correctly, a finding reinforced by Chisumpa et al. (2020) study of tax compliance among SMEs in Ndola, and consistent with Waluyo and Purnami's (2022) observation that risk preferences shape how willingly MSME owners engage with tax authorities even where digital filing systems exist to ease the burden.

Operational risk research tends to be more applied, often built around diagnostic tools such as SWOT analysis rather than large sample surveys. Wahyudi, Taryana et al. (2024) used this approach to analyse an Indonesian food and beverage MSME, finding that limited production capacity and supplier dependence were the firm's chief operational vulnerabilities, while Amalia et al. (2023) applied the same technique across a broader set of small businesses and concluded that digital adaptation was consistently the most effective response to post pandemic operational disruption. At a higher level of abstraction, Ciocoiu et al.'s (2024) bibliometric review of more than five hundred studies confirms a positive association between structured risk management and

MSME performance, while cautioning that the relationship is inconsistently measured across the literature and that most MSMEs simply lack the resources to run the kind of formal risk processes the research describes. Within the African context, Dubihlela and Chikwati (2020) found that maritime SMEs in South Africa rarely had the means to implement structured risk management on their own and depended heavily on government sponsored training to build that capacity, a dependency that Wiid and Cant (2021) trace back further, to a mutual mistrust between funding institutions and township based MSME owners that discourages the latter from engaging with support programmes even when they are available.

Two further strands of literature deserve mention because they frame why funding access alone is an incomplete solution. Fatoki (2014) attributes much of the high failure rate among new South African SMEs to poor internal risk management rather than to a shortage of capital, while Okeke and Asekomeh (2024) and the SME Finance Working Group (2022) both noted, from opposite ends of the funding pipeline, that government backed financing schemes are commonly evaluated on disbursement volume rather than on what happens to recipients afterward. The Organisation for Economic Co-operation and Development (2017) makes a related point at a global level, arguing that SME policy has historically prioritised access to finance over the complementary capabilities, including risk management, that determine whether that finance is used productively. Reviews by Soumya and Jayaprada (2018) and Afdal et al. (2021) reach a similar conclusion from a literature-synthesis standpoint: MSME sustainability research is heavily weighted towards financing and market access, leaving risk management as a comparatively under theorised determinant of survival.

Research Gap

Three gaps emerge from this body of work. The first is contextual. Most of the evidence reviewed above comes from Asia and, to a lesser extent, South Africa; Zambian evidence exists, notably Mweetwa (2019), Chisumpa et al. (2020), Chilembo (2021), Chijikwa and Mulenga's (2023) work on the barriers Lusaka MSMEs face in formalising their operations, and Mwanza and Tshuma's (2023) work on manufacturing SMEs in Zimbabwe, but almost none of it looks specifically at recipients of government funding, whose risk profile differs from that of the general MSME population precisely because they carry a repayment or reporting obligation that other MSMEs do not. The second gap is institutional. The wider literature on risk management capacity in Zambia (Institute of Risk Management Zambia [IRMZA], 2019; Silwimba, 2022) documents a slow, uneven uptake of formal risk practices across Zambian organisations generally but has not been applied to the specific population of CEEC beneficiaries, whose funding agreements already impose *de facto* risk management obligations, such as reporting deadlines, that this study can test respondents against directly. The third gap is methodological, since much of the existing evidence, whether from Indonesia, India or South Africa, relies on single firm case analysis or small purposive samples, which is useful for depth but says little about how widely a given risk is felt across a beneficiary population. This study addresses these three gaps together by surveying a stratified sample of MSMEs drawn from Lusaka's CEEC linked business registers and by measuring risk awareness, exposure and response capacity as three distinct, comparable dimensions rather than as a single composite indicator.

METHODOLOGY

Research Design

This study adopted a mixed methods research design, more precisely an embedded design in Creswell's (2014) typology, in which a structured questionnaire supplying the primary quantitative data was combined with a small number of open-ended items providing supplementary qualitative detail. A purely quantitative design would have been able to establish how common a given risk was, but not why respondents experienced it the way they did, while a purely qualitative design would have sacrificed the comparability needed to say anything about the beneficiary population as a whole. Embedding a smaller qualitative strand within a dominant quantitative design is well suited to resolving exactly this trade-off, since combining numeric and narrative data in a single study allows each to compensate for what the other misses (Creswell et al., 2011; Taherdoost, 2022), and a pragmatist orientation, which treats the research question rather than a prior methodological commitment as the starting point for design decisions, guided the choices made throughout.

Study Area and Sampling Frame

The study was carried out in Lusaka District, home to the head offices of most institutions that administer government MSME funding and to a correspondingly large concentration of funded enterprises. According to the Ministry of Small and Medium Enterprise Development (2023), Zambia had 110,508 formally registered, tax-paying MSMEs as of 2019, of which 43.5 percent, the largest provincial share nationally, were based in Lusaka Province. Of these, 2,544 MSMEs in Lusaka District had benefited from one or more government funding programmes at the time the sampling frame was drawn, and it was from this population that the study's sample was selected.

Sample Size Determination

The target sample of 100 enterprises was set with reference to Yamane's (1967) simplified formula for finite populations, $n = N / [1 + N(e)^2]$, applied to the 2,544-enterprise sampling frame described above. At a 90 percent confidence level ($e = 0.10$), the formula yields a minimum sample of approximately 96 enterprises; a round target of 100 was adopted to provide a small margin above this minimum and to simplify subsequent allocation across the three sectoral strata described in Section 3.4.

Sampling Procedure

A target sample of 100 enterprises was drawn using stratified random sampling, with strata defined by business sector, namely manufacturing, retail and services, to ensure that no single sector dominated the responses and that the sample reflected the sectoral spread of Lusaka's MSME population. Stratification was chosen over simpler alternatives such as quota sampling because it allows more precise, subgroup-level estimates from a heterogeneous population, at the cost of requiring a more complete sampling frame than quota methods demand (Iliyasu & Etikan, 2021); the Ministry's registers made this feasible for the sectors used here. This approach is also consistent with Creswell's (2014) guidance that stratification improves the external validity of survey findings by ensuring that no relevant subgroup within the population is overlooked. Enterprises were selected from Ministry of Small and Medium Enterprise Development registers of businesses that had applied for CEEC funding. Of the 100 enterprises approached, 77 completed the questionnaire, a response rate of 77 percent.

The sector-level sample allocation and the corresponding response rate for each stratum were not retained in the analysis file used to prepare this manuscript. This gap is acknowledged explicitly in Section 3.9 rather than papered over, and the disaggregated figures will be reported from the original field records in any subsequent version of this study. Because a portion of the sampling frame had not, in the end, drawn down CEEC funding at the time of the survey, the study's scope was widened during fieldwork to compare beneficiaries and non-beneficiaries rather than beneficiaries alone; this turned out to be useful in its own right, since it allowed the study to separate risk awareness that comes from having actually managed a CEEC loan from risk awareness that MSME owners bring to the funding relationship regardless of whether they have accessed it.

Study Population and Reporting Base

Widening the scope in this way means that the 77 responding enterprises are not a single homogeneous analytic population, and the results in Section 4 are accordingly reported against three distinct bases rather than a single denominator of 77. The first is the full responding sample ($n = 77$), against which the business profile indicators and CEEC funding uptake are reported. The second is the sub-sample of 27 enterprises that had accessed CEEC funding at the time of the survey (35.1 percent of the 77); this group alone was asked the risk-specific sections of the questionnaire, since several items, including reporting deadline compliance and experience of the CEEC funding agreement, apply only to enterprises that had actually received funding. The third is the 26 of those 27 CEEC-funded enterprises that completed the risk-specific sections in full; one funded enterprise did not complete this part of the instrument and is excluded from the corresponding tables and figures. A single further item, on experience of a general business disruption, was answered by 25 of these 26 respondents.

Every percentage reported in Section 4 is labelled with its base (77, 27, 26 or 25) so that the risk-awareness, training, confidence and risk-category findings, all drawn from the 26-enterprise beneficiary sub-sample, are never read as describing the full 77-enterprise sample. Several of the questionnaire items in the financial, compliance and operational-risk sections also permitted more than one response (for example, the risks respondents had personally encountered); percentages for these items are calculated against the relevant base but do not sum to 100 percent, and this is noted beneath each affected table or figure.

Data Collection Instrument

Data was collected using a structured questionnaire combining closed and open-ended items, a format chosen because it allowed straightforward comparison across respondents while still leaving room for MSME owners to describe risks in their own terms (Kombo & Tromp, 2006). The questionnaire was organised into six sections covering business profile, general risk awareness, financial risk, compliance risk, operational risk, and recommendations; consistent with Section 3.5 above, the risk-specific sections (financial, compliance and operational risk) were administered only to the 27 respondents who had accessed CEEC funding. Items were developed from the risk categories and theoretical constructs described in Sections 2.1 and 2.2 (financial, compliance and operational risk; ERM and agency theory) rather than adapted from a previously validated scale, and no formal pilot test or reliability analysis (for example, Cronbach's alpha for the Likert-type knowledge and confidence items) was conducted before administration. This is acknowledged as a limitation in Section 3.9 rather than presented as having been done. The full item set is available from the corresponding author on request. Secondary data, used mainly to construct the literature review and to contextualise the sampling frame, was drawn from published journal articles, government policy documents, and reports issued by regulatory and non-governmental bodies.

Data Analysis

Responses were analysed using descriptive statistics, principally frequency distributions and percentages, to summarise patterns of risk awareness, exposure and response across the sample. Open-ended responses were analysed following the three-phase content analysis process set out by Elo and Kyngas (2008): preparation, in which responses were read repeatedly and the unit of analysis fixed at the individual comment; organising, in which comments were open-coded, grouped into categories describing similar suggestions or experiences, and clustered into the broader themes reported in Sections 4.4 and 4.5 (for example, training and mentorship, simplification of requirements, and policy reform under compliance support); and reporting, in which the resulting themes were integrated with the quantitative findings in Section 5 rather than presented as a stand-alone qualitative result. Quality control drew on the trustworthiness criteria proposed by Lincoln and Guba (1985), with particular attention paid to ensuring that thematic groupings reflected what respondents actually said rather than the researcher's prior expectations; the coding categories underlying each theme are available from the corresponding author on request, consistent with how the questionnaire items themselves are handled. Because the qualitative strand was limited to short open-ended comments analysed thematically, rather than a fully developed qualitative sample with its own sampling logic, coding matrix and verbatim quotation set, it is best described as a supplementary, embedded qualitative component rather than a fully parallel qualitative strand, and the discussion in Section 5 treats it accordingly.

Ethical Considerations

Ethical clearance was obtained from the researchers' university before data collection began. Participants were briefed on the purpose of the study, asked to give informed consent, and assured that their responses would remain confidential and be used for academic purposes only; participation was voluntary throughout, and respondents were free to decline any question or withdraw at any point.

LIMITATIONS

Several limitations should be noted upfront, since they shape how the results that follow ought to be read. The achieved sample of 77 firms, while adequate for descriptive analysis of a bounded population, is too small to support inferential statistical testing, and no such testing is attempted here; the relationships discussed in

Section 5 are therefore associative rather than causal. The study is also confined to a single district, so its findings describe Lusaka's CEEC-linked MSME population rather than Zambian MSMEs in general, and the reliance on self-reported risk perception means responses are vulnerable to the same recall and social desirability effects that affect any survey-based measure of awareness or confidence. Because the sampling frame ultimately included both beneficiaries and non-beneficiaries of CEEC funding, comparisons drawn between the two groups should be treated as indicative rather than as a controlled comparison, since the two groups were not matched on firm size, sector or age.

Three further gaps are acknowledged explicitly here rather than left implicit. First, the sector-level sample allocation and response rates referred to in Section 3.4 were not separately retained and so cannot be reported in this version. Second, no formal instrument validation or reliability testing was conducted, as noted in Section 3.6; questionnaire items are grounded in the constructs reviewed in Section 2 rather than in an independently validated scale. Third, no formal statistical assessment of non-response bias, for example comparing early and late respondents, was carried out. All three are flagged here as priorities to be closed in future replications of this study using the original field records, rather than presented as having been addressed. Finally, and most importantly for how the results below should be read, the risk-specific findings in Sections 4.2 to 4.5 describe the 26 (or, for one item, 25) enterprises that had accessed CEEC funding and completed those sections of the questionnaire, and should not be read as describing the full 77-enterprise sample or the wider population of CEEC applicants; Section 3.5 sets out the reporting bases used consistently throughout the remainder of the paper.

RESULTS

Respondent Profile and Funding Status

Of the 100 MSMEs approached, 77 responded, spread across the manufacturing, retail and service sectors that had been used to stratify the original sample. Table 1 summarises the headline indicators discussed in detail across this section, before the sub-sections below unpack each one. As explained in Section 3.5, indicators are reported against different bases (77, 27, 26 or 25) depending on which respondents were asked the underlying question, and each row of the table states its base and the underlying count explicitly.

Table 1: Summary of Key Indicators, by Reporting Base

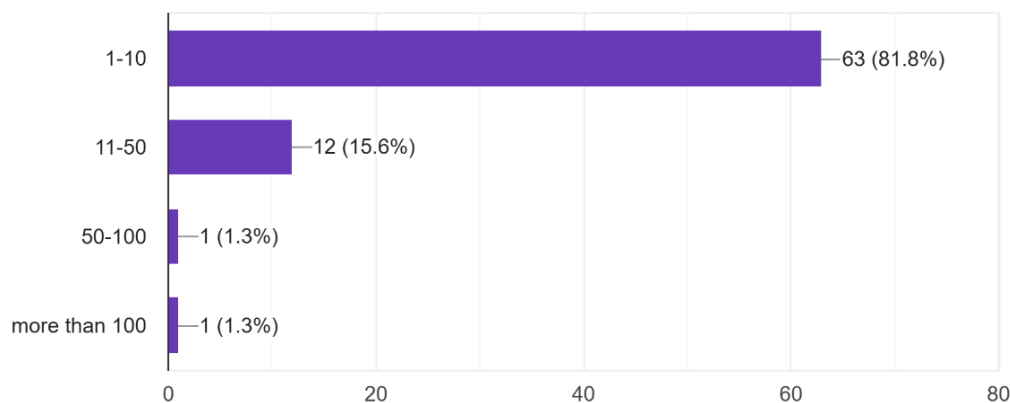
Indicator	N	Base	%
Micro-enterprises (1–10 employees)	63	77 (full sample)	81.8%
Have accessed CEEC funding	27	77 (full sample)	35.1%
Aware of financial risk†	22	26 (CEEC-funded, complete risk responses)	84.6%
Aware of compliance risk†	14	26 (CEEC-funded, complete risk responses)	53.8%
Aware of operational risk†	13	26 (CEEC-funded, complete risk responses)	50.0%
Received formal risk management training	2	26 (CEEC-funded, complete risk responses)	7.7%
Experienced an operational disruption	18	25 (CEEC-funded, item respondents)	72.0%
Have a documented risk response plan	5	26 (CEEC-funded, complete risk responses)	19.2%
Missed a CEEC reporting deadline	12	26 (CEEC-funded, complete risk responses)	46.2%
View compliance requirements as disproportionate to firm size	13	26 (CEEC-funded, complete risk responses)	50.0%

† Respondents could select more than one risk category; figures do not sum to 100 percent. Indicators drawn from the full 77-respondent sample are reported as a percentage of 77; risk-awareness, training, confidence

and risk-category indicators are reported as a percentage of the 26 (or, for one item, 25) CEEC-funded enterprises that completed the corresponding section of the questionnaire - see Section 3.5. **Source: Authors' compilation from field survey data.**

The overwhelming majority, 81.8 percent (63 of 77), were micro enterprises employing between one and ten people (Figure 1), a profile broadly consistent with the wider structure of Zambia's MSME sector, in which small scale operations dominate.

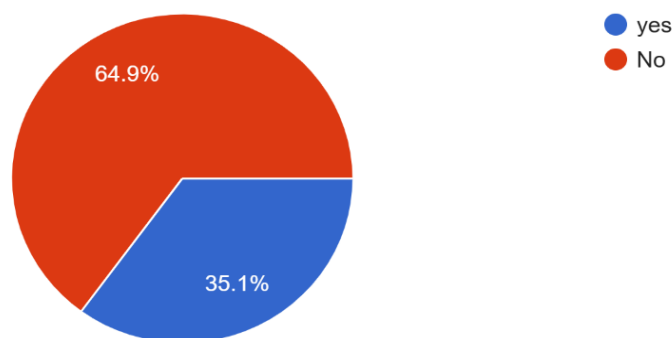
Figure 1: Number of Employees of MSMEs



Source: Authors' compilation from field survey data

Only 35.1 percent of respondents (27 of 77) had accessed CEEC funding by the time of the survey (Figure 2), even though the sample had been drawn from CEEC linked registers; the remaining 64.9 percent had either applied without success, withdrawn from the process, or not progressed beyond initial enquiry. This gap between registration and disbursement is itself a finding worth noting, since it suggests that accessibility, not merely risk management once funded, remains a live constraint for many of the enterprises in this sample. The 27 enterprises that had accessed CEEC funding form the analytic base for Sections 4.2 to 4.5 below; of these, 26 completed the risk-specific sections of the questionnaire in full (see Section 3.5).

Figure 2: Proportion of Respondents who had Accessed CEEC Funding



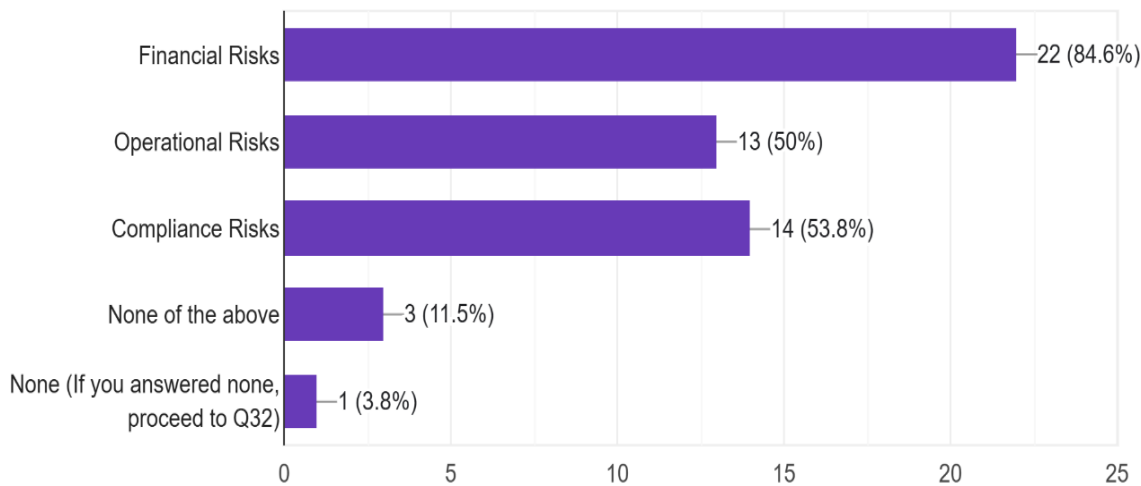
Source: Authors' compilation from field survey data

Risk Awareness, Training and Confidence

Among the 26 CEEC-funded respondents who completed the risk section of the questionnaire, awareness of business risk varied sharply by category (Figure 3). Financial risk was the most widely recognised, cited by

84.6 percent (22 of 26), followed by compliance risk at 53.8 percent (14 of 26) and operational risk at 50.0 percent (13 of 26); 11.5 percent (3 of 26) could not identify any of the three risk types the study asked about. Because respondents could select more than one risk category, these figures do not sum to 100 percent.

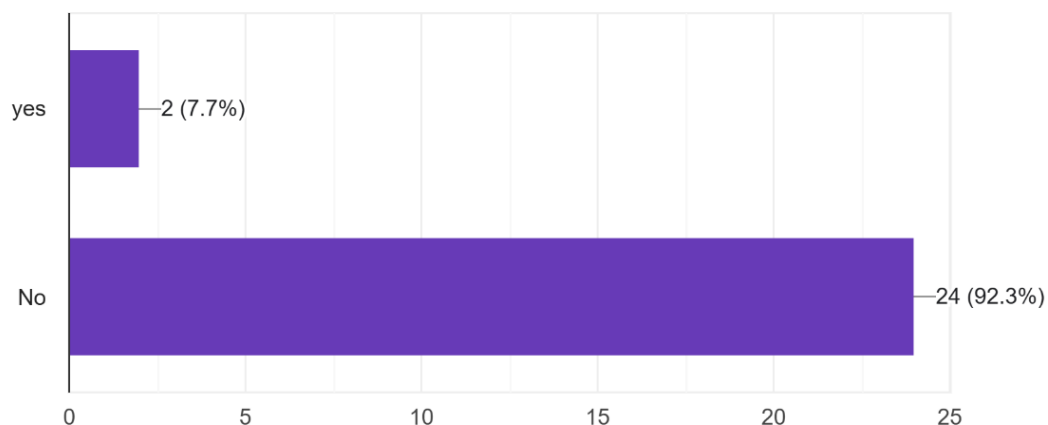
Figure 3: Types of Business Risk Respondents had Heard Of (n = 26, CEEC-funded)



Source: Authors' compilation from field survey data

Formal risk management training was rare within this beneficiary sub-sample: only 7.7 percent (2 of 26) had ever received any (Figure 4), against 92.3 percent (24 of 26) who had not. Confidence in managing risk tracked this training gap closely. A majority, 57.7 percent (15 of 26), described their ability to manage business risk as merely average, 38.5 percent (10 of 26) reported no confidence at all, and only 3.8 percent, in effect a single respondent, described themselves as confident.

Figure 4: Respondents who had Received Business Risk Management Training (n = 26, CEEC-funded)



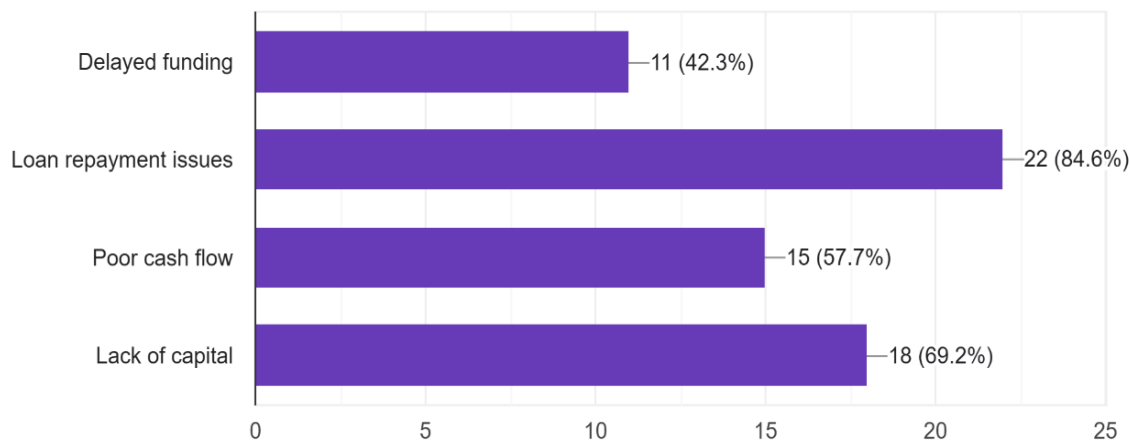
Source: Authors' compilation from field survey data

Financial Risk

Self-assessed knowledge of financial risk among the 26 CEEC-funded respondents was mixed: 23.1 percent (6 of 26) rated their understanding as excellent and 46.2 percent (12 of 26) as good, but 26.9 percent (7 of 26) rated it poor and a further 3.8 percent (1 of 26) average. When asked which financial risks they had personally encountered, loan repayment difficulty was the most commonly cited, at 84.6 percent (22 of 26), followed by

lack of capital (69.2 percent, 18 of 26), poor cash flow (57.7 percent, 15 of 26) and delayed disbursement of funding (42.3 percent, 11 of 26) (Figure 5); respondents could select more than one risk, so these figures do not sum to 100 percent.

Figure 5: Financial Risks Encountered by Respondent MSMEs (n = 26, CEEC-funded)



Source: Authors' compilation from field survey data

Despite the centrality of financial risk to how respondents understood their exposure, the tools used to manage it were rudimentary. Microsoft Excel and, in several cases, a handwritten notebook were the most commonly cited financial planning tools, with almost no mention of dedicated accounting or budgeting software.

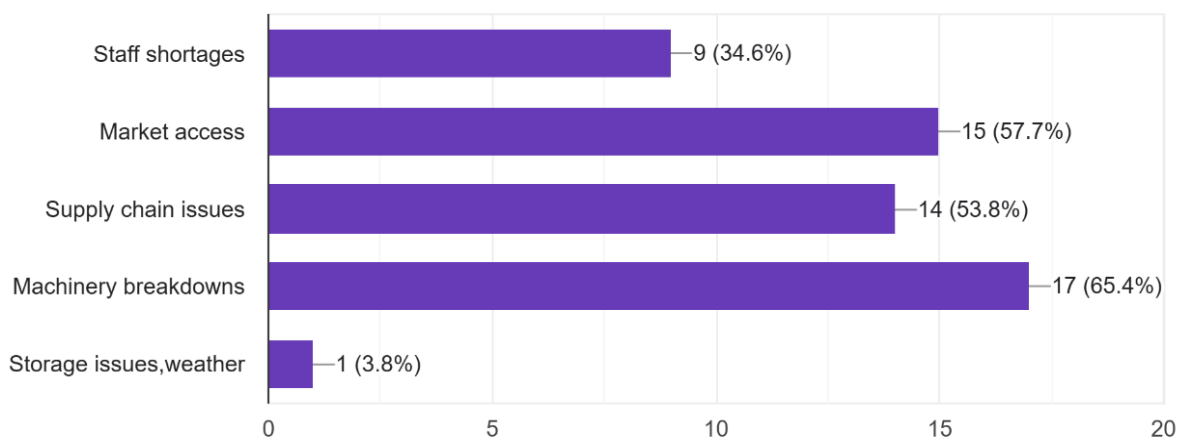
Compliance Risk

Understanding of compliance risk was consistently weaker than understanding of financial risk. Most of the 26 CEEC-funded respondents rated their knowledge of the regulatory requirements attached to running a business, and specifically of the legal terms of the CEEC funding agreement, as poor. The most frequently cited difficulty with legal compliance was simply understanding the legal process itself, with several respondents mentioning the cost or unavailability of a lawyer to review documents, and a smaller number reporting that they had accepted funding without fully understanding its legal implications. Tax compliance produced a similar pattern. The dominant complaint was a lack of understanding of tax procedures, followed by failure to register with the Zambia Revenue Authority, late submissions, and the perceived complexity of the Authority's filing systems. On reporting compliance specifically, 53.8 percent of the 26 CEEC-funded respondents (14) had met all CEEC reporting deadlines, while 46.2 percent (12) had missed at least one, a split that leaves a substantial minority of beneficiaries exposed to the penalties that late reporting can attract. When asked directly whether compliance requirements were appropriate for a business of their size, half of the 26 CEEC-funded respondents (13) said no, describing the regulatory burden as disproportionate. Suggestions for improving compliance support clustered around three themes: locally delivered training and mentorship; simplification and greater flexibility in requirements based on business size; and broader policy reform, including reduced tax rates for small businesses and clearer, more consistently applied rules.

Operational Risk

Half of the 26 CEEC-funded respondents, 50.0 percent (13), rated their general understanding of operational risk as poor, with 19.2 percent (5) describing it as average, 23.1 percent (6) as good and only 7.7 percent (2) as excellent, the weakest self-assessed knowledge of any of the three risk categories measured. The operational risks most commonly encountered were machinery breakdown (65.4 percent, 17 of 26), difficulty accessing markets (57.7 percent, 15 of 26), supply chain disruption (53.8 percent, 14 of 26) and staff shortages (34.6 percent, 9 of 26) (Figure 6), with storage problems and adverse weather cited least often; respondents could select more than one operational risk, so these figures do not sum to 100 percent.

Figure 6: Operational Challenges Reported by Respondent MSMEs (n = 26, CEEC-funded)



Source: Authors' compilation from field survey data

Separately, when asked about disruptions in general rather than about a specific list of risks, 72.0 percent of the 25 CEEC-funded respondents who answered this item (18) said they had experienced an event that affected business performance, most commonly electricity load shedding, followed by input shortages, staff shortages or theft, and, less frequently, vehicle accidents, the lingering effects of the COVID-19 pandemic, and shifts in market demand. Only 19.2 percent of the 26 CEEC-funded respondents (5) had any documented plan for responding to such disruptions, meaning that for the large majority of enterprises that had already experienced one, no formal plan existed to guide the response the next time. When asked what kind of support would most improve their operations, respondents most frequently mentioned training and capacity building, followed by access to finance and debt relief, infrastructure support such as backup power, and better access to markets and suppliers.

DISCUSSION OF FINDINGS

A Risk Profile Shaped by What Is Visible, Not What Is Likely

The clearest pattern in the results is that, among the 26 CEEC-funded respondents studied in depth, awareness tracks visibility rather than actual exposure. Financial risk was the most widely recognised of the three categories, which is unsurprising given that its consequences, a missed loan repayment or a cash shortfall, are immediate and unmistakable. Operational risk, by contrast, was the least recognised even though 72.0 percent of this beneficiary sub-sample had experienced a disruption capable of affecting performance, a gap that echoes Ciocoiu et al.'s (2024) observation that MSMEs frequently lack the resources, and arguably the vocabulary, to recognise operational threats as a distinct category of risk requiring deliberate management rather than as routine bad luck. Read through the lens of ERM theory, this is precisely the information problem that Jankensgard (2019) describes: risk relevant knowledge exists within these firms, since owners clearly recall specific disruptions when prompted, but it is not organised into a form that supports proactive management.

Financial Risk and the Agency Relationship

The dominance of loan repayment difficulty among the financial risks reported, cited by 84.6 percent of CEEC-funded respondents (22 of 26), is consistent with the agency framing set out in Section 2.2. Once an enterprise accepts CEEC funding, it takes on an obligation whose fulfilment depends on cash flow the funder cannot directly observe or control, which is exactly the information asymmetry that Jensen and Meckling (1976) identify as central to any principal and agent relationship. The finding that basic tools, principally spreadsheets and handwritten notebooks, remain the norm for financial planning suggests that this asymmetry is not primarily a matter of concealment but of capacity.

Most of these beneficiaries appear to be managing cash flow as well as their tools allow, and their tools are simply not built for the task. This mirrors Mund's (2020) finding from India that credit access problems are compounded, not solved, once a loan is granted, because recipients frequently lack the financial management infrastructure to convert borrowed capital into sustained cash flow. Chilembo's (2021) argument that collateral requirements rather than business viability constrain Zambian MSME finance is also relevant here, since it implies that many of the firms represented in this sample were selected into CEEC funding on the basis of what they owned rather than what they were prepared to manage once funded.

Compliance Risk as an Understanding Problem

Compliance risk in this sample looks less like deliberate non-compliance and more like a comprehension gap. CEEC-funded respondents did not report resisting tax or reporting obligations; they reported not understanding them, echoing Mweetwa (2019) and Chisumpa et al.'s (2020) findings that low compliance among Zambian small businesses tends to reflect a lack of technical knowledge rather than a lack of willingness. The fact that half of the 26 CEEC-funded respondents considered the regulatory burden disproportionate to their size adds a further dimension that Judijanto (2024) and Sihombing et al. (2025) both identify in their own national contexts. MSMEs are frequently required to comply with rules designed with larger, better resourced firms in mind, and the compliance cost this imposes falls hardest on exactly the businesses least equipped to absorb it. The 46.2 percent of CEEC-funded respondents (12 of 26) who had missed a CEEC reporting deadline is a useful illustration of how this comprehension gap becomes a funding risk in its own right. A missed deadline is rarely a sign that a business is failing, but it is treated, under most funding agreements, as if it were.

Operational Risk and the Absence of a Response Plan

The gap between experiencing disruption, reported by 72.0 percent of the CEEC-funded sub-sample, and having a documented response plan, reported by only 19.2 percent of the same group, is arguably the starkest finding in the study. It suggests that most of these respondent firms are not managing operational risk so much as absorbing it after the fact, a pattern consistent with Wahyudi et al.'s (2024) and Amalia et al.'s (2023) observations that MSMEs facing similar disruptions in Indonesia typically respond reactively, through ad hoc adjustments such as diversifying suppliers or shifting sales online, rather than through pre-planned contingency measures. Electricity load shedding's prominence among the disruptions cited is a reminder that some operational risk in the Zambian context is exogenous and largely outside any individual enterprise's control, which is consistent with Dubihlela and Chikwati's (2020) conclusion that structured risk management among small enterprises in comparable settings tends to depend on external, often government facilitated, support rather than emerging spontaneously from within the firm.

Synthesis

Across all three risk categories, among the 26 CEEC-funded beneficiaries examined in Sections 4.2 to 4.5, the same underlying story repeats. Exposure is real and, in the case of operational and financial risk especially, already being experienced by most of these beneficiaries, but the capacity to recognise, plan for, and respond to that exposure lags well behind. This is broadly consistent with Wiid and Cant's (2021) and the SME Finance Working Group's (2022) shared observation that funding programmes across the region tend to be evaluated, and designed, around disbursement rather than around what recipients are equipped to do with the money afterward. Set alongside the accessibility finding from the full 77-enterprise sample, where only 35.1 percent had accessed CEEC funding at all, the implication for CEEC is not that its funding is misdirected, but that funding on its own is an incomplete intervention. Without a parallel investment in risk management capacity, the same structural gaps this study identifies among funded beneficiaries are likely to recur with each new cohort.

CONCLUSION

This study set out to examine the financial, compliance and operational risks facing MSMEs in Lusaka District that have engaged with the CEEC funding programme, and to establish how well these enterprises understand

the risks involved before asking how well they manage them. Among the 26 CEEC-funded beneficiaries examined in depth, the answer, on both counts, is unevenly. Financial risk is well recognised but only loosely managed. Compliance risk is widely misunderstood rather than resisted. Operational risk, though the most experienced of the three, is the least likely to be met with any prepared response. Only 7.7 percent of the 26 CEEC-funded respondents (2) had received formal risk management training. Only 19.2 percent (5) had any documented plan for handling disruption, figures that sit uncomfortably alongside a beneficiary population in which most firms had already lived through a loan repayment difficulty, a compliance shortfall, or an operational disruption of some kind. Read together with the low uptake of actual CEEC funding within the full sample, just 35.1 percent (27 of 77), the findings point to two distinct constraints operating at once: an accessibility constraint, evident across the full 77-enterprise sample, that limits how many MSMEs receive funding in the first place, and a capacity constraint, evident among the 26 CEEC-funded beneficiaries studied in depth, that limits how safely those who do receive it can manage what follows. Addressing the first without the second risks repeating the same pattern of exposure with every new cohort of beneficiaries.

RECOMMENDATIONS

Overview

The recommendations below are organised around the three actors best placed to close the gaps this study identifies: CEEC as funder, MSME owners as risk bearers, and policymakers and regulators who set the rules within which both operate.

Recommendations for CEEC

Pre Disbursement Risk Screening and Training

CEEC should consider making basic financial literacy and risk management orientation a condition of disbursement rather than an optional add-on, so that beneficiaries enter the funding relationship with at least a working understanding of the obligations they are taking on.

Structured Post Disbursement Follow Up

Given how many CEEC-funded respondents reported difficulties only after funding had been received, CEEC should institute regular, structured follow up contact with beneficiaries covering both financial performance and compliance status, rather than relying on beneficiaries to self report problems as they arise.

Sector Specific Guidance

Because operational risks such as machinery breakdown and supply disruption vary considerably by sector, generic guidance is unlikely to be as useful as sector tailored material, for instance around equipment maintenance for manufacturing beneficiaries or supplier diversification for retail beneficiaries.

Recommendations for MSME Owners

Formalising Basic Risk Practices

Even simple measures, such as keeping a written record of recurring risks and how they were resolved, would give MSME owners a basis for recognising patterns in operational disruption rather than treating each incident as an isolated event.

Building Contingency Reserves

Given how frequently poor cash flow and delayed funding were cited as financial risks, owners should be encouraged to build even modest contingency reserves where possible, rather than relying solely on external funding to smooth cash flow gaps.

Recommendations for Policymakers and Regulators

Proportionate Compliance Requirements

Given that half of the CEEC-funded respondents considered compliance requirements disproportionate to their size, regulators should review whether reporting and licensing obligations designed with larger firms in mind can be scaled down for genuinely micro sized enterprises without weakening their underlying policy purpose.

Simplified Tax Administration

Simplifying registration and filing procedures with the Zambia Revenue Authority and pairing this with targeted taxpayer education for MSME owners would directly address the comprehension driven compliance gap identified in Section 5.3.

Scope for Future Research

This study points to several directions for further work. A longitudinal design following the same cohort of beneficiaries over several years would show whether risk management capacity improves after funding, rather than only capturing a single point in time. A comparative study across CEEC and other government funding vehicles would clarify whether the patterns found here are specific to CEEC or general to publicly funded MSME support in Zambia. Extending this line of enquiry beyond Lusaka to rural and peri-urban districts would test whether the accessibility and capacity constraints identified here hold in settings with different infrastructure and market conditions. Finally, future replications should administer the risk-specific sections of the questionnaire to the full applicant sample rather than to CEEC-funded beneficiaries alone, incorporate formal instrument validation and reliability testing from the outset, and retain sector-level allocation and response-rate data, so that the population and denominator issues addressed in this revision do not recur.

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