

**AN INVESTIGATION ON THE FACTORS INFLUENCING THE GROWTH OF
SMALL AND MEDIUM ENTERPRISES
A CASE STUDY OF KABWATA CONSTITUENCY, LUSAKA DISTRICT (2014-2018)**

BY

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THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION FINANCE**

UNIVERSITY OF ZAMBIA

LUSAKA

2020

DECLARATION

Student's declaration

I, the undersigned declare that this research project is my own original work and has not been presented in any other University or College for award of degree, diploma or certificate.

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Supervisor's Declaration

This research project has been submitted for examination with my approval as the authorized University Supervisor:

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APPROVAL

This dissertation of **Maila Muchoka** has been approved for the partial fulfillment of the requirements for the award of the Degree of Master of Business Administration (MBA) Finance.

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ABSTRACT

Small and Medium scale Enterprises (SMEs) play an important role in promoting inclusive growth in the contemporary economy of Kabwata Constituency, Lusaka. The aim of the study was to investigate the factors influencing the growth of Small and Medium Enterprises in Kabwata Constituency, Lusaka. The study employed a descriptive research design to achieve the objectives. The following were the research objectives; to explore the state of growth in SMEs in Kabwata Constituency, Lusaka, to identify internal factors that affect growth in SMEs in Kabwata Constituency, Lusaka and to identify the external factors that affect growth in SMEs in Kabwata Constituency, Lusaka. The study used a questionnaire to collect the required data. The data collected was coded, quantified and analyzed quantitatively and qualitatively. Quantitative data was analyzed by the use of statistical package for social sciences (SPSS). The study concluded that access to finance and lack of managerial skills experience are the key socio-economic factors affecting the growth of businesses in Lusaka. The other key factors that were found to affect SMEs are: access to business information, access to infrastructure and government policy and regulations. The study recommended that the government should start offering basic business and financial management skills as this will enable entrepreneurs to make informed investment decisions as well as enhance their entrepreneurial skills that enable them to recognize and exploit the available business opportunities. SMEs owners/managers have to formalize their businesses visa vie formal registration in order to enjoy the opportunities; the would be SME owners must be aware of what goes into the sector to help them make a judicious decision before joining the sector and the Government should seriously regulate many external factors affecting finance such as tax laws, interest rates and tighter conditions by banks so that many would be and those already in the sector could help grow the economy especially at a time when many white collar jobs are scarcely available.

Key Words: Growth, Small and medium enterprises, Financing, internal and external factors.

DEDICATION

I dedicate this research report/thesis to my wife, Jacqueline Chizyuka, my son Mike, my daughters, Twapewa, Beenzu & Mwiza and my niece Namunza Chanza who have been patient with me and everyone that played a role towards making this work a success.

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Once more these people's individual contributions, forbearance, encouragement and ingenuity shall forever momentarily be cherished. Their constructive criticisms also led to this thesis to have concrete form and direction. Unwittingly, their priceless efforts are but a reward to the general society.

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LIST OF ACRONYMS

BOZ	Bank of Zambia
BBZ	Development Bank of Zambia
IFC	Industrial Finance Company
MFI	Micro- Finance Institutions
MCTI	Ministry of Commerce, Trade and Industry
NSCB	National Savings and Credit Bank
PACRA	Patent and Company Registration Agency
SMEs	Small and Medium Enterprises
SED	Small Enterprise Development
SIDO	Small Industrial Development Organization
SEDB	Small Enterprises Development Board
SID	Small Industries Development
SPSS	Statistical Package for Social Sciences
ZDA	Zambia Development Agency
ZNBS	Zambia National Building Society

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter presents the background, statement of the problem, general and specific objectives, research, significance of the study, limitations of the study, scope of the study, theoretical framework, operational definition, organization of the thesis and the summary chapter.

1.1 Background of the Study

Unemployment, coupled with the rising of population are among the economic problems that most less developing countries are faced with, and not only less developed countries but as well as developed countries experience the same phenomena. The situation in less developed countries has been worsened by white collar jobs that have declined tremendously (World Bank-IMF (2017)). As a result of such a situation, many SMEs have continued to mushroom and will continue as no one would doubt or question the contributions of Small and Medium Enterprises (SMEs) in driving forward the economies of many countries. However, it is important to note that SMEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Pelham 2000). The other way for SMEs to grow is through access to finance, however, 70 percent of SMEs fail because of poor capital funding as finance is the backbone of SMEs and any other business enterprise (Mckernan and Chen, 2005). As such governments are expected to boost the role of such private sector initiatives, however, the situation is different in most countries and that SMEs have struggled to have access to finance and grow their businesses (Evboumwan *et al.* 2012 and Deressa (2014).

Small and medium-sized enterprises (SMEs) are crucial economic actors within the economies of nations (Wolff and Pett, 2006). They are a major source of job creation and they represent the seeds for future large companies and corporations. The small and micro enterprises (SMEs) play an important role in the Zambian economy. According to the Economic Survey (2012), the sector contributed over 50 percent of new jobs created in the year 2011. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Zambia Statistics Office, 2011).

Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000).

According to Amyx (2005) one of the most significant challenges in the performance of SMEs is lack of technological innovations. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone.

Timmons (2008) argued that SMEs primarily owe their business success and growth to the development of innovations, which gradually effect their transformation into large enterprises. Innovations can include new products, services and ideas, as well as new enterprise processes (production process, procurement process), new organizational structures and administrative processes (Amyx, 2005). SMEs are more innovative than larger firms, due to their flexibility and their ability to quickly and efficiently integrate inventions created by the firms' development activities (Acs, 2009).

The personal characteristics of the SME owners have also been touted to play a significant role in the growth of SMEs particularly in rural areas. Personal characteristics like level of education, level of training, their adoption of technology among others have influenced SME growth. In fact, one of the key characters of an entrepreneur circling around development of economy in many countries is entrepreneurial education. The significance of entrepreneurship and entrepreneurial education and training ranges from commencing a small scale unit to build up big business concerns (Alama, 2008). It should be noted that financial and capitation as a factor is important but its study is now saturated and will thus not form part of this study as a variable.

As a country, Zambia has been struggling on how it could best address the issues that constrain the SMEs from performing at the frontier and a number of Micro Financial Institutions (MFIs) were established. According to Bank of Zambia (2017) there were currently 28 MFIs with 42 branches all engaged in micro financing and their main purpose is financing of SMEs. Even though the MFIs have been established to assist SMEs, Deressa (2014) revealed and acknowledged the low percentage of the SMEs obtaining loans from MFIs. The low percentage

showed the extent to which microfinance was unattractive to SMEs in Zambia. He further acknowledged the extremely high interest rates charged by Zambian microfinance for Micro and Small enterprises. According to Zambia Manufacturing Sector Survey (2003) found that the SMEs sector in Zambia had stagnated due to a number of barriers hindering its growth. World Bank (2015) in its past and latest analysis of Zambia's business environment had acknowledged and shown that there was little support in access to finance by SMEs as financial institutions usually focused on largely formal sector enterprises.

According to the CSO (2015) despite the establishment of many lending banks from independence, Parliamentary Acts, MFIs, SMEs have continued with challenges of accessing finance and many empirical researches have looked at many countries *visa vie* developing and underdeveloped and have obtained almost the same scenario. It was for this reason that this research attempted to add more voice of the voiceless by looking at this scenario in Kabwata Constituency of Lusaka Urban with a different environment *visa vie* socio-economic, characteristics of the entrepreneurs, internal factors and enabling environmental factors of SMES with an attempt to further understanding factors affecting growth in SMEs, hence the study.

1.2 Problem Statement

Past statistics indicate that three out of five small and medium scale businesses fail within the first few months of operation (BoZ, 2016). While there are various reasons for such failure, one central reason is lack of proactive and sustainable innovations. Further, as noted by Damanpour et al., (2009); when SMEs don't take advantage of technological, product and service quality, new marketing techniques and innovative organizational structures, such SMEs fail. Therefore, lack of innovativeness has seemingly created poor business performance. However, the state of businesses growth in Kabwata Constituency, Lusaka in relation to factors that influence such business growth has not been investigated. Further, numerous studies have dealt with innovativeness in SMEs. However, little research has linked certain salient factors to small business growth particularly in developing countries like Zambia and dealing specifically with technological innovation, entrepreneurial training and skills, product and service quality and marketing innovation as variables. This study therefore investigated the factors influencing the growth of Small and Medium Enterprises in Kabwata Constituency, Lusaka.

1.3 General Objectives

The general objective of this study was to investigate the factors influencing the growth of Small and Medium Enterprises in Kabwata Constituency, Lusaka.

1.4 Specific Objectives

1. To explore the state of growth in SMEs in Kabwata Constituency, Lusaka.
2. To identify internal factors that affect growth in SMEs in Kabwata Constituency, Lusaka.
3. To identify the external factors that affect growth in SMEs in Kabwata Constituency, Lusaka.

1.5 Research Questions

1. What is the state of growth of SMEs in Kabwata Constituency, Lusaka?
2. What are the internal factors that affect growth of SMEs in Kabwata Constituency, Lusaka?
3. What are the external factors that affect growth of SMEs in Kabwata Constituency, Lusaka?

1.6 Significance of the Study

Factors affecting SMEs entail the majority of the SMEs owners and the government would be faced with uncertainties in the welfare of its citizens, given their importance in world economies as the growth of SMEs is essential for economic recovery and development especially at a time when governments have challenges in creating employment for its nationals. An understanding of such a sector obviously would enable its citizens and the government on how to respond to factors that affect SMEs in the country. Such studies that border on the lives of citizens was vital. The government, the owners of SMEs, the-would be small investors in SMEs would need such kind of information. For policy makers, it would help them as they formulate policies that would help grow the sector. To the-would be investors, their knowledge and awareness is vital as they make a decision based on concrete information and finally to the big lending institutions, they would be assisted to tailor their products to such an important sector on the existing market.

1.7 Scope of the study

General purpose of the study was to investigate factors affecting growth in small and medium enterprises in Kabwata Constituency of Lusaka District. The target population is Kabwata

Constituency markets. The study focused on three markets based in Kabwata constituency of Lusaka Province of Zambia where many residential townships of famous Chalala have mushroomed. The residential areas could have attracted many SMEs in the areas. The theory of economic participation was chosen to explain the phenomenon.

1.8 Study Limitations

The study was limited to Lusaka urban area in Lusaka Province. The data collected was from only three markets from Kabwata constituency. Small sample size decreases the power of the test especially that the data was quantitatively used for descriptive research design. This brings the aspects of the study failing to be generalised in all the districts of Lusaka Province and Zambia as a whole. Equally, the sample that was randomly selected did not come from a known sample space as it was difficult to come up with a true list of all the SMEs in each particular market, hence could have brought some biasness into the study. This, in some instances could have affected the objectivity of the outcomes.

1.9 The Theoretical Framework

A theory is a simplified representation of how two or more variables interact with each other. This research has utilized a well-known theory of economic participation where every citizen must participate into the economy. The objective of a theory in any discipline is to model a simple phenomenon from a real structure. If done the researcher finds a good theory, it makes his/her study to be understood easily around the problems. There are many ways in which citizens can participate into the economy. One way is through the creation of SMEs in a country where poverty and unemployment levels are high. In Zambia, unemployment rates and poverty levels according to Central Statistics Office (2018) have been high. The 2006 and 2010 Living Conditions Monitoring Survey (LCMS) reported that poverty levels had remained high in Zambia.

The views above provide an intervention by the government of the day. One way in which the two phenomena could be reduced is the participation of citizens through SMEs. Many economies needed to emphasize the development of SMEs as they contribute to providing employment and generation of incomes in an economy. In economics, one of the best indicators is employment in which citizens participate into the economy. Once these citizens are employed either fully or part

time employed they will be able to earn an income that will help them have access to better education, health and will increase the standard of living.

With economic participation, the investor must first have participated at the family level through education and health. Once empowered by education and socialized, an individual can participate in the economy by being employed (full-time/part-time) by any sector of the economy whether public or private. Therefore, SME investor must have participated at socio-economic level that enables him/her to start a business. Socio-economic factors are important in influencing access to finances. Once the socio-economic factors are attended to, one can start an SME business. These SMEs must have certain characteristic that defines them. These characteristics must have an influence on accessing finances.

The external environment in which the SMEs are operating must meet what is called, “Enabling Environment” Delmar and Wiklund (2008). Enabling environment will determine how a business operates such as legal and economic environment. SMEs in the absence of enabling environment will find it difficult to access finance as compared to institutions that are financially sound to meet certain obligations.

1.9 Conceptual Frameworks

A conceptual framework proposed for this study is outlined in figure 1. The purpose of conceptual framework according to Chalmers (1982) is that it identifies research variables, and clarifies relationships among the variables. In this research as shown on the framework 1, factors affecting SMEs growth are shown on and solved by the concerned parties.

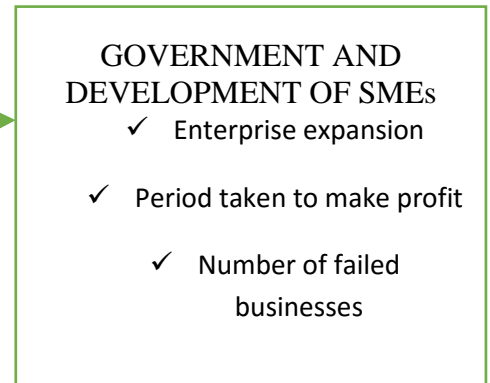
Training is crucial to business growth and survival. Entrepreneurs need to plan, organize, control, coordinate and direct the activities of the enterprise. Equipped with business managerial training, entrepreneurs are assured of their business’s survival and also growing significantly. Through education one gets to develop essential skills that are critical in a certain area. Education will give one skills on planning, budgeting and market analysis. Without proper or even basic education it is difficult for one to start an enterprise and lead it into growth. Small and medium enterprises are started because you have seen someone else doing it. Not much thought is given into the venture in terms of planning and market research. This has meant that there is a high mortality rate within the sector as many of the enterprises started this way never get to see their second year.

The SME sector offers are quite large giving an individual many options on what activity to engage in. The sector will involve both substance and sell of fast moving products. Lack of innovativeness has made people to not think outside the box and start something different but rather just start an enterprise that you have seen you neighbor run. This is even without planning and has led to unhealthy competition leaving many SMEs to fail. Excessive legal and regulatory requirements inhibit SME growth and development. Legal and regulatory challenges impose costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation.

INDEPENDENT VARIABLES



DEPENDENT VARIABLES



MODERATING VARIABLE

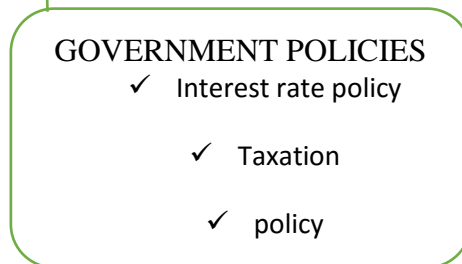


Figure 1: Conceptual Framework

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Physical Infrastructures are those services without which primary, secondary and tertiary production activities cannot function. These infrastructures can be extended to include education, public health to transportation, communication, power and water supply. For goods to reach where a business enterprise is located there is need for a good roads network. Bad infrastructure increase the cost of doing business and since most of these business are small, they in the long run end up not making enough profits and some will not make any profits at all. To promote them there is a need to have proper infrastructure of roads, waste disposal and other physical amenities.

The government must have a strong and supportive policy instrument to guide the work of SMEs. According to Sapru (2012) a policy is: “The proposed course of action of a government within a given environment providing obstacles and opportunities which the policy was proposed to utilize and overcome in an effort to reach a goal or realize an objective or purpose”.

The framework gives a direction on how SMEs must be considered in development with regard to access to resources as they are affected differently by the social economic and cultural factors. The reviewed literature on factors affecting the growth/performance of SMEs has revealed that socio- economic and cultural challenges of the managers and the firms are many. Some of these challenges were accessing finance to grow among them. These challenges are supposed to be

solved by the government and stakeholders. The characteristics of the entrepreneurs are important factors to look at in terms of socio-economic factors (Sitharam & Hoque (2016). These characteristics according to Sitharam & Hoque (2016) are age, gender, motivation, experience, and educational background, and risk-taking propensity, preference for innovation, mind-set, personality, survival, income among others can have a big influence on the firm's performance. Some of these characteristic affect SMEs to grow. Government has a role to play in the environment. Environmental matters are more to SMEs for them to grow {(Delmar and Wiklund (2008); Demirguc-Kurt (2006) and World Bank (2006)}. This is because the SMEs are operating in a political and economic environment where there are dos and don'ts. Government policies both legal and economic matter more to the SMEs in order to solve the problem of financing to enable growth.

Another role that the government must solve for entrepreneurs is to strengthen the Financial Sector Development Program to incorporate the spirit of entrepreneurship. The bank of through Financial Sector at the Bank of Zambia has already taken into the consideration the provisions of the SMEs by allowing non-financial banks to operate, hence MFIs operating into the country to supplement the work of commercial banks.

Once the Financial Sector Development Program has incorporated entrepreneurship in their mandate, Financial Institutions lending Policies must equally incorporate Entrepreneurship in the banking portfolio. The literature reviewed has shown that Zambia has a favourable banking environment where many commercial banks operate both local and foreign banks, and other MFIs are scattered across Zambia giving out loans to customers who meet their financial requirements. This must be strengthened so that access to finance is encouraged.

Once policies frameworks for these banks are able to change, more SMEs will be able to access finance from financial institutions and grow. This is the only way SMEs can be helped by government and stakeholders finding solutions to many of the challenges that affect SMEs in growing, because the spirit of entrepreneurship will continue as long as levels of white-collar jobs are decreasing, hence entrepreneurship theory.

1.10 Operational Definitions. In order to provide a better understanding to what the researcher was trying to convey to the readers, the researcher has provided a list of operational definitions. The following are the key words used;

- i. **Growth:** In this research, growth would mean having access to finance that would allow SMEs to progress from small to medium and then to large enterprises.
- ii. **Small and Medium Enterprise:** For this research, the definition of SME has been defined according to (Pour (2006). SME has been defined as either small or medium using the size of SMEs based on the number of employees and the value of total fixed assets excluding land value. This is a better definition for Zambia.
- iii. **Internal factors:** The internal behavior hampering or constrains hindering the growth of the entrepreneur and SMEs such as poor management competences, lack of skilled labour, deficiencies in marketing strategies, lack of new technology among others.
- iv. **External factors:** The external elements hampering or obstacles constraining the growth of the entrepreneur and SMEs such as access to finance, competition, corruption, inflation among others.
- v. **Financing:** Access to finance from any angle such as owners' equity and loans from MFIs and banks to the SMEs in order to facilitate growth of the SMEs.

1.11 Organization of the Thesis

This study was divided into six Chapters. Chapter one is composed of the introduction, the background of study, statement of the problem, the purpose of the study, the objectives of study, research questions, significance of the study, theoretical framework, conceptual framework, limitations, the scope of the study, defining of terms.

Chapter two contains review of the literature either directly or indirectly related to the study. The literature review focuses on what researchers, scholars and educationists have found out and said about SME growth in developed countries, third world countries and kabwata Constituency, Lusaka in particular. The literature has also investigated the factors influencing the growth of Small and Medium Enterprises.

Chapter three focuses on how the study was carried out. It explains the research design, target population- sample size, data collection tools, data analysis, data collection procedure, reliability of study, validity and ethical consideration. This section also explains the sample size and sampling procedure. This section covers the research Instrument used by the researcher to collect data, which includes interview schedules, questionnaire schedules and observation schedules.

Chapter four presents, analyzes interprets and discusses data collected by the research using the methods described in chapter three. The purpose was to transform the raw data into information that is manageable, presented in an attractive, communicative manner. The interpretation was aimed at drawing logical and sensible inferences from the information gotten from the study.

Chapter Five and Six discusses summary, conclusion recommendations contribution to the body of knowledge and suggested areas for further research. Based on the data and other information obtained and analyzed to answer the research questions of the study, a number of research findings were presented in chapter four. The findings are summarized in this section.

1.12 Chapter Summary

Chapter 1 has clearly introduced the problem through various sub-headings. These are: the problem statement, research objectives and research questions, significance of the study, limitations of the study, scope of the study, theoretical framework, conceptual framework, organisation of the study and the summary of the chapter.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter seeks to outline the literature reviewed by the researcher in relations to the study at hand. Doing literature review helps to demonstrate familiarity with the body of knowledge and establish credibility, as well as, showing how the current research project is linked to past research (Neuman, 2006). This chapter reviews the necessary literature for the study. The review relied greatly on, empirical studies, data obtained from published materials such as books, online magazines, and journals and together acknowledged. The review provided an overview of major past activities that had earlier been studied in relation to factors affecting growth in small and medium enterprises financing.

2.1 Global Perspective

In Bangladesh, Chowdhury and Alam (2017) studied factors affecting access to Finance of Small and Medium Enterprises (SMEs). Data was collected data from a sample of 86 SMEs from various types of businesses to investigate the problems and suggest policy recommendations. Instruments used to collect data were depth interviews with structured questionnaire for self-guidance. A five-point Likert type scale statements were used to measure the variables. Convenience sampling was used reason being that the SMEs located in the region of the study were too many that it was impossible to include every SME within a short duration of time Secondary data was also collected for the same purpose. Data was analysed used simple statistics mainly frequencies and the frequencies were converted into tables and percentages for the precision of the data analysis.

The study's findings revealed a number of factors vis-a-vie education and skills of the owners, the size and age of the firms, unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials among others as some of the biggest hurdles that SMEs in Bangladesh face in getting loans from financial institutions.

Reviewing factors affecting access to growth and access of finance of SMEs in Bangladesh was relevant and very similar to the current study. The review provided and identified a number of factors affecting access to finance. The review guided the researcher on a similar study. Some gaps were noted from the literature reviewed. Convenience sampling of 86 SMEs was not good

for the research because of various industries where by many respondents could have come from the same industry. This could have affected the results of the study. Stratified according to the industry could have been better to come up with better results. Agri-ProFocus Zambia (APF, 2014), in their study revealed that agricultural lending does not form a critical proportion of MFI portfolio compared to other non-agricultural loan products. This confirms the importance of using stratified sampling so that industries balance. This research reviewed cannot be generalized to Zambia where different social and economic parameters are not the same. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka. In another study in Kosovo, Govori (2013) carried out a research on the factors affecting the growth and development of SMEs with experiences from Kosovo. The purpose of the study was to identify factors that influenced the growth and development of SMEs in Kosovo with specific emphasis on external factors and bank loans how they impacted on the growth and development of SMEs. Various SMEs were surveyed in Kosovo.

The results of the study showed that external factors such as access to finance, competition, corruption, and government policies had impact in the development of SMEs in Kosovo. On growth and access to finance in Kosovo, it was observed that many SMEs started SMEs in accessing finance with their internal or owners' equity. This was observed from almost all new enterprises which had difficulties in accessing external financing to enable growth. This was compounded by SMEs' lack of collateral and the unwillingness of banks to finance new established small enterprises.

With regard to Competition, the results revealed that many companies in the region and beyond were producing products which were similar to those of Kosovo enterprises. This resulted in an unfair competition as an obstacle to the development of SMEs in Kosovo. It was further revealed that the consumers' attitudes towards local products and quality was negative and that imported products were more desired as reflected in the negative trade balance. It was also revealed that many procedures and costs of starting a business pressed many entrepreneurs to avoid investments making them to favour joining the informal economy.

Corruption was revealed as one factor that affected growth in the development of the SMEs. It was observed that corruption was made worse by poverty in a country where poverty was ranked the highest in Europe. The results further indicated that corruption made difficulties for businesses and citizens that were negatively affected by the investment, whether foreign or

domestic. Besides corruption and unfair competition, the results of the study revealed that there were problems with government policies with regard to the judicial system and the implementation of laws and regulations by governmental bodies which adversely affected the business of the enterprises.

The findings from the literature reviewed above from Kosovo is more applicable to this current study in that they all examined factors affecting the growth of SMEs and access to finance being one of them. This literature reviewed is relevant in that it highlighted how external factors such as access to finance, competition, corruption, and government policies had negatively impacted in the growth and development of SMEs in Kosovo. Govori's study could not be generalized to Kabwata Constituency in a different atmosphere. Kabwata Constituency and Kosovo are different in term of socio-economic development, hence studying factors affecting the growth of SMEs in accessing finance.

In another international perspective study, Grimsholm and Poblete (2010) studied internal and external factors that hampered SME growth in Thailand. A qualitative case study of SMEs in Thailand was used. Three companies were selected for the research. The primary data was collected by semi-structured qualitative interviews with managers of SMEs in Bangkok as well as representatives from different institutions cooperating with SMEs in Thailand. The sample was based on a non-probability approach. The results from the empirical investigation were analysed with the support of the theoretical framework.

The research revealed that there were a number of significant factors hampering Thai SMEs to grow vis-a-vie internal and external factors. For external factors; access to finance, competition, corruption, barriers to trade and macroeconomic factors as amongst were some of the most significant issues. For internal factors; poor management competences, lack of skilled labour, deficiencies in marketing strategies, little efforts on research and development (R & D), lack of new technology and low awareness concerning Corporate Social Responsibility were identified as some of the most important obstacles.

The relevance of Grimsholm and Poblete (2010) to the current study could not be doubted as it looked at how access to finance affected SMEs growth in Thailand. The three companies selected were registered as the large majority of enterprises in Thailand were only owner registered and categorized as sole proprietors and they did not pay corporate tax or VAT, nevertheless they were legal. The three companies started their businesses with had to ask their

family for financial support in order to start to up the company. The situation in Zambia could be different as they do not follow the similar pattern in their classification. Therefore, the approach to research could be approached differently in both countries.

2.2 African Perspective

A sampled review of literature that was relevant and similar from Africa was taken into consideration. The African sample of SMEs was done because they could have a different result on the growth of SMEs as compared to outside Africa. By doing so, it helped the researcher to have firsthand information on factors that affect growth in Africa as Africa has its share of problems and successes. Though Zambia is in Africa, there are still some differences in social, cultural and economic development. In order to identify academic gaps from the reviewed empirical researches, methodologies and results were studied because from methods results are obtained. The empirical researches are provided in the next paragraphs from Ghana, Kenya, Libya, Nigeria and South Africa.

Mmieh and Mordi (2017) carried out a study on factors influencing the growth of SMEs in Ghana. It was a case study using entrepreneurs (or owner/managers) of SMEs as the unit of analysis. The instruments used to collect data were in- depth interviews with entrepreneurs (or owner/managers) of SMEs and some Key Informants in Ghana who were conversant with SMEs in Ghana both academically and exposure to socio-economic life of Ghana. A total of 75 owner-managers were sampled from the three main sectors of the economy namely agriculture, manufacturing, and services. This was an extensive study that took three months involving audiotaped interview transcripts. The mode of data analysis was thematic technique. The results showed that level of education, poor energy supply, access to external finance, competition, inflation and government policies influence the growth of SMEs in Ghana. The researcher came up with various recommendations that should sustained energy supply, review of lending and borrowing regulations, favorable fiscal policies, measures to combat unhealthy competition, provision of adequate training centers to equip entrepreneurs, and regulation on land acquisition if growth of SMEs in Ghana was to be consistent.

Reviewing the factors influencing the growth of SMEs in Ghana by Mmieh and Mordi (2017) is quite relevant and similar to the current study undertaken in Kabwata Constituency. The review provided and identified factors affecting SMEs in accessing finance which this study had

undertaken, thereby providing useful fundamental information which helped the researcher to start from. The researcher benefitted and learned much from how Ghana's SMEs are affected by lack of access to finance. Some academic gaps were identified such as the weakness of interviewing a total of 75 owner managers and analysis the data using thematic. The number is too big using thematic analysis. Better methods could have been used to analyse such a big number such as computer software called Nvivo among others using voluminous qualitative data. This research reviewed could not be generalized to countries like Zambia where different social and economic parameters are not the same. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

Gachuhi, (2016) carried out a study in Kenya on the socio-economic factors affecting performance of SMEs in Nairobi. Descriptive research design was used. Simple random sampling was used to determine the sample size of 100 from the population of 30, 252 of all registered SME's in Nairobi. Data was collected using structured questionnaires. Descriptive statistics was used to analyze data for frequencies and percentages distribution tables, mean, and inferential statistics for correlation, linear regression and multiple regression.

The findings of the study indicated a strong positive relationship between social factors which includes family size, family type, business networks, language, business relationship and levels of education and SME growth. On economic factors, taxation, interest rates, access to credit and business financing, and inflation all influenced and enhanced SME growth. Economic factor included reduction in tax, improved security, improving roads, stopping corruption, introducing new and trending products, and establishing mechanisms that would enable SME owners in Nairobi ease of access to low cost loans. Other factors of growth were: training, better business environment, access to credit and business financing, infrastructure, markets and business premises all influenced and enhanced SME growth. The study established that a positive relationship exists between factors of growth and SMEs growth.

Reviewing the socio-economic factors affecting performance of SMEs in Nairobi was relevant to the current study because many variables were identified both from social and economic factors that helped the researcher to narrow to the current study. This current study was on factors affecting SMEs in accessing finance and therefore, one of the factors identified to have affected performance SMEs in Nairobi Kenya. The research had demonstrated that access to credit and business financing affected SMEs' performance. However, the research did not determine the

factors affecting SMEs in accessing finance. This research reviewed could not be generalized to countries like Zambia where different social and economic parameters are not the same. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

In a research that was done in Libya by Zarook et al. (2013) on the impact of the demographic factors on accessing finance of Libya's SMEs. Quantitative research method was used in which quantitative data was collected from 557 respondents through the use of a questionnaire. The researcher was able to identify the independent and dependent variables. The questionnaires about the SMEs were distributed to many different sectors in Libya. The results established that demographic factors comprised age, size, and sector had positive and significant impact on the accessing finance of Libya's SMEs.

The study demonstrated that small firms have more credit constraints than large firms (Beck 2007; Fatoki et al. 2010; Pandula 2011). Zarook et al. (2013) observed that: "Small firms are often owned and operated by private individuals who have no legal obligation to report financial performance or to regularly audit their financial accounts. Another reason is that small firms have fewer assets to provide as collateral. Third, smaller firms are associated with high failure rates compared to large firms. These three factors increase moral hazard, as well as anticipated risk associated with lending."

The results revealed that age was an important factor in accessing finance from MFIs. The more years one is in business, the more one can access finances. Pandula (2011) observed that being in business for a longer period of time suggested that the firm had established some track record or reputation and is competitive on average. Pandula notes and concluded by saying:

"Such firms also have lower informational blackout and any information required by financial institutions is readily available. Conversely, new firms may not have accumulated adequate assets and may not meet the collateral requirements of financiers. This makes it difficult for them to access loans."

And continues to say:

"Industry sector of the firm affects its access to financing. Lending banks tend to favour those industry sectors that are showing growth. Sectors that require more capital and hence more credit to invest in machinery, raw materials, equipment or buildings face proportionately greater restrictions. Service sectors also find it hard to access credit as they have less collateral to offer since the main input usually is human rather than physical capital. Depending on the region, the sector is a key determinant of access to financing for SMEs."

Reviewing the demographic factors on accessing finance of Libya's SMEs was relevant to the current study. The demographic factors of the firms such as age, size and sector had an influence on accessing finance. The research provided a good foundation about on which the current study stood. These demographic factors of the firms on accessing finance on Libya's SMEs could affect the Zambia SMEs differently as Libya and Zambia are not on the same footing in terms of culture, social and economic stand point of view. The benefit of the review is that firms on their own have factors inherently among them such as age, size and sector that affect access to finance. This research reviewed could not be generalized to countries like Zambia where different social and economic parameters are not the same. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

In Nigeria, a research by Oaya and Mambula (2004) was conducted on the impact of SMEs Financing on Business Growth, a case study of Keffi and Mararaba Metropolis. The study had two main objectives were: One to examine how banks credits to SMEs affected economic growth and how interest rates charged on credits affected SMEs business expansion. The study adopted a descriptive research designs as well as a t-test statistic for the purpose of testing the hypotheses. Two hypotheses were formulated according to the objectives of the study as null hypotheses. One null hypothesis was whether banks credits to SMEs had no significant impact on economic growth and another was on whether interest rates charged on credits had no effect on SMEs business expansion in Nigeria.

Results of the first objective of study revealed that banks credits to SMEs had a significant impact on the growth of the Nigerian economy. The second objective result established that there was no relationship between the interest rate charged on bank credits granted to Small and Medium Enterprises before and after the introduction of SMEs. It was discovered that due to stringent conditions that were set up by industry to access credits to SMEs, the credits granted to SMEs had little impact on their growth. This was more compounded by other factors such as lack of viable entrepreneurial skills, high lending rate and high loan requirement had been impacting negatively on the SMEs in Nigeria's economic development.

Reviewing the impact of SMEs Financing on Business Growth, a case study of Keffi and Mararaba Metropolis was beneficial to the current study as objective number one on how banks credits to SMEs affects growth is similar to objective number two of the current study that examined external factors affecting SMEs in accessing finance. Credit is an external factor in the

current study that had been affected by many factors such as collateral of the SMEs among others. Nigeria and Zambia are not equal in many economic and social parameters, hence the research reviewed could not be generalized to countries like Zambia. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

Sitharam and Hoque (2019) studied factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa (SA). The purpose was to identify the internal and external factors affecting the performance of SMEs in KwaZulu-Natal, SA. This was a cross-sectional study conducted among 74 SMEs owners/managers who were members of the Durban Chamber of Commerce via online using anonymous questionnaire.

The results of the study revealed technological advancement to have affected the performance of the business. With regards to challenge, the majority of the respondents viewed competition as a major challenge. Further, Crime and corruption had negatively affected the business performance. Competition was the only factor amongst the studied internal and external factors that revealed a significant association with the performance of SMEs in KwaZulu-Natal ($p = 0.011$).

Reviewing the factors affecting the performance of small and medium enterprises in KwaZulu-Natal was relevant to the current study undertaken in Kabwata Constituency. The review provided and identified factors both internal and external factors affecting SMEs in accessing performance. Performance was treated as dependent variable while access to finance was treated as dependent variable in the study. In the current study of growth as a result of access to finance was treated as dependent variable, hence the current study was considered for research. This research reviewed could not be generalized to countries like Zambia where different social and economic parameters are not the same. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

In South Africa, the Department Trade and Industry (DTI, 2008) revealed that a big proportion of SMEs operated informally without being registered. Further, DTI reported that majority of South African SMMEs remained in the embryonic state and baby business phases, which was less than 3.5 years since startup, lacking growth. This big proportion of SMEs were still operating at the micro level and employees ranged from 5 to micro and fewer than 50 for small enterprises. Alattar, Kouhy and Innes (2009) revealed that small and micro enterprises owner managers had little knowledge about financial matters, and found out that those with little or

limited financial planning skills did not even value the information extracted from financial statements.

The above various researchers on the status of SMEs in Zambia are relevant to this study because they were able to highlight at which stage of growth SMEs are in Zambia. Status highlights at what stage of development and the stage distinguishes whether an SME have problems in accessing finance. This means that the majority of SMEs are informal in the way they do business. The reviewed literature on the status of SMEs generalized the findings to imply that Kabwata constituency was covered in their studies when they referred to Zambia, yet no study was carried out in Kabwata to ascertain the status of SMEs. This finding was able to help in trying to answer objective number one which was looking at the status of SMEs.

Another important factor contributing to success or failure of SMEs is marketing skills. There is extensive evidence to prove that marketing plays a significant role in the success of SMEs. Marketing is one of the biggest challenges SMEs face in their business. According to Mateev (2010) in Algeria SMEs have been weak when it comes to market research and have inadequate marketing skills because most SMEs were under sole proprietorship. This was due to the managers of SMEs who have to take care of all the managerial functions of the enterprise, therefore, lack the time and funds to invest in research.

Gachuhi, (2016) carried out a study in Kenya on the socio-economic factors affecting performance of SMEs in Nairobi. The specific objectives were: To establish the social factors affecting growth in Kenyan SMEs, the economic factors affecting growth in Kenyan SMEs and factors that improve growth in SMEs in Kenya. Descriptive research design was used. Simple random sampling was used to determine the sample size of 100 from the population of 30, 252 of all registered SME's in Nairobi. Data was collected using structured questionnaires. Descriptive statistics was used to analyze data for frequencies and percentages distribution tables, mean, and inferential statistics for correlation, linear regression and multiple regression.

The findings on the extent to which social factors affects growth of SMEs in Kenya revealed a significant positive relationship between social factors and SMEs growth. The findings on the extent to which economic factors affects growth of SMEs in Kenya revealed a significant positive relationship between economic factors and SMEs growth. The findings on the extent to which factors of growth affects growth of SMEs in Kenya revealed a significant positive relationship between factors of growth and SMEs growth. The findings of the study indicated a

strong positive relationship between social factors which includes family size, family type, business networks, language, business relationship and levels of education and SME growth. The positive relationship had been established with social factors and SME growth. On economic factors, taxation, interest rates, access to credit and business financing, and inflation all influenced and enhanced SME growth. The study established that a positive relationship exists between economic factors and SMEs growth. This factor include reduction in tax, improved security, improving roads, stopping corruption, introducing new and trending products, and establishing mechanisms that would enable SME owners in Nairobi ease of access to low cost loans. On factors of growth, training, better business environment, access to credit and business financing, infrastructure, markets and business premises all influenced and enhanced SME growth. The study established that a positive relationship exists between factors of growth and SMEs growth.

In Zambia, Nuwagaba (2015) carried out a research on Enterprises (SMEs) in Zambia. The main objective was to understanding the state of the SMEs sector in Zambia and how they contribute to the country's economic development. Both Primary and secondary data were collected using instruments such as: questionnaires, interviews and review of previous literature on the subject. The study was exploratory and qualitative.

The research revealed that over 90 percent of SMEs operated in the informal sector and this made it difficult for the government to support the sub sector efficiently. Therefore, SMEs' contribution to the country's development was not very clear. Because, majority of SMEs operated in the informal sector, attracting-funding from micro finance institutions (MFIs) was a challenge and this made SME sector weak. Entrepreneurs Financial Centre (EFC) was used as a case study. This is a specialized micro finance institution that provides SMEs lending. Period considered in this research was 2012-2014.

Another study on SMEs access to Bank Finance in Zambia was by Deressa (2014). The objectives were to determine the demand for and supply of financial services to the SME sector, and the potential for broadening and deepening existing linkages between the banking community and SMEs. The research employed instruments such as in-person interviews and a structured questionnaire. The research drew its data from two samples. An SME sample involving 200 SMEs of which 187 were interviewed from Lusaka and Kabwe and 18 questionnaires to commercial banks or financial institutions sample target.

The findings were strange in that the majority of SMEs operators understood little about the basic principles of commercial bank lending and borrowing practices. This was serious to the SMEs as accessing finances depended on understanding of basic principles of commercial bank lending and borrowing practices. Equally, it was very surprising to note that even commercial banks had limited experience with the SME sector and lacked the know-how to assess the associated credit. As a result of that kind of relationships; financial services of SME were not being adequately addressed in Zambia.

In Nigeria, a research by Oaya & Mambula (2004) was conducted on the impact of SMEs Financing on Business Growth, a case study of Keffi and Mararaba Metropolis. The study had two main objectives were: One to examine how banks credits to SMEs affected economic growth and how interest rates charged on credits affected SMEs business expansion. The study adopted a descriptive research designs as well as a t-test statistic for the purpose of testing the hypotheses. Two hypotheses were formulated according to the objectives of the study as null hypotheses. One null hypothesis was whether banks credits to SMEs had no significant impact on economic growth and another was on whether interest rates charged on credits had no effect on SMEs business expansion in Nigeria.

Results of the first objective of study revealed that banks credits to SMEs had a significant impact on the growth of the Nigerian economy. The second objective result established that there was no relationship between the interest rate charged on bank credits granted to Small and Medium Enterprises before and after the introduction of SMEs. It was discovered that due to stringent conditions that were set up by industry to access credits to SMEs, the credits granted to SMEs had little impact on their growth. This was more compounded by other factors such as lack of viable entrepreneurial skills, high lending rate and high loan requirement had been impacting negatively on the SMEs in Nigeria's economic development.

2.3 Zambian Perspective

It was important for the researcher to sample and review some of the literature in Zambia to have a feel of what was happening before the current study. The literature that was relevant and similar from Zambia was taken into consideration. The Zambian sample of SMEs was done because they could have been near to reality as compared to Africa and outside Africa. By doing so, it helped the researcher to have firsthand information on factors that affect growth in Zambia.

Kabwata Constituency is in Zambia and there could have been some similarities with other SMEs in Zambia because of similar social, cultural and economic development. In order to identify academic gaps from the reviewed empirical researches, methodologies and results were studied because from methods results are obtained. The empirical researches are provided in the next paragraphs from Zambia.

In Zambia, Nuwagaba (2015) carried out a research on Enterprises (SMEs) in Zambia. The purpose of the study was to understanding the state of the SMEs sector in Zambia and how they contribute to the country's economic development. Both Primary and secondary data were collected using instruments such as: questionnaires, interviews and review of previous literature on the subject. The study was exploratory and qualitative. The method of analysis was tabulations especially in MS excel and MS word applications. Purposive sampling technique was used to select Entrepreneurs' financial center for this research.

The research revealed that over 90 percent of SMEs operated in the informal sector and this made it difficult for the government to support the sub sector efficiently. SMEs' contribution therefore, to the country's development was not very clear. The state of growth of SMEs resulted in challenges being experienced because SMEs have failed to attract funding from micro finance institutions (MFIs). Entrepreneurs Financial Centre (EFC) was used as a case study. This is a specialized micro finance institution that provides SMEs lending. Period considered in this research was 2012-2014. Whereas, SME loans constitute about 60 percent of EFC's loan portfolio, the loans given out were small value ranging from USD133 with a maximum of USD 46,667. The processes of acquiring these loans were cumbersome and those without security stood no chance.

Reviewing research on Enterprises (SMEs) in Zambia with a case study of Entrepreneurs Financial Centre was relevant for the current study because Entrepreneurs Financial Centre is one of the MFIs established to fund SMEs in Zambia. With that background, it is expected that SMEs would benefit from such an arrangement. Being a case study, well qualified officers who understand SMEs were tasked to provide accurate information. This means that the views of the SMEs were left out in that study to ascertain the state of SMEs growth resulting into an academic gap. The study used exploratory as its method of research design and questionnaires was used. The use of a questionnaire was wrong when exploring a new phenomenon in research. The research that was reviewed did not mention whether Kabwata Constituency SMEs were part of

the EFC loan portfolio data for three years from 2012 to 2014 when SMEs have been operating within the constituency. This leaves a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

Another study in Zambia was by Deressa (2014) on MSMEs Access for Finance in Zambia. The purpose was to determine the demand for and supply of financial services to the SME sector, and the potential for broadening and deepening existing linkages between the banking community and SMEs. The research employed instruments such as in-person interviews and a structured questionnaire. The samples types were categorized into two samples. The first sample was from the MSMEs who were interviewed and were 200 MSMEs of which from 187 were interviewed from both Lusaka & Kabwe. The second sample was from financial institutions of all registered commercial banks in Zambia. The two sample groups were both divided into the sector and financial service provider categories.

The results of the findings were that the majority of SMEs operators understood little about the basic principles of commercial bank lending and borrowing practices in Zambia. Equally the commercial banks had limited experience with the SME sector and lacked the know-how to assess the associated credit resulting in an inadequate financial service to the SM.

Reviewing MSMEs Access for Finance in Zambia was relevant and similar to the current study, though the study was on the commercial banks and MSMEs. It was relevant because commercial banks equally give loans to MSMEs though much was supposed to be from MIFs. This enlightened the researcher on how commercial banks operate SMEs in accessing finance in Zambia. Some gaps were identified from the review. In that review, the study did not address factors affecting SMEs in accessing finance but, assessed the real demand for financial services in selected cities of Kabwe and Lusaka in Zambia by MSMEs. Equally, out of 187 participants interviewed from both Lusaka & Kabwe, the number of SMEs and participants were silent in the study. This left a gap for this current research in Zambia especially with reference to Kabwata Constituency of Lusaka.

2.4 Effect of Microfinance Institutions on Growth and Development of SMEs Financing

In the previous chapter, the history of Small, Medium Enterprises was traced and results showed that SMEs were not growing and had many challenges. The Zambian government had taken measures through many statutory instruments in trying to resolve some of the challenges. One

way in which the Zambian government intervened was through Microfinance Institutions (MFIs) to complement commercial banks by providing services and products to underserved households (Agri-ProFocus-2014). Therefore, it was first and foremost important to review whether MFIs have contributed to growth of SMEs and development in Zambia and outside Zambia. This is important as it gave the first hand information on the work of MFIs before undertaking the current study. Various reviews have been done to examine the effect of MFIs on growth and development of SMEs financing. Empirical researches were reviewed that include: Agri-ProFocus (2014) and Maina (2012) and their findings were considered in the next paragraphs.

Agri-ProFocus (2014) had undertaken a market study on Microfinance Services in Zambia. The purpose of the study was to understand existing opportunities for alternative financing in Microfinance to small holders and agro-enterprises. Gathering market intelligence on MFIs particularly in agriculture and rural financing was the main goal of the study.

Five districts were chosen according to certain criteria that were put in place by the researcher in terms of agricultural and rural finance in relation with microfinance sector. The five (4) districts were: Choma, Chipata, Kasama, Mkushi/Serenje and Lusaka. Institutions that were studied included Finca Zambia, Agora Microfinance, PULSE Financial Services Ltd, Micro Bankers Trust, Micro Credit Foundation, CETZAM Financial Services Ltd and Vision Fund Zambia. The targeted participants were: MFI Branch Managers in study districts, Representatives of farmer organizations, Senior Managers in their headquarters and one representative of the MFI apex body in Zambia – Association of Microfinance Institutions of Zambia (AMIZ). Data was collected through depth-interviews and focus group discussions with farmers who benefited from various MFIs.

The results of the study revealed that smallholder farmers had not benefited much from the MFI sector as conditions for MFI products were difficult to match farmer revenues. This shows that there was a big gap in agricultural lending targeting smallholder farmers in rural areas in terms of agricultural and rural finance.

The above study is relevant to this study as it is similar to this study in that MFIs' objectives are to alleviate the challenges of SMEs. The researcher benefitted on how MFIs have been working with rural areas in terms of agricultural financing. The researcher was informed before the current study was undertaken that smallholder farmers had not benefited much from the MFI sector as conditions for MFI products were difficult. While the Agri-ProFocus (2014) indicated

that Lusaka and representatives of farmer organizations were chosen for the study, the study did not look at SMEs in Kabwata Constituency to ascertain whether they benefitted from MFIs. Lusaka was generalised and not specific to Kabwata constituency as each of these constituencies in Lusaka offer unique insights on particular aspects of SMEs. This left an academic gap for this current research of Kabwata in Lusaka district of Zambia where the development of the SME sector has increased due to many industrial activities.

Another literature review was done from Maina (2012)'s research on microfinance services contribution to entrepreneurial development in Zambia. It was a case study that was design and focused on SMEs within Lusaka. Maina's findings noted a number of observations with regard to banking and SMEs. First and foremost, Maina observed that there are a number of banks that have emerged in Zambia and those banks had fairly done well beyond the standard prevailing to many developing countries. It was further observed that 90% of the banks were formal commercial banks implying that their credit policy favoured big businesses and that credit facilities for small and medium enterprises were lacking. Maina concluded by saying;

“MFI intervention to SMEs financing was faced by hurdle of lack of collateral and inappropriate legal and regulatory framework that does not recognize innovative lending policy coupled with limited access to credit and financial services, there was no structural institutional mechanism to facilitate flow of financial resources from banks to MFI, and then to the SMEs hence increasing cost of credit”.

The research on microfinance services contribution to entrepreneurial development in Zambia was relevant and similar to the current study. The study was carried out within Lusaka and did not show to what extent SMEs in Kabwata Constituency were covered by the study. The results of the study enriched the researcher on the challenges faced by SMEs within Lusaka and has helped the researcher to take note of what was prevailing in Lusaka, that was, within Lusaka credit facilities for small and medium enterprises were lacking. Certainly, within Lusaka did not mean SMEs in Kabwata Constituency, hence Lusaka was generalised and not specific to Kabwata constituency.

2.5 Factors Affecting the Growth of SMEs

According to World Bank Doing Business Indicators (2015), the business environment in Zambia had not changed significantly and was even getting worse in some cases. By 2015, the

country ranked 141 in terms of establishing new businesses, down from 139 in 2014. In that situation, starting a business in the SMEs would mean worse because of many constraints.

2.5.1 How Demographic Factors of the Firms Affect SMEs' Growth

Many researchers have observed that three key demographic factors are essential to determine whether SMEs are able to access finances from MFIs or banks. Studies by Beck (2007); Fatoki *et al.* (2010) and Pandula (2011) have all supported the stance that a firm's demographic factors such as size, ownership type, age and sector have influence in accessing finances. Furthermore, the firm-specific factors such as entrepreneur characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies, low efforts, and low technological capacities are also prominent factors responsible for limited growth of SMEs in Zambia (Reinecke, 2002).

In a research that was done in Libya by Zarook *et al.* (2013) on the impact of the demographic factors on accessing finance of Libya's SMEs. Quantitative research method was used in which quantitative data was collected from 557 respondents through the use of a questionnaire. The researcher was able to identify the independent and dependent variables. The questionnaires about the SMEs were distributed to many different sectors in Libya. The results established that demographic factors comprised age, size, and sector had positive and significant impact on the accessing finance of Libya's SMEs.

The studies demonstrated that small firms have more credit constraints than large firms (Beck 2007; Fatoki *et al.* 2010; Pandula 2011). Zarook *et al.* (2013) observed that:

“Small firms are often owned and operated by private individuals who have no legal obligation to report financial performance or to regularly audit their financial accounts. Another reason is that small firms have fewer assets to provide as collateral. Third, smaller firms are associated with high failure rates compared to large firms. These three factors increase moral hazard, as well as anticipated risk associated with lending.”

Age is an important factor in accessing finance from MFIs. The more years one is in business, the more one can access finances. Pandula (2011) observed that being in business for a longer

period of time suggests that the firm has established some track record or reputation and is competitive on average. Pandula notes concluded by saying:

“Such firms also have lower informational blackout and any information required by financial institutions is readily available. Conversely, new firms may not have accumulated adequate assets and may not meet the collateral requirements of financiers. This makes it difficult for them to access loans.”

And continues to say:

“Industry sector of the firm affects its access to financing. Lending banks tend to favour those industry sectors that are showing growth. Sectors that require more capital and hence more credit to invest in machinery, raw materials, equipment or buildings face proportionately greater restrictions. Service sectors also find it hard to access credit as they have less collateral to offer since the main input usually is human rather than physical capital. Depending on the region, the sector is a key determinant of access to financing for SMEs.”

The biggest challenge is access to finance by SMEs because without finance, no business can start operating. Akangbe *et al.* (2012) have acknowledged that despite their vital role in building a competitive private sector and contributing significantly to employment growth, SMEs have been facing more challenges in accessing financial resources. According to Oaya and Mambula (2004), SMEs in Nigeria had excess of problems like other countries in the world. One such a challenge in Nigeria is lack of financing among the SMEs as the most critical factor. In Nigeria, the majority of finances are from owners' equity. This is the investor's own contribution that includes family savings. Coupled by high level of poverty in the country, this had a negative effect on the growth of SMEs in the country. The lack of finances has been made worse by many factors such as interest rate, high collateral requirements, and lack of experience with financial intermediaries. Cook and Nixon (2000) observed that interest rate has been a challenge in most developing countries of the world and has been a subject of attention.

The size of the SMEs determines whether access to industrial real estate is a matter of concern. Small firms will continue to have less access to industrial real estate and pose a challenge to the development of SMEs as compared to large SMEs in the sector. This applies also to scarcity of infrastructural facilities where small SMEs will have a problem than large firms.

2.5.2 How Characteristics of Entrepreneurs Affect the Growth in SMEs Financing

Apart from the demographic factors of a firm or SME, the characteristics of the entrepreneur are more important in business to the development of SMEs. Reinecke (2002) noted that:

“The entrepreneur’s characteristics such as age, gender, motivation, experience, educational background, and risk-taking propensity, preference for innovation, mind-set, personality, survival, and income among others can have a big influence on the firm’s performance and success, and the growth of the SMEs”.

Reinecke (2002) noted in his conclusion that:

“Apart from the serious business environment challenges to the development of SMEs, the firm-specific factors such as entrepreneur characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies, low efforts of R&D and low technological capacities are also prominent factors responsible for limited growth of SMEs in Zambia”.

SMEs in developing countries in general and in Zambia in particular lack the managerial skills and connections to effectively conduct their business and to deal with the cumbersome legal and regulatory framework. We can analyze the managerial challenges affecting the development of SMEs in Zambia and world over based on management capacity, Weak Managerial Structure, Lack of Management Training and Technological Capacities among others.

Management capacity of entrepreneurs has affected the growth in SMEs Financing. According to Asian (2009) management skills were the critical success factors of all businesses, and small business was no exception. This is true because when managerial skills are lacking in an enterprise, it exerts significant challenges on SME development. The scarcity of management talent in many developing countries has a profound impact on SMEs and hampers the progress of their development. This is common especially the new and inexperienced entrepreneurs who may not have the required skills and managerial capacity to fully exploit new opportunities and markets.

Weak Managerial Structure is another characteristic that challenges the growth of finance in many of the SMEs. Most SMEs world over especially developing countries are owned and managed by the entrepreneur. The entrepreneurs are responsible for the whole running of the

SMEs face all the managerial functions that include organizing, producing, accounting, marketing among others. According to Asian (2009) it gives a heavy burden on the entrepreneurs in that proper strategic plans for their businesses are prevented from being executed as they were usually bogged down with the day-to-day problems of running their businesses.

Lack of Management Training is another characteristic of entrepreneurs that affect growth in SMEs financing. This means that the entrepreneurs lack entrepreneurship training and education in their day to day running of the business. Romjin (1989) observed that education was seen as a crucial agent in promoting long-term employment and economic growth. The importance of entrepreneurship education and training is well established. This assertion had been proved by Pasanen (2007) who postulated that there were several many empirical investigations that have pointed to the importance of the contribution of entrepreneurship education and training and have linked management training with the subsequent growth of small businesses. Therefore, training for small business owners and managers allows them to develop the substantial skills to ensure the survival and success of their firms. However, despite the numerous institutions providing training and advisory services in Zambia, there is still a skills gap in the SME sector. This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency.

2.5.3 Conducive Enabling Environment

Providing conducive enabling environment is the responsibility of any government in the development of SMEs, as well as the wellbeing of society. Without conducive enabling environment institutions and citizens find it difficult to thrive. Therefore, it is the duty of any government to provide good legal and institutional set up though there are many external factors in the environment such as politics, economic, social, technology, environmental and legal factors that are difficult to control by entrepreneurs of SMEs. The importance of SMEs to the economy of a country indicates how important it is to have government policies that support SMEs, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs (Harvie and Lee, 2005). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of laws and genuine administrative procedures such as accessibility to assistance from the government agencies (Harvie, 2005). According to World Bank research,

complex tax systems, low level of trust in the judicial system, and the need to pay bribes to access public services, represent major barriers, especially in South East Europe (WB, 2000).

In Kosovo, Govori (2013) carried out a research on the factors affecting the growth and development of SMEs with experiences from Kosovo. By external factors Govori meant access to finance, competition, corruption, and government policies on how they impact in the development of SMEs in Kosovo. The results of the study showed that external factors such as access to finance, competition, corruption, and government policies have impact in the development of SMEs in Kosovo.

Govori (2013) on access to finance in Kosovo observed that SMEs started their businesses with their internal or owners' equity. This was observed from almost all new enterprises which had difficulties in accessing external financing. This was compounded by SMEs' lack of collateral and the unwillingness of banks to finance new established small enterprises. The first challenge is the financial constraints. Lack of capital or financial resources was a major barrier for SMEs and entrepreneurs who usually have to mobilize their own capital or their own resources to establish or expand their business (Harvie, 2005). In addition, SMEs in developing countries had difficulties in accessing bank loans as a consequence to the high risk for failing loans, low profitability and lack of collateral required by banks (Harvie, 2005). For many SMEs from countries in the region, access to finance and capital appeared to be difficult. This was as a result of weak banking institutions, lack of capital market and inefficient legal framework regarding credit and collateral assessment. Financing of SMEs and access to finance plays a crucial role in the growth process and development of the enterprises. (World Bank, 2011).

One other factor that affected the growth and development of SMEs in Kosovo is competition. The researcher observed that many companies in the region and beyond produced products similar to those of Kosovo enterprises. The barriers result in weaker competition, unfair competition and adversely affected investments (World Bank 2010). Surveyed enterprises resulted in an unfair competition as an obstacle to the development of SMEs in Kosovo. Also, the attitude of consumers towards local products being associated with a lack of confidence in the quality of these products is a negative phenomenon in the development of these enterprises, making imported products to be much more desired which could be proven by the negative trade balance of Kosovo.

According to Govori (2016), SMEs were usually not very competitive in terms of market knowledge, innovation, prudent investment, business operations and good management, which were important factors in improving the quality (OSMEP, 2007). It is without doubt that developing countries compete with other countries due to globalization resulting in increased trade barriers and other restrictions generally favor those countries. Competition was increasingly by international companies as a result of the Free Trade Agreements (OSMEP, 2007). A survey of SMEs in developing countries by the World Bank, findings of research with regard to competition represents a risk for survival for individual enterprises. The bank noted that although competition represented a high risk, it was the one which pushed companies towards higher productivity which actually resulted in their growth and development. In Kosovo, the main barriers had been "Unfair competition" that included tax system, the informal economy and public services, barriers which continued with the same intensity throughout the post-war period (World Bank, 2010).

According to Govori (2016) research, corruption as phenomenon existed in all developing countries. It was further reported that fighting corruption was impossible in a country with the highest rate of poverty in Europe as such the level of corruption remained high and this required more commitment by the government in continued reduction until the total elimination of this phenomenon. Not only corruption in Kosovo but as well as problems with infrastructure, administrations, electricity and water made it difficult for businesses and citizens. Therefore, corruption practices negatively affect the investment, whether foreign or domestic.

Besides corruption and unfair competition, the researcher observed that there were problems with government policies with regard to the judicial system and the implementation of laws and regulations by governmental bodies which adversely affected the business of the enterprises. According to World Bank, such were obstacles to doing business in Kosovo (2012). The importance of SMEs to the economy of a country indicates how important it is to have government policies that support SMEs, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs (Harvie and Lee, 2005). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of laws and genuine administrative procedures such as accessibility to assistance from the government agencies

(Harvie, 2005). However, this study did not look at the growth of the SMEs this is the research gap that the researcher is looking at.

2.6 Access to Finance and its Influence on the Growth of Small and Medium Enterprises

In Zambia and other developing countries, family, friends and close business associates have been one of the primary sources of capital (Mwarari, 2014). The family, friends and close business associates have played a vital role in ensuring entrepreneurs are able to launch their business and even grow them. The launching of such an enterprise is as a result of savings, home equity, or credit cards, relatives or a trusted business associate who contribute to the enterprise. According to Wolf (2015, this type of capital tended to be for lower financial value in terms of and usually taken in form of equity or part ownership rather than a debt due to the uncertainty of growth of the business.

2.6.1 Access to Business Capital

Business capital is the prerequisite for development, hence raising its quality and productivity is a critical factor for ensuring SMEs growth and reducing poverty levels (Msoka, 2013). Even where microfinance institutions have come in to address the issue of credit access, they have focused greatly on reducing poverty, instead of the development and growth of SMEs. Their loan sizes have therefore tended to be too small to support growth (Stevenson & St-Onge, 2015). On the subject of supporting and investing in innovation, in addition to the challenges mentioned, SMEs are starved for finance to support innovation even when they have sound business and expansion plans worthy of investment, as they are considered risky because their innovative business ideas have not been tried and tested (Rogerson, 2014).

The SMEs, therefore, find themselves in a vicious cycle of providing what is already in the market and not able to grow and expand to realize their full potential as they lack both funding and business support services to venture into unexplored business ideas (Aikaeli, 2014). Various financial sources as well as other forms of support are required for upcoming owner managers who will build and grow the startup SMEs not just the existing SMEs to develop them into the largest businesses of tomorrow (Nieman, 2015). These budding entrepreneurs will thrive in the business environment by coming up with innovative ideas to improve products and services to

reach an increasingly demanding market instead of relocating past business models (Kiraka, 2014).

The World Bank's most recent Global Financial Development Report (World Bank, 2015) has once again stressed the lack of both financial capital and business-related knowledge as key impediments to firm growth in developing countries. However, lack of access to long term credit is a major challenge to those SMEs that would like to expand their operational activities (Collins, 2014). The reasons for this are well known, most especially considering the fact that enterprises are viewed as highly risky to credit lenders since many of these SMEs lack adequate collateral for credit and also suffer from low capitalization. In addition, poor accounting records and the lack of other financial records make it difficult for banks to assess the credit worthiness of potential SME borrowers (Pansiri, 2015).

2.6.2 Access to the Cost of Credit

Access to the cost of credit has been one of the major challenges in growing SMEs in many parts of the world. The World Development Report (2017) observed that a large part of the world's poor had only insufficient access to formal sources of finance, and the prevalence of capital market imperfections and resulting lack of access to financial capital had been frequently stressed as a major impediment to firm growth in developing countries. For example, the World Bank (2015) in its informal enterprise surveys revealed that lack of access to finance was perceived to be the most pressing obstacle that small firms in developing countries faced. A couple of academic studies report high returns on grants of cash or in-kind capital among small enterprise owners in developing countries that are typically well above prevailing market interest rates (Prediger and Gut, 2014).

Furthermore, the relatively increased cost of processing credit by financial institutions implies that lending to SMEs is not generally for banks (Matfobhi and Ruffing, 2013). Majority of SMEs face the challenge of providing adequate security in terms of assets for credit access. Banks favor urban housing permits (UHP) to support structures that are concrete or deposit which is sizeable as collateral for credit. Llelart (2015) states that the majority of SMEs mostly rely on informal credit sources for financial support. About 82 per cent of SMEs rely on family, personal savings, and even friends for financial assistance to grow their enterprises. Grimm and Paffhausen (2014) state that programmatic interventions targeting SMEs may include interventions to improve

access to finance through the provision of micro-credit, advisory services and business skills training, while policy interventions focus on improving the framework conditions for SMEs and may entail labor market regulations and enforcement of property rights, or credit information systems, to mention just a few.

Reid (2013) argues that the strategies of SMEs for accessing finance are fundamental in explaining the growth patterns, and this can be prevented through subjecting enterprises to necessary financial restrictions. (Drever, 2015) argued that financial problems (lack of funds) constrained the development and growth of small enterprises, as many of them are unable to access the same kinds of growth funding often available to large enterprises (Watson, 2013). Empirical evidence reveals the importance of internal finance for SME growth, pointing towards a positive relationship between growth and internal finance, in different economies, namely Germany (Audretsch and Elston, 2013), United States (Carpenter and Petersen, 2013), Portugal (Cabral and Mata, 2013) and Spain (Moreno and Casillas, 2014). In situations of inadequate internal finance, it is important for external finance to be made accessible in order to encourage enterprise investment and consequently growth (Meyer, 2013). However, insufficiency of internal finance can be a problem, given the greater difficulties faced by SMEs in accessing external finance (Becchetti and Trovato, 2014).

Interventions, however, may also target the (potential) labor force through programs for instance the technical vocational education and training (TVET) or the employment service. It is worth noting that SMEs in Kenya encounter difficulty to grow their enterprises as a result of lack of financial access. They hardly thrive in terms of growth beyond the startup stage and some of them fall out of business at the initial stages (Bronwn, 2015). The study undertaken by Hallberg (2014) and Mead and Liedholm (2013) reveals that financial accessibility is instrumental to the development and growth of SMEs. These SMEs have little or no alternatives of financial accessibility in terms of credit other than ability to rely on their retained earnings in order to finance their investments in business. Notwithstanding the financial difficulties currently faced by SMEs in Zambia, those SMEs seek alternative sources of funds in order to sustain themselves in the SME sector (Memba and Gakure, 2013).

Various studies have been conducted in Zambia based on the growth of SMEs. Namusonge (2013) examined the elements of growth oriented SMEs in Lusaka. The key determinants in the study entailed management experience, training and education as well as the psychology of

owner managers of SMEs. The study concluded that the availability and the type of finance are crucial elements that contribute to the growth of SMEs. The attributes of owner managers also have an effect on the growth of SMEs. According to this study, the researcher failed to highlight the specific measures of SME growth.

Another study by Wanjau (2013) on the role of quality on the growth of SMEs explained that adoption of quality influences the growth of SMEs. Mungah (2014) further mentioned that determinants of growth of manufacturing SMEs in Zambia pointed that interest rate, fuel cost, business skills and political instability were major factors found to influence SMEs growth into large business enterprises. The subject achieves acknowledged relevance, most importantly due to the fact that it is a global phenomenon that small businesses encounter credit access restrictions by financial institutions (Baas and Schrooten, 2015).

Small enterprises are more opaque in terms of information and therefore have less accessibility to external funding compared to large enterprises which are more informational transparent; financial institutions are unable to solve problems of asymmetric information and to adequately fund small business expansion (Hartarska and GonzalezVega, 2016). The availability of appropriate economic resources is important for business development (Ronainen, 2013). This enables SMEs to secure the necessary expertise and resources in order to implement their entrepreneurial ideas into operation, to become competitive and to gain survival tactics during unfavorable conditions as well as to grow (Wickham, 2014). The results obtained by Cooley and Quadrini (2014), and Cabral and Mata (2013) show that the growth of new small companies is hindered by restrictions concerning finance and by the shortage of resources of diverse nature.

2.6.3 Advancing Credit through Financial Institutions

About 45 percent of lending institutions such as banks tend to be very rigid and risk averse as a result avoiding SMEs which are considered highly risky without collateral or with dependable and substantive track record (Mughan, 2013). Majority of SMEs which have the ability to secure financing usually find the cost of capital to be too high (Rwigema, 2014). Availability of finance determines the capacity of an enterprise in a number of ways, especially in the choice of technology, access to markets, and access to essential resources which in turn greatly influence the viability and success of a business (Wole, 2013). He further states that securing capital for business startup or operations of a business appears to be one of the crucial challenges that is

encountered by every owner manager within the SME sector. According to Wickham (2014) the inability to access credit for long term growth is considered to be one of the major difficulties that prevents development and growth of SMEs.

A study was carried out by Banerjee and Duflo (2014) concerning loan information that is detailed obtained from 253 SME borrowers from a bank in India both before and after they became newly eligible for the program. Specifically, the size definition of the program was changed in 1998 which gave the ability to obtain loans at subsidized interest rates to a new group of medium sized enterprises. Naturally, these firms began to borrow under this favored program, but instead of simply substituting subsidized credit for more costly finance, they expanded their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained (Reid, 2013).

Therefore, SMEs are not able to secure credit loans from other alternative financial sources. This reveals that inability to credit access is a crucial problem to the development and growth of SMEs in developing countries. In reference to the vast challenges that are associated with accessing alternative loan facilities, a large number of SMEs in Kenya tend to rely on self-financing in terms of their retained earnings. The study conducted by Hallberg (2014) explains that accessibility to credit is cardinal to the development and growth of SMEs. The implication, therefore, is conclusive that a large number of SMEs are not able to meet the operational needs of their enterprise due to inadequate credit accessibility from financial institutions. This indicates that there exists a financial gap for SMEs starting up or wishing to expand (Drever, 2015). Tracy and Tracy (2014) state that debt capital sources including banks, leasing companies, government-backed programs (microfinance in our country's context), asset-based lenders, factoring companies. For almost any debt-based need, some type of lender is readily available in the market. These groups, similar to private sources, tend to look for a common set of characteristics when extending capital in the form of debt: Security of some sort an asset or personal guarantee, for example must be present and debt providers tend to look for more stable business environments where a company has been in business for an extended period of time and has a proven track record.

However, most of the SMEs in Kenya have difficulty in getting credit from the formal financial institutions because they lack proper financial records. Most of the businesses often keep multiple sets of books and do not have audited financial statements based on reliable accounting

standards (Storey, 2014). On the other hand, these firms end up getting loans at higher interest rates because banks considered them as high-risk borrowers. Asymmetric information problems may be more pronounced for small firms (Wanjohi, 2013). Monitoring SMEs is more difficult and expensive as information on them is less easily available, they have less credit history, are subject to less rigorous reporting requirements and the quality of their financial statements may vary (Pettit and Singer, 2014). All these elements result in SMEs often facing difficulties in signaling their creditworthiness.

2.7 Small Medium Entrepreneur Access to Finance and Performance

In order for SMEs to finance their daily production activities and perform well, a healthy financial position is critical, more importantly, a significant positive networking capital (current assets minus current liabilities) position (Bhunia 2010). Before production activities begin, SMEs need finance for start-up purposes, investing in capital and undertaking research and development activities, among others. After being fully established, finance is required to finance daily activities, for example the purchase of raw materials and payment of current liabilities as they mature. To finance these critical activities, various sources of finance exist, which therefore makes their accessibility more critical to SMEs, as they determine their performance and continued existence. These include formal (long-term and short-term debt, equity from entity owner, among others) and informal sources comprising loans from friends and immediate family members (Fatoki and Asah 2011).

In accordance with the finance theory, only the permanent portion of working capital should be financed through long-term debt (Gitman 2000). This leaves the financing of non-permanent working capital to short-term sources of finance, namely trade credit, bank overdraft, tax provisions and short-term bank loans among other alternative current liabilities that can be used to fund non-permanent working capital requirements (Padachi, Howorth and Narasimhan 2012). In situations where a negative net working capital exists, short-term sources of funding could as well be used to finance non-current assets; by so doing, the aggressive approach will have been adopted (Bhattacharya 2001). Research provides evidence that SMEs mostly prefer the use of informal sources of finance (Padachi *et al.* 2012). This is a strategy which the majority of SMEs implement solely to maintain firm ownership.

Firm performance is directly dependent on access to long-term and short-term performance. In support of the previous statement, Balamoune-Lutz and Lutz (2017) recently surveyed 25 500 female-owned firms (only) in the Middle East and Africa. The results indicate that inadequate access to finance significantly contributed to poor entity performance. Zindiye (2008) concurred and pointed out that because of inadequate access to finance, SMEs are without the capacity to buy quality raw materials to produce quality goods and services that adhere to international standards, expected of firms competing in the global market. In other words, owing to poor access to finance, SMEs find it challenging to live up to their performance outcomes (Karedza *et al.* 2014).

Vanacker *et al.* (2016), relying on longitudinal data from 162 633 European entities across 26 countries, found evidence that slack financial resources (more than the required minimum level for operational purposes) enhanced the entity's performance level. However, the higher the slack level of financial resources, the lower the entity's performance enhancement was. They further provided evidence that in European countries where weak credit rights were found, abundant financial resources had a positive effect on entity performance. Literature reviewed in this section suggests that access to and availability of finance plays a pivotal role in the performance of SMEs. In light of this discussion, the following hypothesis was formulated:

2.7 Effect of Microfinance Institutions on Growth and Development of SMEs Financing

Various attempts have been done to examine the effect of MFIs on growth and development of SMEs financing. In this section the aspect of financing SMEs by microfinance institutions and financial literacy among SMEs owners and managers have been reviewed to ascertain their impact on growth of SMEs financing.

2.7.1 Financing

Various attempts have been done to examine the effect of financing SMEs by microfinance institutions on growth and development of SME. Maina (2012) did a survey on microfinance services contribution to entrepreneurial development in Zambia. The study employed a case study design and focused on SMEs within Lusaka. In his study, Maina noted that the banking sector in Zambia is fairly vibrant by the standards of developing third world countries. However, the sector is 90% emphatically dominated by the formal commercial banks. Credit policy for

banking institutions catered mainly for big businesses only, thus implying lack of access to credit facilities for small and medium enterprises. Maina study further observed that MFIs had come up to address the gap in finance requirements for small and medium enterprises (SME). The study finding indicated the MFI intervention to SMEs financing was faced by hurdle of Lack of collateral and inappropriate legal and regulatory framework that does not recognize innovative lending policy coupled with limited access to credit and financial services, there was no structural institutional mechanism to facilitate flow of financial resources from banks to MFI, and then to the SMEs hence increasing cost of credit.

2.7.2 Financial Literacy

Financial literacy among SMEs owners and managers is critical in ensuring that SMEs grow from small and medium to large enterprises. According to a report by Financial Sector Deepening 2009, SMEs finance capacity is a critical component in expanding SME finance. The report noted that some MFIs were involved in enhancing the capacity for SMEs through financial literacy training. It was however noted in FSD report that attempting to build this capacity at an institutional level was unlikely to be sustainable and certainly an expensive approach among MFIs. Thus as much as MFIs wish to provide SMEs capacity to handle finances, most of them are limited by the costs associated and the likelihood of passing this cost to the final consumer reduces original concept of providing affordable financing to SMEs (Bank of Ghana, 2007).

2.8 The Role of SMEs in Social & Economic Development

The role that SMEs play in an economy cannot be over-emphasized. SMEs provide sustainable economic growth through job creation, development of entrepreneurial skills and the potential to contribute significantly to export earnings (Gondwe, 2012).

Gondwe (2012), on the subject of 'Financing Enterprises' observed that to support SMEs is appropriate and timely as it provides an opportunity for Zambia to reflect on financing arrangements for SMEs that will accelerate growth, create employment and contribute towards poverty reduction and move the country towards more sustainable development. Given the importance that Government and the Bank of Zambia attach to financial inclusion and the development of the SME Sector, it is also important that financial service providers devise appropriate and affordable products and services, which take into consideration the needs of the

SMEs, which are regarded as important drivers of the economy. These issues cannot be over-emphasized (Gondwe, 2012).

Small and medium sized enterprises (SMEs) play an important role in modern economies based on knowledge and new technologies because of their flexibility and ability to innovate. Academic studies suggest that the role of SMEs in improving economic performance, reducing unemployment and promoting flexibility and innovation is extremely important (Henriksen, 1999).

The results of a recent study of the Global Entrepreneurial Model (GEM) suggest that there is a statistically significant relationship between the national level of entrepreneurial activity and subsequent level of economic growth, although large samples with multiple years of data are needed for precise assessment (Reynolds et al., 2001).

Further, entrepreneurs help build communities in ways such as providing jobs, conducting business locally, creating and participating in entrepreneurial networks, investing in community projects, and giving to local charities. Realizing both the economic and social impact of entrepreneurship, many states and local communities have implemented aggressive strategies aimed at cultivating and nurturing entrepreneurs. Entrepreneurship and self-employment can be a source of new jobs and economic dynamism in developed countries, and can improve youth livelihoods and economic independence in developing countries. For young people in the informal economy, micro entrepreneurship is a bottom-up method for generating an income, self-reliance and a new innovative path to earning a living and caring for oneself (Maxwell, 2002).

At the 10th Annual Conference of Southern African Entrepreneurship and Small Business Association (SAESBA), held in Zimbabwe in 1997, the Small and Medium Size Business Enterprises were dubbed as the 'Engine for Economic Development'. This was seen in the role these enterprises played in terms of employment creation and the contribution that the sector made to the national economies in terms of Gross National Products (GNP). At this conference it was observed that there is currently a growing enthusiasm in the donor community to fund SMEs in recognition of the role that the sector plays in the development of national economies and the alleviation of poverty in the third world countries. Despite this growing enthusiasm among the benefactors, the donated funds are not sufficient to adequately support indigenous enterprise formation.

In Sub Saharan African and most Asian economies, there are few specialized financial institutions willing to advance loans and other forms of financial assistance to SMEs as in most cases they are considered too risky. There are differing levels of SMEs financial applications to financial institutions in different countries for example in China, 12 percent of SMEs financing is from financial institutions, it is 21 percent in Malaysia, while in Indonesia, it is 24 percent and this would be the same scenario for Sub Saharan African economies (Lin, 2007). SMEs in developing countries are faced with poorly trained workforce and low technological engagements and this in most cases hampers output. Their success should depend as well on how well trained their workforce is and their commitment and skill on the job (Batra and Tan, 2003; Lee, 2001).

The engagement of Information technology in development of SMEs is a formidable step in ensuring systems efficiency that leads to increased productivity, but unfortunately there is low usage of Information technology in production processes in most Sub Saharan countries and this leads to low productivity and some inefficiencies (Morse et al, 2007; Sikka, 1999; Lucas, 1993). Technology innovations go a long way in ensuring that competences in SMEs are developed and this helps ensuring competitive advantage of individual SMEs and eventually that of a country (Hussain, Farook and Akhtar, 2012; Morse et al, 2007). There is a real need to understand what can really be done to ensure a fluid development of SMEs in Sub Saharan Africa and how technology can be harnessed to improve productivity of SMEs. Governments in the developing economies seem to appreciate the role of SMEs in economic development but they have not done a great deal to ensure they are adequately facilitated and this leads to frustration of entrepreneurs that may be willing to venture in different SMEs. The research findings will advise policy makers on what needs to be done to ensure SMEs become a success in Zambia and indeed all developing countries. The continued funding issues of SMEs call for some research on funding innovations like use of public private partnership where governments work with private businesses. The government for example can provide funding in form of infrastructure and the private partner provides startup capital. This funding approach however is not well developed in SMEs, but it is an area that can be explored (Bovis, 2010; Bult and Dewulf, 2007).

2. 8.1 More Empirical Review on the role of SMEs in Social & Economic development

Small and medium enterprises (SMEs) have overtime been at the forefront of accelerating economic growth in many countries and economic blocs. For example, the majority of the SMEs do employ at least about 50 employees in Southern African countries depending on their sizes and this helps to take a sizeable chunk of the employment burden from states (Tshuma and Jari, 2013). Looking at South Africa, SMEs operates in every city and they provide employment for people and about 4 million jobs are created through this sector which in some cases may be regarded as informal sector and the formal sector just provides only 7 percent (Thamas, 1989 and Aymes, 1988). The Majority of the SMEs in South Africa operate in the informal sector and there are about 700,000 such business which contribute and their contribution ranges between 16 to 40 percent of the country's gross national product (DeSmidt, 1990; Thamas, 1989). The SMEs have played and continues to play a bigger role in the social economic development of the country. From previous studies by Kromberg (2005) on South African SMEs, it was found out that they contribute 30 percent to gross national product considering SMEs that are registered with the government, though the percentage could be higher if you consider SMEs that could be operating but not formally registered because of fear to pay state taxes (Skinner, 2006).

In Tanzania, SMEs have played a big role in the social and economic transformation of the country since its transition from a command economy to a market economy and they contribute about 60 percent to the gross national product (Echengreen and Tong, 2005; Pyke et al., 2000). In the Tanzanian consideration, an SME is viewed as one that employs at least 4 persons and with a capital of TZ shillings 5 million and the majority of the SMEs fall in the informal sector. It is however possible that you find some SMEs with capital of between 200-800 million employing above 49 employees (Hamisi, 2011). From such examples, Zambia as a country would look for ways of improving the SMEs market since it is evident from these studies, that they are can be a good source of jobs creation, taxes for the government among other benefits. According to UNIDO (2006), there is a strong relationship between existence of SMEs and contribution to a country's GDP and in the case of Tanzania they contributed about 35 percent and this would have been better if the SMEs are operating efficiently and a full friendly business environment (Calcopietro and Massawe, 1999).

It is vital to understand how SMEs can function economically and with efficacy to increase their chances of survival in the competitive business environment. Governments can play a pivotal

role in setting policies to protect SMEs by for example securing markets for the goods and services produced and offered by these companies, setting up of specialized financial institutions that deal with micro financing. This is a big area that the government of Zambia should explore to make it possible for the operation of SMEs in the country. This research should reveal the current standing of the SMEs in the country and how the situation can be made better given the advantages that can be realized from this market. Clearly, SMEs in the South African economies have been the backbone of social economic development and this is the same for many other Sub Saharan African economies. They have played a big role in Jobs creation for example in the informal sector which has the majority of SMEs for example in Kenya, SMEs employ more than 5.1 million people, in South Africa, SMEs employ 50-60 percent of the work force (Kromberg, 2005; Tshuma and Jari, 2013). The Informal sector which harbors most of the SMEs alongside the formal sector and in most situations the incomes realized in the informal sector is spent in the formal sector and this is to say that they contribute a lot in the social economic development of countries.

A favourable business environment is vital for SMEs to thrive, but you will find that some of the advanced African economies do not make it easy for SMEs to operate as- the business environment is hostile for example high taxes, inflation, unstable exchange rates which all impact profits and this has happened greatly in South Africa among other African countries (World bank, 2006; Olawale and Garwe, 2010). More so, most African economies are poor and corrupt and such practices makes the operation of SMEs very difficult and this leads them to become noncompliant and to try and circumnavigate the regulatory requirements and this is why according to World bank (2005), 70 percent of SMEs confirm that corruption hinders so much of their operations as opposed to 60 percent for bigger organizations. In comparison, a study by Mader and Winkler (2013) revealed that 83 percent of the Ethiopians live in the villages employed in the Agriculture sector. This fetches them little income as they mostly grow for consumption. The same study reveals that Ethiopia has more than 73,000 SMEs and employs more than 551,075 persons; however, the survival of SMEs in Ethiopia remains a big challenge due to poor political will, poor attitude towards SMEs and generally poor business environment (Devereux, 2010; Mader, and Winkler, 2013). Such a study on SMEs in Zambia would give an indication on the state of this market and what the stake holders would do to remove the

obstacles that may be hindering this market from thriving and thus allow the state to harness the advantages of the sector growth.

With reference to the Nigerian economy, it keeps growing amidst challenges, its informal sector which is composed of a lot of SMEs has also been growing, but with a lot of challenges mainly due to all the vices associated with harsh business environment for SMEs in the country (Okezie, Ihugba, Alex Odii, Njoku, 2014). The challenges that are being faced by entrepreneurs in Sub Saharan African countries cannot be underestimated and in most cases they are the same across the continent. Such challenges are; poor credit facilities which hinders prospective entrepreneurs to easily access credit funding for their SMEs and those that are available charge higher interest rates of about more than 28 percent in addition to loan collateral which SMEs may not have (Okezie, Ihugba, Alex Odii, Njoku, 2014, Obiajuru, 2012, Agency Reporter, 2012). There is a lot of corruption which makes it hard to obtain trading permits, contracts, goods and services from government and there are lots of kickbacks and bribes involved in the industry and this makes it unattractive for SMEs. In Nigeria for example, government policies on SMEs are inconsistent and they are formed without the involvement of SMEs entrepreneurs and in most cases they become unrealistic at the implementation stage. There is need to set consistent laws that are realistic with the prevailing business environment in the country. Taxation in Nigeria has been a major hindrance in the operations of SMEs as in some cases there is multiple taxation and such taxes have an effect on increasing cost of conducting business and ultimately the traders have to pass on the charge to the consumer and this may make some goods and services unaffordable by an ordinary consumer as the country has over 500 types of taxes and levies by both the state and the local government (Okezie, Ihugba, Alex Odii, Njoku, 2014, Oghojafor, Okonji, Olayemi, and Okolie, 2011).

The infrastructure for doing business in Nigeria is bad in form of bad buildings, poor roads, erratic power supply among others make the cost of doing business to be high and if the right SMEs policies are not made by the government, then it may not fully benefit from the essence of having SMEs play a vital role in the social economic development of a country. There are a number of other challenges that SMEs in Nigeria face i.e. lack of proper environment that has business information readily available, little formal education possessed by some entrepreneurs, poor security in some states to guarantee secure business environment (Arizona, 2009) etc. have made it difficult for SMEs operations in Nigeria. These challenges may not be peculiar to

Nigeria alone as these could be some of the challenges also in countries like Zambia, South Africa, and Zimbabwe among others. The findings from this study gives a clear indication of the SMEs sub sector standing in Zambia and strategies to smoothen the operations of the sub sector players for the benefit of the country.

Entrepreneurs who invest in SMEs do it to earn some profit as one of the major objective and in the process; these SMEs contribute immensely to social economic development of a country if the right strategies and infrastructure have been put in place by the government and other stake holders (Okezie, Ihugba, Alex Odii, Njoku, 2014; Obiajuru, 2012). In countries like Nigeria, SMEs in the industrial sector contribute 37 percent to the country's Gross Domestic Product (GDP) putting it the second from oil sector as biggest contributor to the country's GDP (Okezie, Ihugba, Alex Odii, Njoku, 2014). SMEs do create employment Opportunities for people and in most cases they are labor intensive meaning you will need more workers to operate smoothly and become competitive. Some employment statistics in developing countries (Ogundele, 2006) shows that, in Kenya, Columbia, Tanzania, Zambia, Indonesia and India, small and medium enterprises (SMEs) employ more than 50 percent of the working population. It is therefore imperative to understand the state of SMEs in Zambia and how they have been beneficial in the economic development of the country. This drive is what has justified this research on SMEs role in the country that is classed as middle income economy. Even in the developed economies, SMEs play a bigger role in contributing to social economic development. In the European Union for example, SMEs account for 99.9 percent of the 11.6 million businesses created in the bloc (World Bank (2006). In the United States of America, SMEs create over 75 percent of the new jobs contributing 40 percent of GDP and 80 percent of the population get their first employment in the SMEs according to World Bank (2000).

2.9 Chapter Summary and Research Gaps

This chapter was organized into titles and sub titles. These titles and sub titles were: The state of growth of SMEs in financing by looking at: History of Zambia's major lending institutions, Small Enterprise Development (SED) Act, Small Enterprise Development Board (SEDB), Small Enterprise Development Organization (SEDO), Small Industrial Development Organization (SIDO), Zambia Development Agency (ZDA), Micro-Finance Institutions (MFIS) and Ministry of Commerce, Trade and Industry (MCTI); Demographic factors of the firms, characteristics of

entrepreneurs and conducive enabling environment; Access to finance and its influence on the growth of SMEs with subtitles: Access to business capital, access to the cost of credit and advancing credit through financial institutions; SMEs access to finance and performance; Effect of MFIs on growth and development of SMEs financing with subtitles: Financing and financial Literacy, and finally Empirical Review on the role of SMEs in Social & Economic development. The empirical literature on factors affecting growth in SMEs financing were reviewed to enrich the study and find academic gap for the study. First and foremost, literature on the state of growth of SMEs in financing by looking at institutions formed and Acts to support SMEs. These were organised and reorganized in trying to find solutions to challenges continuously faced by SMEs in Zambia to date. It was interesting to find that challenges of SMEs growth have continuously being faced even when reorganization of institutions, policies and among others are still in place to date. The importance of SMEs has no doubts been articulated by many researchers in the role they play in an economy of any country be it developed or underdeveloped. While their importance has been acknowledged in many empirical researches, a collection of factors affecting the financing of SMEs growth have equally been brought to light. Many of those studies have revealed factors such as socio-economic factors of the entrepreneurs, demographic factors of the SMEs and the enabling environment. These challenges have been found in different parts of the world and did not include Kabwata Constituency of Lusaka in Zambia in their studies. The environment of Kabwata Constituency of Lusaka in Zambia is different from Nigeria, Zambia in general, Kosovo and many parts of the world. Kabwata constituency is unique in that the constituency has grown extensively for the last five years and many SMEs have come up on board, hence the study on factors affecting growth in SMEs. In Zambia, the majority of SMEs are always stagnant at micro level. This calls for clarity under different conditions in which they operate such as Lusaka. In Zambia, policy makers under MCTI and ZDA have come up with policies and guidelines in an effort to serve SMEs. However, many of these policies have not been fully implemented. As a result of some of these failures, there arises a need to explore or establish factors affecting growth in small and medium enterprises financing in Lusaka district, Zambia. Thus the study shall contribute in recommending measures which would help to improve the growth in small and medium enterprises financing in Lusaka district, Zambia.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter covered what is called research methodology. Kothari (2004) defined research methodology as:

“A way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them”.

The various steps that have been used for this research in studying this very particular research problem with the logic behind them are: Pragmatism research philosophy, research design, sampling size and techniques, sample size, data collection instruments, validity of the data collection instruments, data analysis, data collection procedure and reliability and validity.

3.2 Pragmatism Research Philosophy

Research philosophy according to Bajpai (2011) is about how the source, nature and development of knowledge are dealt with. Further, Bajpai (2011) explained that a research philosophy is just a belief in which a researcher has about the ways in which data about a phenomenon should be collected, analysed and used. In this study growth in SMEs financing was analysed as a phenomenon being affected by many factors. Qualitative, quantitative and mixed research methods are widely used by researchers. The only distinct difference lies in their assumptions regarding purpose, focus, method, and criteria for truth.

This research has adopted pragmatism research philosophy because according to Saunders & Thornhill (2012), it is able to combine the strength of positivism and interpretivism research philosophies at the same time when the study is being carried out based on the nature of the research question. Saunders & Thornhill (2012) notes that pragmatics;

“recognise that there are many different ways of interpreting the world and undertaking research, that no single point of view can ever give the entire picture and that there may be multiple realities”.

For this study, qualitative approach fits the use of pragmatism research philosophy because pragmatism combines positivism and interpretive philosophical assumptions in social sciences. The positivism and interpretive philosophical have historically been oriented in social research since inception and been categorized it into either empiricist or humanist research (Denscombe, 2002).

Table 1: Pragmatism research philosophy Integrating Positivism and Interpretivism

Research Philosophy	Research Approach	Ontology	Axiology	Research Strategy
Pragmatism	Deductive/Inductive	Objective or subjective	Value-free/biased	Qualitative and/or quantitative
Positivism	Deductive	Value-free	Quantitative	quantitative
Interpretivism	Inductive	Subjective	Biased	Qualitative

Source: Wilson, J. (2010) “Essentials of Business Research”

The study has adopted pragmatism research philosophy that integrates the use of multiple research methods such as qualitative and quantitative. Pragmatism research philosophy integrates more than one research approaches and research strategies (positivism and interpretivism research philosophies) within the same study. As Bajpai (2011) explained that a research philosophy is just a belief in which a researcher has about the ways in which data about a phenomenon should be collected, analyzed.

3.3 Research Design

Research designs are differently and largely depend on how different researchers approach their studies from the beginning of the study. Sibwela (2017) described research design as a structural framework within which the study is to be implemented. According to Kothari (2004) descriptive statistics is concerned with the development of certain indices from the raw data collected. Indices that are used for this research are; common measures of central tendency, measures of dispersion, and measure of asymmetry commonly known as skewness. Describing the situation, fits this study at the same time, it gives a relative standing for the variable.

This research design was considered appropriate by the researcher because of the need to identify and describe what factors influence the growth of SMEs to a larger population and to gain an

understanding of the relationship between dependent and independent variables that were being studied. The dependent variable for the study was the growth of SMEs while the independent variables were the demographic factors both at the investor and SMEs. Therefore, these variables could only be described well by descriptive design. According to Kothari (2004) descriptive design portrays accurately the characteristics of a particular individual, situation or a group.

3.4 Study Area

The study was carried out in Kabwata Constituency of Lusaka district.

3.5 Target Population

A total collection of elements is called population and the elements must have common observable characteristics or patterns that the researcher wishes to make some inferences (Cooper and Schindler, 2014). Gall *et al.* (2013) defined a population as a universe of all members of a real or hypothetical set of people, events or objects to which an investigator wishes to generalize the results. Traders in Lusaka with small and medium enterprises and key informant conversant with SMEs operations *such* as big banks, Ministry of Finance, PACRA, and micro-finances organizations.

3.6 Sample Size and Technique

Cooper and Schindler (2014) have described sampling techniques as the methods that takes into account how a sample was selected. According to Sekaran and Bougie (2015), sampling techniques include; the probability and the non-probability techniques. They distinguished probability sampling techniques where a sample is chosen based on known probabilities and were given equal chances in order to avoid biasness. For probability sampling many different techniques are available for the researcher that comprised simple random, stratified random, cluster random and systematic random sampling technique. Non-probability sampling techniques on the other hand involve choosing a sample not based on random sampling methods and include convenience, judgmental, quota and snowball sampling technique.

The study adopted purposive or judgmental non probability sampling. The purpose of purposive sampling as it is self-introductory is used to make sure that specific respondents were not left out in the study. Tromp and Kombo (2006) have authenticated the use of purposive sampling in that

the method helps target a group suitable to bring out rich information related to the central issue being studied for in-depth analysis. The total number of respondents was 60 and 10 Key informants. The 60 were from the SMEs sectors such as simple manufacturing, general trading, welding and food business. The 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) has outlined how a researcher arrives at a sample size in qualitative research. He 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. In other cases, the number may be several, ranging from 1 or 2 to 30 or 40.”

3.7 Data Collection Instruments

Data was collected using a structured interview schedule and questionnaire specifically designed for this study. The reasons why the instruments were chosen and outlined below;

3.7.1 The Questionnaires

This study used qualitative method and adopted descriptive research design in studying the nature of the problem. For qualitative method to use descriptive research design, the need to use a questionnaire was paramount in order to increase the sample size that enabled the research to arrive at a specific relative standing in terms of statistics such as frequencies and modes. Increasing the sample size required the data collected to be analysed using descriptive research design for ease of analysis using soft-ware such as excel, SPSS among others. Using descriptive design require quantitative data that helped the researcher to arrive at a certain percent. The percent revealed the point at which the variable was standing, which could have been difficult in qualitative data to arrive at such a point. Kothari (2004: 37-38) notes:

“Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. ... the main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening in terms of frequency of shopping, preferences of people, or similar data. the methods of research

utilised in descriptive research are survey methods of all kinds, including comparative and correlational methods.”

Therefore, it's a questionnaire that can suffice to descriptive design research. The number of respondents was 60 and such a big number required the use of a questionnaire for descriptive statistics while such a number becomes difficult for qualitative design when it comes to data analysis. Creswell (2009) had observed that the more the sample size increases when collecting qualitative data in qualitative research, it becomes difficult to analyse the data. Therefore, a questionnaire, though it is not the most suitable instrument to collect data as compared to interviews, observational and focus group in qualitative research, it was chosen because of the research design chosen that require a big sample size with quantitative data to arrive at a stand point. With quantitative data using a questionnaire, one can continue to increase the sample size especially in quantitative models where the power of the test (P value) has to increase so that results are significant.

The questionnaire was designed by the researcher according to the set objectives. The main aim was to accurately get the data that could answer the research questions. The questionnaire was closed. There were many other benefits the researcher obtained in closed ended questions especially when it came to analysis or data processing using a computer. The researcher enjoyed many benefits from the use of a questionnaire. Among these benefits were: Less time was spent on the exercise; the instrument was quick to collect data; respondents were not disturbed when answering questions.

3.7.2 Interviews with Key Informants

In order to triangulate the data that was collected from the use of a questionnaire with respondents, it was necessary to cross check with Key Informants. These informants were interviewed with structured interviews. Babbie (2007:186) on research informant notes;

“a person who is well versed in the social phenomenon that you wish to study and who is willing to tell you what he or she knows about it”.

The research targeted ten MFIs in Lusaka, because the city is the centre of administrations for many organisations. The following were Key Informants who were interviewed; one from PACRA, three from big banks, five from MFIs and one from Ministry of Finance.

The interviews were standardised semi-structured open ended interviews. Standardised in the sense that it made it possible for the researcher to arrange and organise data into important sub themes. According to Hambulo (2016), the approach enables the researcher the much needed flexibility to explore more areas in depth and also allow further questions to emerge in the course of the discussions with the research participants. The strength of qualitative research in collecting data lies in how interviews are held to get the in-depth data.

3.8 Data Analyses

Data analysis involved organising the raw data in order to make sense out of it. Raw data on its own is useless unless it is organised. This study used both qualitative and quantitative data. The quantitative data collected was first checked, cleaned and finally coded. The missing data was arrived at by using averages for each variable. After the quantitative data was coded properly, it was entered into software for analysis called Statistical Package for Social Sciences (SPSS) version 21.0. The purpose was to come up with descriptive statistics. Some statistics were later manipulated with the use of Micro Soft Excel to come up with graphs and figures of the researcher's choice. The statistics was also made into tables so that various graphical presentations were made. Once the statistics were used to make tables, graphs and figures, they allowed objectivity with regard to interpretation, valid conclusion and recommendations. The information collected from Key Informants using an in depth interviews were analysed qualitatively based on the themes and contents. Content or thematic analysis is good because it grouped similar items or themes together from many voluminous words.

3.9 Data Collection Procedure

Two types of data were used for this study; qualitative and quantitative. The qualitative and quantitative data collected was primary in nature, primary in that the researcher was collecting the data directly from the sources of the data who are the respondents themselves. Both questionnaires and interviews were administered by the researcher. The researcher also used

secondary data from various documents; researched documents, journals, books, unpublished reports mainly for literature review and discussion.

3.10 Reliability and Validity

The purpose of research was to come up with results that were not subjected to biases and errors. Results that have bias and errors means they have failed to answer the questions of the research and therefore, the results are questionable. In order to come up with results that are not questionable, the researcher had to put measures in place to safe guard the results. Although bias and errors are completely difficult to measure in qualitative research, the researcher tried the best to reduce them to an acceptable level. In quantitative models, bias and errors are easily determined by the power of the test called p value. In reducing them to a minimum level, the use of terms validity and reliability were applied in this research. Stoep *et al.*, (2009) defined reliability:

“As the extent to which a measure yields the same scores across different times, groups of people, or versions of the instrument, in short it’s about consistency, and on the other hand a measure shows validity if it actually measures what it claims (or is intended) to measure or it is about truthfulness”.

Therefore, the researcher considered the aspect of reliability and validity in the study. In reliability, the researcher took measures. Time was considered to design the questions for the questionnaire and interview. The researcher tried to be clear in order to avoid ambiguity; observed standardization in interviews and questionnaire. The questionnaires were left with the respondents and later collected after going through in order to correct the mistakes. The interviews were done according to the time proposed by the interviewees. For the questionnaire, the researcher took time to test it before the final data collection.

Validation was also taken care of by the researcher. The researcher collected the data on his own making sure that everything was done in order. No one helped the researcher in collecting the data. The researcher was alive from formulation, administering the instruments. The use of two instruments facilitated content validation and triangulation because the research covered adequately the important information needed in the study by lobbying for information from all the respondents selected purposively.

3.11 Chapter Summary

The chapter was organised into sub titles namely: Pragmatism research philosophy, research design, sampling size and techniques, sample size, data collection instruments, validity of the data collection instruments, data analysis, data collection procedure and reliability and validity.

CHAPTER FOUR: RESULT PRESENTATION AND ANALYSIS

4.0 Introduction

The previous chapter talked of the methods and their logics behind which were used in the collection of data and this included, research philosophy, the research design, sample size, data collection tools, ethical considerations, data methods and data analysis. This chapter presented the findings of the study which are in tables, pie charts and graphs. The main purpose of the study was to examine factors affecting growth in small and medium enterprises financing in Lusaka with respect to Kabwata constituency. This study was guided by the three objectives: To explore the state of growth in SMEs financing in Lusaka, to identify internal factors that affect growth in SMEs financing in Lusaka, to identify the external factors that affect growth in SMEs financing in Lusaka and to recommend solutions to help mitigate slow growth in SMEs financing in Lusaka.

This chapter is divided into two sections. The first section begins by giving background information of the respondents while the second part is a presentation of the research findings in relation to the three research objectives of the study.

4.1 Demography Characteristics of Respondents

The demographic characteristics of respondents included their gender, age and education level. These characteristics have a bearing in the financing of small and medium entrepreneurs.

4.1.1 Gender

The respondents were asked to state their gender. The following were the results on figure 2.

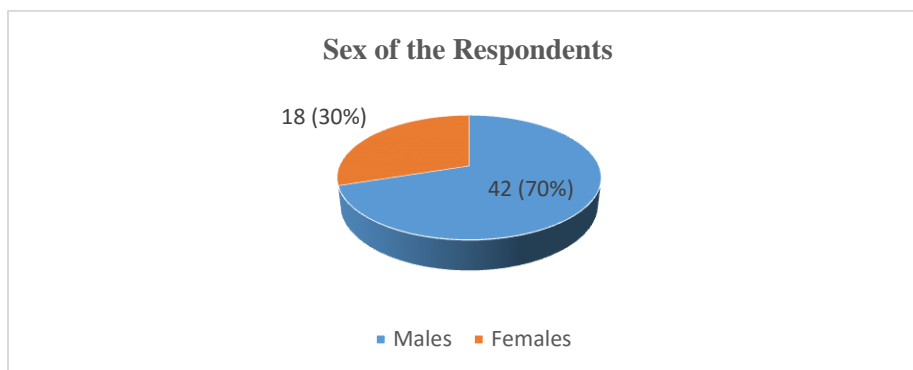


Figure 2 indicates the gender of the respondents in the study. Out of the 60 respondents targeted, 42 respondents representing 70% were males and 18 respondents representing 30% were females. The majority of the respondents were males and females were few.

4.1.2 Age

The respondents were asked to state their ages. The following results represent age distribution of the respondents as tabulated in Table 2.

Table 2: Age distribution of the Respondents

Age group (Years)	Males	Females	Total	Percent
20-35	10	4	14	(23%)
36-50	18	8	26	(43%)
51-60	11	4	15	(25%)
61-70	3	2	5	(8%)
Total	42	18	60	100

Source: Own compilation (2019)

Table 2 shows age distribution of the respondents. 14 were in the age group of 20 -35 years representing 23%; 26 were in the age group of 36-50 years representing 43%; 15 were in the age group of 51-60 years representing 25% and 5 were in the age group of 61 to 70 years representing 8%.

4.1.3 Educational Level of the Respondents

Education level is one of the demographic characteristic of the respondents. Level of education was measured according to the Zambia education system. The respondents had to indicate their highest level of education; there was a distinguishing between primary school, secondary, college and any other higher level. Level of education and its distribution indicated below;

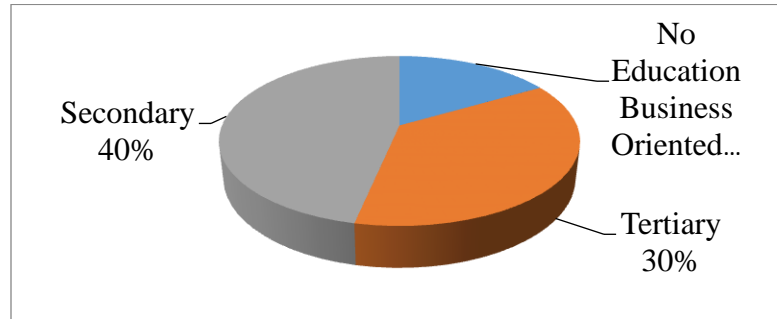


Figure 3: Educational Level of Respondents

From figure 3, 40% (24) of the respondents interviewed were from secondary school. 30% (18) of the respondents were from tertiary that is either from college or university while 30% (18) of the respondents interviewed did not have an education but were business oriented.

4.1.4 Marital Status

The respondents were asked to state their marital status. Table 3 represents marital status.

Table 3: Marital Status of the Respondents

Status	Frequency	Percent
Married	15	25
Single	20	33
Divorced	06	10
Widows & Widowers	19	32
Total	60	100

Source: Field work (2019)

Table 3 shows that the 15 of the respondents representing 25% were married, 20 respondents representing 33% were singles, 6 representing 10% were divorcees and 19 representing 32% were Widows and Widowers.

4.1.5 Participant Gender, Codes and Category

The Key Informants who were the participants were composed of men and women from various selected institutions and backgrounds namely: PACRA (1), Big Banks (3), MFIs (5) and Ministry of Finance (1). A total of ten (10). The 10 participants were each given a code for easy of identification during the findings and discussions. The purpose was to avoid using their names

of which they were aware. This enhances ethical standard and as such participants were willing to give the information to the researcher. Table 4 shows the participant category and code.

Table 4: Participant category and code

Category	No. of Participant	Gender (M/F)	Participant Code
PACRA	1	M	ACRA 1
Big Banks	3	M F	BB1- BB2 BB3
MFI's	5	M F	MFI1- MFI3 MFI4-MFI5
Ministry of Finance	1	M	MF 1
Total Participants	10		

Source: Researcher's Own

The table above shows category of participant code, gender and number per group. The code for PACRA is ACRA 1; Big Banks codes were from BB1-BB3; MFI's codes were from MFI1-MFI5 and Ministry of Finance code MF1. Six males and four females, making a total of ten participants.

4.2 The State of Growth in SMEs Financing in Lusaka

The respondents and the Key Informants were tasked to describe the state of growth in SMEs financing through the use of questionnaires and in-depth interviews. In order to ascertain the state of growth of SMEs, certain proxy indicators were used in order to arrive at a conclusion. The findings were recorded either graphically or described according to themes.

4.2.1 Registered SMEs

The respondents were asked to state whether their enterprises were registered. The following results are shown on table 5.

Table 5: Whether the enterprise was registered

Response	Frequency	Percent
Yes	28	47
No	32	53
Total	60	100

Source: Field work (2019)

Table 5 shows that 28 of the respondents representing 47% registered their enterprises whilst the 32 (53%) did not registered their SMEs. It was observed that most of the SMEs were not legally registered.

The majority of the participants namely the Micro Finance Institutions, PACRA, Banks and Ministry of Finance official who were interviewed on this theme all agreed that most of the SMEs were not legally registered citing many reasons such as avoiding high corporate tax; administrative barriers, socio-cultural attitudes and criminality among others. A Key Informants MF 1 gave the following narrative why the majority of SMEs do not favour registering their enterprises with PACRA:

“...some of the SMEs who are running these businesses do not want to come out in the open because most of SMEs are not legalized such as, smuggled goods, and therefore not authorized by Zambian law. Their worry is that once exposed, SMEs in accessing finance will come to an end and thereby no growth and/or may be arrested by the law enforcement officers”.

and the Key Informants MF 1 gave the following narrative as to why the majority of SMEs do not favour registering their enterprises with PACRA;

“Some of the SMEs who are running these businesses do not want to pay tax because paying tax reduces their profits and that they do not see the benefit of paying taxes. When one goes to the hospital, the doctors are saying there are no drugs, at school they pay, at all government departments where they need their services, they are expected to pay”.

In support of MF1, ACRA 1 gave the following narrative on the registration of SMEs with a different view from the MF1 and noted:

“A few numbers of SMEs that register their enterprises do so for the sake of registration but in the actual sense they are only owner registered. Even when they are registered, they are like those who are not registered because they are still considered as sole proprietors and they still run away

from paying corporate tax. This is the same with those who do not entirely want to register. They only register to take advantage of opportunities from government or private sector. The medium and large enterprises are able to understand the significance of registration than micro enterprises”.

4.2.2 Number of full time Workers for the Enterprise

The respondents were asked to state the number of full time workers for the enterprise. The following results are shown on figure 4.

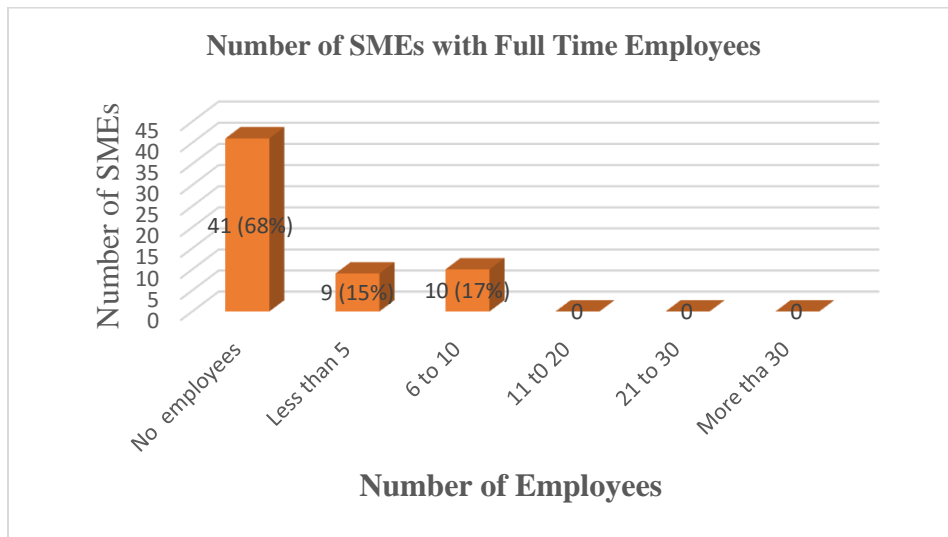


Figure 4: Number of SMEs with the number of full time workers

The figure shows the number of SMEs with the number of full time workers. The figure shows 41 SMEs representing 68% have not employed full time workers, 9 SMEs representing 15% have employed less than 5 full time workers and 10 SMEs representing 17% have employed 6 to 10 full time workers.

The study reviewed the number and form of full-time workers in the SMEs surveyed. The findings from the majority of this research showed that very few SMEs employed full time workers. The majority of workers are owners of SMEs and family members. A Key Informants MF 1 gave the following narrative why the majority of SMEs do employ their families:

“Since the volume of business is small at a micro or small level, many SMEs are there in SMEs in accessing finance to support their family members. Therefore, their family members are supposed to contribute labour towards the enterprises. If they don’t contribute, it means they have nothing to support them. The SMEs owners fail to employ full time workers because it is another added cost to the business that cannot generate enough profit to pay them.”

A MFI 3 gave the following narrative as to why the majority of SMEs do not employ full time workers:

“Full time workers are costly to keep in those SMEs because they have to be paid whether profit or no profit. When employing them, one has to contribute to NAPSA and other statutory organisations. As MFIs we have noticed this complaint when we have soft loans to our members. On their proposals they indicate the number of full-time workers but in the actual sense they have their family members”.

4.2.3 Ownership of Enterprise

The respondents were asked to state the kind of ownership in terms of sole proprietorship partnership and cooperative of the SMEs. The following results are shown on figure 5.

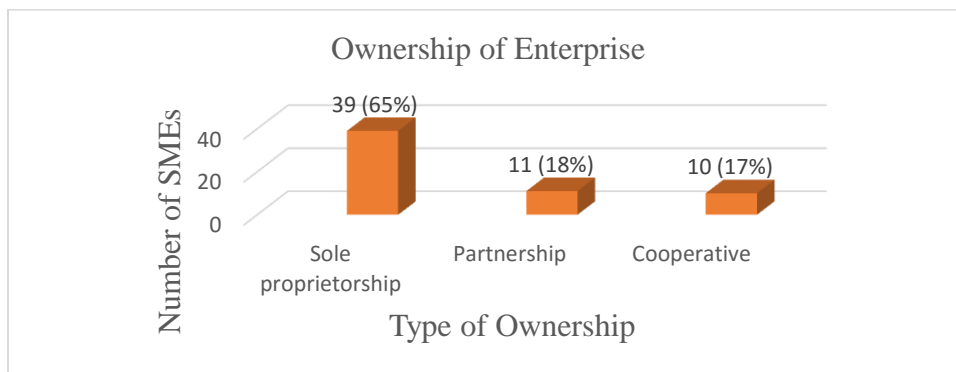


Figure 5: Type of Ownership

Figure 5 shows the type of Ownership of the SMEs. 39 SMEs representing 65% fall under the category of sole proprietorship, 11 SMEs representing 18% fall under the category of partnership and 10 SMEs representing 17% fall under the category of cooperative.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed all came up with one sub-theme saying summarized as, “SMEs a way to survive as a family”.

According to ACRA 1’s observation was that:

“Most of the SMEs that are registered are categorically stated as micro, small, medium and large enterprises. It is interesting that many are in the category of micro and small enterprises. Even big firms or large firms sometimes register in the category of small or micro in order to run away from many legal implications such as statutory tax. Therefore, more than half of those firms are registered as a sole proprietorship”.

A MFI 2 described the status of SMEs in that:

“The majority of SMEs that are in our business portfolio fall under the category of micro Enterprises in which sole proprietorship is dominant form of business. This has been confirmed by the size of the firm’s employees and employing their own families. The owners are in charge of these businesses and in most cases do not produce accounts”.

4.2.4 Source of Business Finance of the Enterprise

The respondents were asked to state the source of business finance of the enterprise. The following results are shown on table 6.

Table 6: Source of business finance of the Enterprise

Detail	Frequency	Percent
Family/friend	36	60
Savings	16	27
Financial Institutions	8	13
Total	60	100

Source: Field work (2019)

Table 6 shows the source of business finance of the enterprises. 36 SMEs representing 60% depend on family/friend as the source of business finance of the enterprise, 16 SMEs representing 27% depend on savings as the source of business finance and 8 SMEs representing 13% depended on financial institutions as the source of business finance.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed on this theme, all agreed that the source of business finance of the enterprise is solely from the owners of the SMEs. The finances come from family members, their own labour and very few get from Micro Finance Institutions as most of them can’t manage to attain the conditions necessary from the banks. One Ministry of Finance official noted;

“Most of the SMEs depend on their families to start their businesses and very few get money from the banks. They expect to grow the money from the sales of their merchandises and which in most cases the profits are meant for the up keep of the family”.

A BB 2 confirms the source of business finance of the enterprise as solely from the owners of the SMEs and narrates;

“The source of business finance of the enterprise is mainly from the owners of the SMEs and has not been much when SMEs are required to contribute towards funding of a new investment. This has been a source of under investment for many SMEs as they fail to get loans from many financial institutions that include MFIs”.

4.3 Internal Factors that Affect Growth in SMEs in Lusaka

The respondents and the Key Informants were tasked to state internal factors that affect growth in SMEs financing through the use of questionnaires and in depth interviews. In order to ascertain the above facts, certain major factors were measured in order to arrive at a conclusion. The findings were recorded either graphically or described according to themes.

4.3.1 Lack of Security/ Collateral has affected their Business

The respondents were asked to state whether lack of security/ collateral has affected their businesses in terms of growing their finances. The following results are shown on figure 6.

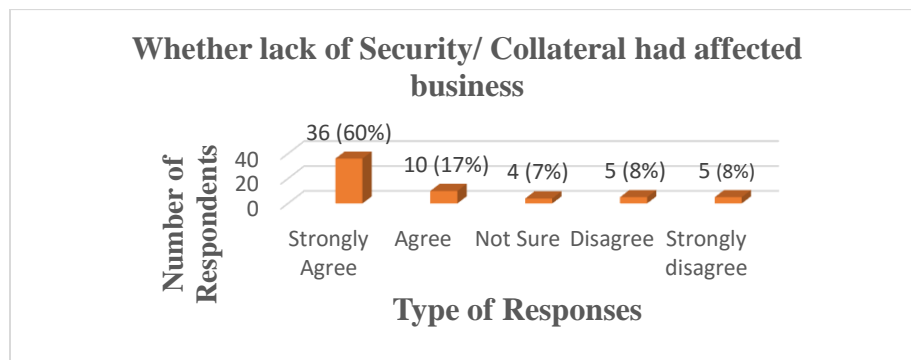


Figure 6: The State of lack of Security/ Collateral on business

The figure shows whether lack of security/ collateral has affected their businesses. 36 SMEs representing 60% strongly agreed that lack of security/ collateral had affected their business; 10 SMEs representing 17% agreed that lack of security/ collateral had affected their business, 4 SMEs representing 7% were not sure, 5 SMEs representing 8% disagreed that lack of security/ collateral had affected their business and, 5 SMEs representing 8% strongly disagreed that lack of security/ collateral had affected their business.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed on this theme, all agreed that lack of collateral is the major factor preventing them from accessing loans from the financial institutions and the banks. One Micro Financial Institution noted:

“Most SMEs owners do not own assets that have property rights. They mostly own household goods or properties such as televisions, beds, chairs, tables among others. Very few have assets that have property rights such as title deeds that banks require as collateral. As such it’s impossible for banks to let their money go without any sureties in case of eventualities, therefore, there are many risks from such owners”.

A BB 2 confirms the source of business finance of the enterprise as solely from the owners of the SMEs and narrates;

“The source of business finance of the enterprise is mainly from the owners of the SMEs and has not been much when SMEs are required to contribute towards funding of a new investment. This has been a source of under investment for many SMEs as they fail to get loans from many financial institutions that include MFIs”.

4.3.2 How Lack of Equity Base has affected their Business

The respondents were asked to state whether lack of equity base has affected their businesses. The following results are shown on table 7.

Table 7: Whether lack of equity base collateral had affected their business

Responses	Frequency	Percent
Strongly Agree	38	63
Agree	20	33
Not Sure	2	4
Total	60	100

Source: Own compilation (2019)

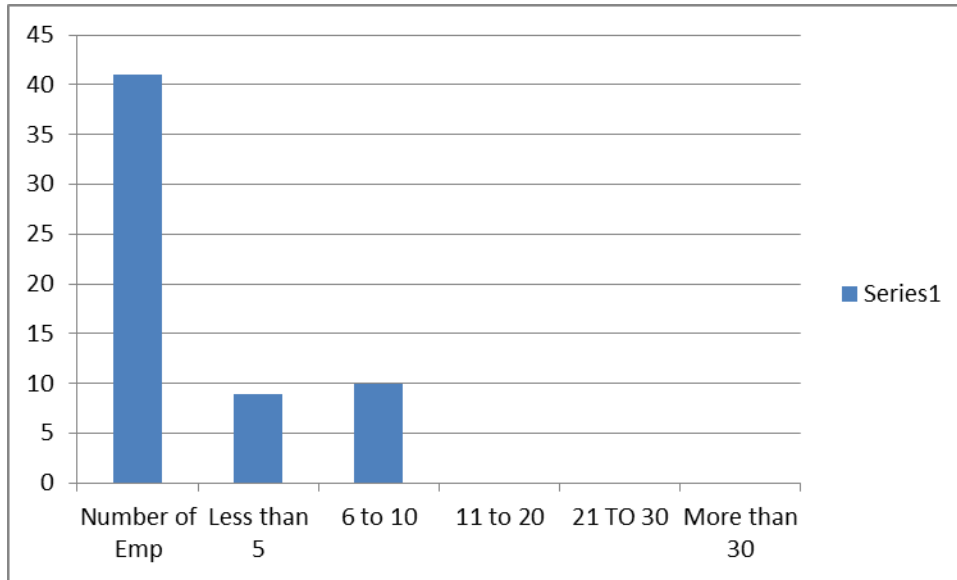


Table 7 shows whether lack of equity base has affected their businesses. 38 SMEs representing 63% strongly agreed that lack of equity base had affected their business; 20 SMEs representing 33% agreed that lack of equity base affected their businesses and 2 SMEs representing 4 % were not sure whether lack of equity base had affected their businesses.

The Micro Finance Institutions, Banks and Ministry of Finance officials who were interviewed on this theme all agreed that one of the reasons why even those SMEs that are registered fail to do is to contribute equity when they are asked to do so by lenders and financiers. Ministry of Finance official noted:

“It becomes difficult for SMEs to contribute equity to any project as they lack enough resources for their businesses. If they contribute equity, it means that they stop carrying out their businesses and fail to feed their families. Their little money is tied up in their business and profit is mostly for home and family”.

4.3.3 Lack of experience in management has affected their businesses

The respondents were asked to state whether lack of experience in management has affected their businesses. The following results are shown on figure 7.

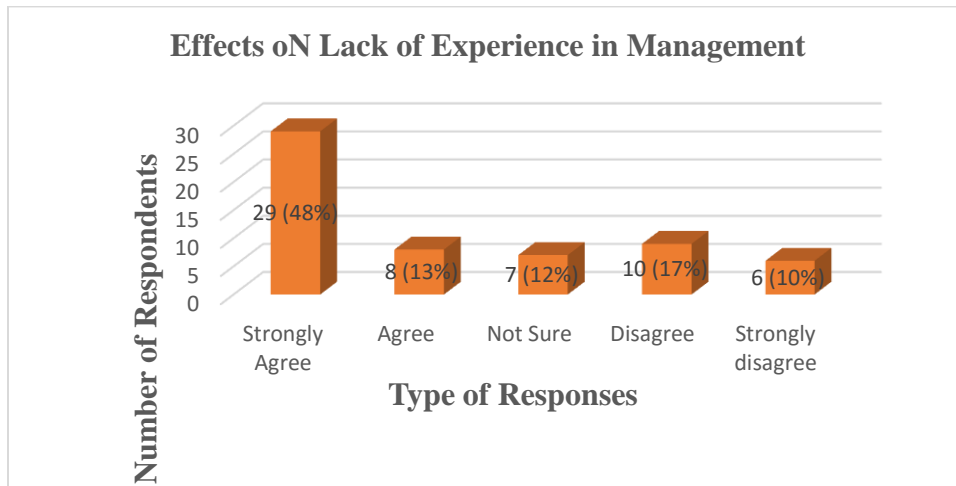


Figure 7: Whether lack of experience in management had affected their businesses

Figure 7 shows whether lack of experience in management had affected their businesses. 29 SMEs representing 48% strongly agreed that lack of experience in management had affected their businesses. 8 SMEs representing 13% agreed that lack of experience in management had affected their businesses, 7 SMEs representing 12% were not sure. 10 SMEs representing 17% disagreed that lack of experience in management had affected their businesses and 6 SMEs representing 10% strongly disagreed that lack of experience in management had affected their businesses.

With regard to issue of SMEs management, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that, most of the SMEs were owned and operated by owners themselves compared to those managed and operated by workers. Moreover, most of them have gone into that business without training from formal institutions about entrepreneurship. The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that, nearly all SMEs were faced by lack of management in their daily operations that made them to get less income which in turn lowered their performance. One Micro Institution noted:

“It’s not surprising that most SMEs in Zambia are owned and managed by the entrepreneur and his/her family. What it means is that all the functions of management are carried out by the inexperienced manager himself and the children. In most cases accounting of resources becomes very difficult especially when it comes to record keeping. At the end of it, profit becomes difficult to ascertain without proper records. The manager becomes the jack of all trades”.

4.3.4 Lack of Technology has affected their Businesses

The respondents were asked to state whether lack of technology had affected their businesses. The following results are shown on table 8.

Table 8: Whether lack of technology had affected their business

Responses	Frequency	Percent
Strongly Agree	30	50
Agree	21	35
Not Sure	3	5
Disagreed	3	5
Strongly disagreed	3	5
Total	60	100

Source: Own compilation (2019)

Table 8 shows whether lack of technology had affected their businesses. 30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

With regard to issue of SMEs technology, the Micro Finance Institutions, Banks and Ministry of Finance officials who were interviewed revealed that there is limited access to appropriate technology due to lack of finance in most types of SMEs. They all agreed that there has been stagnation of those SMEs especially in Africa. A MF 1 expert narrated the ordeal of SMEs with regard to the use of technological know-how:

“The biggest problem why our SMEs are not graduating quickly from one stage to the other in terms of numbers and quality production is that most SMEs have not invested heavily in technology and their skills are static. In comparison to Africa and many Asian countries, African countries have lagged behind in terms of transfer technology”.

Table 9: Descriptive Statistics of factors affecting SMEs growth

	N	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Lack of Security	60	4.59	.505	-.180	.398	-2.091	.787
Lack of Equity Base	60	4.22	.690	-.480	.398	-.845	.778
Lack of Experienced Management	60	3.69	.890	-.724	.388	.040	.749
Lack of Technology	60	2.36	1.150	.483	.388	-.776	.751
Valid N (listwise)							

The table above shows the number of respondents, mean, Standard deviation, skewness and kurtosis of the above variables. Lack of security ($M = 4.59$, $SD = 0.505$) was the most agreed variable that affected access to finance, followed by lack of equity ($M = 4.22$, $SD = 0.69$), lack of experienced management ($M = 3.69$, $SD = 0.890$) and the least was lack of technology with ($M = 2.36$, $SD = 1.150$).

4.4 External Factors that Affect Growth in SMEs in Lusaka

The respondents and the Key Informants were tasked to state whether there were some external factors that affected growth in SMEs financing through the use of questionnaires and in depth interviews. In order to ascertain the above facts, certain proxy indicators were used in order to

arrive at a conclusion. The findings were recorded either graphically or described according to themes.

4.4.1 How High Taxation had affected their Businesses

The respondents were asked to state whether high taxation had affected their businesses. The following results are shown on table 10.

Table 10: Whether high taxation had affected their business

Responses	Frequency	Percent
Strongly Agree	30	50
Agree	20	33
Not Sure	10	17
Total	60	100

Source: Own compilation (2019)

Table 10 shows whether high taxation had affected their businesses. 30 SMEs representing 50% strongly agreed that high taxation had affected their businesses. 20 SMEs representing 33% agreed that high taxation had affected their businesses, 10 SMEs representing 17% were not sure. With regard to issue of taxation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of the term taxation. One Ministry of Finance official interviewed observed that:

“In most cases, when they hear about it, what comes into their mind is that profit is reduced and the SMEs are closed. It is one reason why most SMEs are not registered due to fear of taxation. In most cases, SMEs do not understand how tax is being implemented in Zambia. Those who are registered are always scared of high taxation.”

4.4.2 High Interest Rates had affected their Businesses

The respondents were asked to state whether high interest rates had affected their businesses. The following results are shown on table 11.

Table 11: Whether high interest rates had affected their business

Responses	Frequency	Percent
Strongly Agree	25	42
Agree	30	50
Not Sure	5	8
Total	60	100

Source: Own compilation (2019)

Table 11 shows whether high interest rates had affected their businesses. 25 SMEs representing 42% strongly agreed that high interest rates had affected their businesses. 30 SMEs representing 50% agreed that high interest rates had affected their businesses, 5 SMEs representing 8% were not sure.

With regard to issue of high interest rates, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of high interest rates from banks who give loans to them. One bank official, BB 2 noted:

“Because of high interest rates, SMEs owners are afraid to get loans because they feel they work for the banks not for themselves. This very reason has made SMEs owners to shun getting loans from banks”.

4.4.3 Tight conditions with Banks had affected their Businesses

The respondents were asked to state whether tight conditions with banks had affected their businesses. The following results are shown on table 12.

Table 12: Whether tight conditions with banks had affected their business

Responses	Frequency	Percent
Strongly Agree	40	67
Agree	15	25
Not Sure	5	8
Total	60	100

Source: Own compilation (2019)

Table 12 shows whether lack of technology had affected their businesses. 30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing

35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

With regard to issue of tight conditions from banks, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that the conditions have made these SMEs managers to shun such loan services available to them. One banker, (BB 2) notes:

“The conditions that are required for one to get a loan are many on the side of SMEs’ owners. Medium and Large scale enterprises are able to get these loans because they have all what the banks require from them ranging from collaterals, better accounting and management of many resources”.

The Ministry of Finance official, (MF1) observed that:

“There are few institutions which are providing loans and those that give loans provide loans with a lot of conditions such as high interest rates and short loans payback periods which made it difficult for entrepreneurs to access them”.

4.4.4 Effects of Corruption on SMEs Business

The respondents were asked to state whether corruption had affected their businesses. The following results are shown on Figure 8.

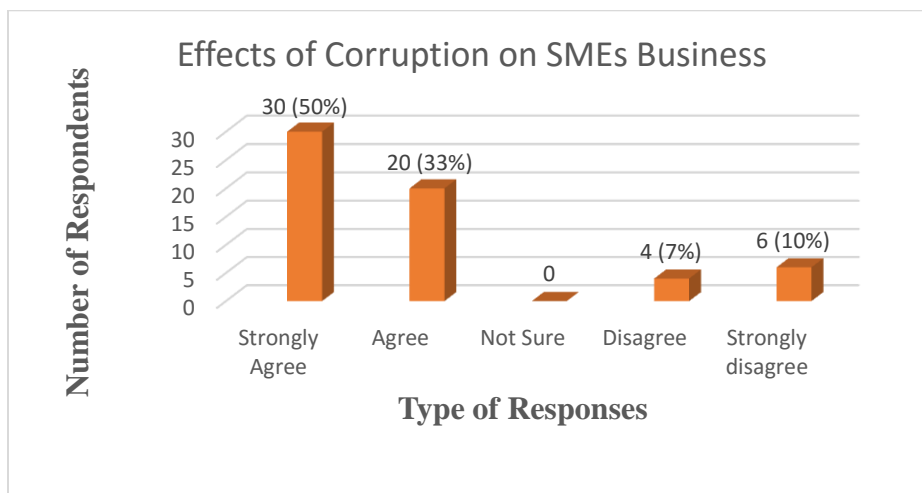


Figure 8: effects of corruption on SMEs business

Figure 8 shows whether corruption had affected their businesses. 30 SMEs representing 50% strongly agreed that corruption had affected their businesses. 20 SMEs representing 33% agreed that corruption had affected their businesses, 4 SMEs representing 7% disagreed that corruption had affected their businesses and 6 SMEs representing 10% strongly disagreed that corruption had affected their businesses.

With regard to issue of corruption the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that corruption has affected many institutions in Zambia, hence forth has a spiral effect on the SMEs. One Ministry of Finance official (MF1) acknowledged and observed that:

“Corruption has affected all in Zambia, even where government wants to help SMEs through many institutions, you will find that those who are supposed to benefit lose out. Only those who are connected do get the services. Those who are not connected continue to suffer at the hands of the corrupted officials”.

4.4.5 Effects of Competition on SMEs

The respondents were asked to state whether competition had affected their businesses. The following results are shown on Figure 9.

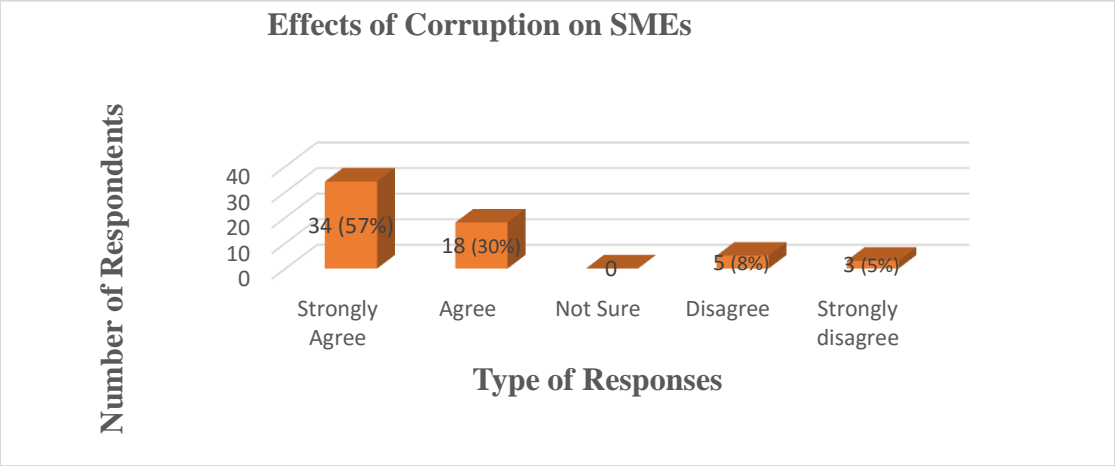


Figure 9: effects of competition on SMEs

Figure 9 shows whether competition had affected their businesses. 34 SMEs representing 57% strongly agreed that competition affected their businesses. 18 SMEs representing 30% agreed that competition had affected their businesses, 5 SMEs representing 8% disagreed that

competition had affected their businesses and 3 SMEs representing 5% strongly disagreed that competition had affected their businesses.

With regard to issue of competition, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that there is high competition in these SMEs because many of those go into the same enterprises such as retailing of the same materials.

4.4.6 Effects of Inflation on SMEs Businesses

The respondents were asked to state whether inflation had affected their businesses. The following results are shown on table 13.

Table 13: Effects of Inflation on SMEs businesses

Responses	Frequency	Percent
Strongly Agree	29	48
Agree	16	27
Not Sure	15	25
Total	60	100

Source: Own compilation (2019)

Table 13 shows whether lack of technology had affected their businesses. 29 SMEs representing 48% strongly agreed that inflation had affected their businesses. 16 SMEs representing 27% agreed that inflation had affected their businesses, 15 SMEs representing 25% were not sure.

With regard to issue of inflation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that inflation has been found to affect the SMEs negatively because those who borrow are affected as their money lose value. BB 2 narrated how SMEs fear to get loans as a result of inflation:

“They are few SMEs that understand how inflation comes into play in the economy but, the good news is that SMEs owners see inflation in the increase of expenses when they buy goods for investments. The increase of expenses lessens how much to buy and finally has a negative impact on profits of SMEs. SMEs are as well consumers with their family; therefore, they see how much goods and services are bought at an exorbitant price. This means when SMEs owners get loans from MFIs and banks their buying powers increases and the value of goods reduced. This affects their profits and negatively affects loan repayment”.

Table 14 Descriptive summary statistics of external factors that affected growth of SMEs in accessing finance

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Tight Conditions with Banks	60	4.67	1.064	-2.017	.399	3.98	.768
High Interest	60	4.33	.764	-.683	.368	.330	.759
Inflation	60	3.93	1.118	-1.219	.358	.604	.759
High Taxation	60	3.91	.754	-.941	.333	1.61	.768
Competition	60	3.78	.937	-1.370	.313	2.30	.768
Corruption	60	3.63	1.120	.483	.308	-.776	.759
Valid N (listwise)							

The table above shows the number of respondents, mean, Standard deviation, skewness and kurtosis of the above variables. Tight conditions with banks ($M = 4.67$ $SD = 1.064$) was the most agreed external variable that affected access to finance, followed by high interest ($M = 4.33$, $SD = 0.764$), inflation ($M = 3.93$, $SD = 1.118$), high taxation ($M = 3.91$, $SD = 0.754$), competition ($M = 3.78$, $SD = 0.937$) and the least is corruption ($M = 3.63$, $SD = 1.120$).

4.5 Chapter Summary

A summary of the findings is provided. The data presented in this chapter was organized from the data collection tools that are results from the questionnaires and interviews. The findings from both the questionnaires and interviews were similar. That clearly showed that the majority of the respondents had a strongly feeling that there were factors affecting growth in a negative way in SMEs financing. Based on the findings, data analysis and discussions were provided, and lastly conclusions were made and later recommendations were proposed.

The findings on the State of Growth in SMEs financing in Lusaka, it was revealed that the majority of SMEs were not legally registered that is 53% did not register their SMEs, employ 1 to 10 full time workers, the majority fall under the sole proprietorship and the main source of finance or capital is from the family and friends.

The findings on whether there were internal factors that affect growth in finance, the study revealed that internal factors have been affecting growth in SMEs in Lusaka in that the majority 77% of SMES stated lack of collateral hampered their business operations resulting in unwillingness of banks to finance them; 63% lacked management experience in managing this type of business and 85% lacked technological advancement to enhance the overall performance.

The findings on whether there were external factors that affect growth in finance, the study revealed that external factors have been affecting growth in SMEs in Lusaka, results have revealed that 83% of the SME owners/managers stated that tax laws have added to the administrative burden of small businesses, 92% stated high interest rates affected businesses, 92% stated that financial institutions have tighter conditions on loans, 83% stated that corruption had hindered so much of their operations, 87% stated that competition had makes them fail to compete with many businesses and 75% stated that inflation had made them to lose the value of their capital

CHAPTER FIVE: DISCUSSION OF FINDINGS

5.1 The State of Growth in SMEs in Lusaka

The state of growth in SMEs was measured by certain observable characteristics that must show finance has brought certain observable phenomena. These were measured in terms of whether the enterprise was registered, the number of full time workers for the enterprise, who owns the enterprise and the source of business finance of the enterprise.

5.1.1 Registered Enterprises

The results revealed that 28 of the respondents representing 47% registered their enterprises whilst the 32 (53%) did not registered their SMEs.

It was observed that most of the SMEs were not legally registered. Not legally registered means that business is not done in a formal way. When businesses are formally registered, there are many advantages that one gets from the business and outside business such as supplying goods to government departments among others. When businesses are not formally registered, there are many disadvantages. One such disadvantage is that SMEs cannot apply for a loan from the banks and micro finance institutions. This means that the capital for the business cannot grow. When there is no financial growth, it means the business is static. The above finding agrees with the findings from the Ministry of Commerce, Trade and Industry, (2003-2004: 49) in a survey that was conducted and concluded as follow:

“...most of the MSMEs continue to operate as informal enterprises as only 2 percent are registered with the Patents and Companies Registration Agency (PACRA) which constitutes the main criteria for formality. Regulatory and administrative barriers, fees and financial requirements, corruption and criminality constitute the main reasons for low formality.”

Ministry of Commerce, Trade and Industry in a survey in 2008 on the micro, small and medium enterprise development policy again found that the existence of a large micro, small and medium enterprises sector, of which over 90% were informal, had serious implications on the functioning of the economy.

5.1.2 Number of Full time Workers for the Enterprise

The results revealed that 41 SMEs representing 68% had not employed full time, 9 SMEs representing 15% have employed less than 5 full time workers and 10 SMEs representing 17% have employed 6 to 10 full time workers. The findings mean that many of the SMEs do not employ full time workers. The full time workers in the range of 1 to 10 is extremely low. This means the owners do employ themselves together with their family, a sign that most SMEs have not grown up in terms of productivity. High productivity requires more employees. There are consequences of employing family members as compared to outsiders.

The research findings are concurred with the Ministry of Commerce, Trade and Industry (2003-2004) which revealed that the MSMEs sector employs 30 percent of the 4.9 million strong labour-force out of which 58 percent were entrepreneurs (self-employed). The study further revealed that the sector in Zambia was dominated by enterprises with a workforce of less than 10 employees. Among the studies that concur with this study is by Kumar and Yen (2006) who defined a small business as a business which is privately owned and operated, with a small number of employees and low volume of sales. Equally Muturi (2016) defined a Medium Industries Development Corporation which defined Small and Medium Enterprises according to two main factors, annual sales turnover and number of full time worker.

5.1.3 Ownership of Enterprise

39 SMEs representing 65% fall under the category of sole proprietorship, 11 SMEs representing 18% fall under the category of partnership and 10 SMEs representing 17% fall under the category of cooperative.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed all agreed with this sub-theme saying, “SMEs a way to survive as a family”. They looked at how these SMEs are owned by the owners with their family, hence the ownership sole proprietorship fits them well. They all agreed that it is a way of survival by the owner and the family and as such the growth of SMEs in terms of finances was concluded to be difficult as it is from hand to mouth.

The majority of the SMEs fall under the sole proprietorship. There are many advantages and disadvantages of such ownership. It does not create a difference between the entity and the owners in terms management. This means the owner of a sole proprietorship remains personally

liable for all the business's debts. At the same time, he can do whatever pleases him/her. This means that finances in such a way cannot easily be accounted. Therefore, there is no difference between the owner and the business. There are advantages partnership as compared to sole proprietor because risks are diversified, consolidate business synergies, and form associations that can champion and lobby government for better business environment (ILO, 2005)

The above finding concurred with the Ministry of Commerce, Trade and Industry (2003-2004) which revealed that:

“The business profile factors like size of the firm and the firm structure influenced the level of SMEs listing. Since majority of the companies were family owned, there was fear of diluting ownership of the company and therefore most of the companies would shy away from listing to maintain the family ownership structure.”

The Ministry of Commerce, Trade and Industry (2003-2004) further revealed that most companies were not listing because they were family owned businesses and therefore had the fear of diluting ownership structure.

5.1.4 Source of Business Finance of the Enterprise

36 SMEs representing 60% depend on family/friend as the source of business finance of the enterprise, 16 SMEs representing 27% depend on savings as the source of business finance and 8 SMEs representing 13% depended on financial institutions as the source of business finance.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed on this theme, all agreed that the source of business finance of the enterprise is solely from the owners of the SMEs. The finances come from family members, their own labour and very few get from Micro Finance Institutions as most of them can't manage to attain the conditions necessary from the banks.

The source of business finance of any enterprise is an important factor in business as it gives a relative standing in a way one uses the capital at his/her own discretion. Capital in the hands of the sole proprietorship, partnership and cooperative are differently handled and used in business. The source of business finance of the enterprise which is solely from the owners of the SMEs means she/he has control to use the finances without being questioned and as such, can disadvantage the business if the owner is careless in financial transactions.

The findings are in agreement with Mwarari (2014) who revealed that the main source of finance or capital in Zambia and other developing countries is from the family and friends. This source of finance was found to be disadvantaged. Generally, this type of capital tends to be for lower financial value in terms of and usually taken in form of equity or part ownership rather than a debt due to the uncertainty of growth of the business (Wolf, 2015). In another study in KwaZulu-Natal, South Africa, Sitharam and Hoque (2016:282) studied factors affecting the performance of small and medium enterprises. The results agreed with the above findings showing that the main source of funding was equity (34.33%).

5.2 Internal Factors that Affect Growth in SMEs Financing in Lusaka

Another factor studied was the internal factors in the business environment of the SMEs. There are many challenges in that regard in the internal environment of SMEs. The study collected data on such factors, which included security/ collateral, lack of equity base, lack of experience in management and lack of technology to have impacted negatively on the growth of the SMEs.

5.2.1 Lack of Security/ Collateral has affected their Business

36 SMEs representing 60% strongly agreed that lack of security/ collateral had affected their business; 10 SMEs representing 17% agreed that lack of security/ collateral had affected their business, 4 SMEs representing 6% were not sure, 5 SMEs representing 8.5% disagreed that lack of security/ collateral had affected their business and, 5 SMEs representing 8.5% strongly disagreed that lack of security/ collateral had affected their business.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed on this theme, all agreed that lack of collateral and capital is the major factor preventing them from accessing loans from the financial institutions and the banks.

The majority of SMEs amounting to 77% have agreed that lack of collateral had hampered their business operations. Lack of collateral with SME owners is due to lack of property rights such as title deeds to lands. Not only lack of property risks, but as well as many internal risks. This is true because many risks and uncertainties are associated with such kind of businesses when dealing with banks. This has resulted from many SMEs being financed from owners' equity and in most cases the funds have not been enough to engage in production. Due to uncertainties,

conditions are imposed on whosoever wants to get a loan. This is a reason why large firms easily get loans than SMEs because they have security or collateral. This is true according to many studies that small firms had more credit constraints than large firms (Beck 2007; Fatoki *et al.* 2010; Pandula 2011).

The findings agree with many empirical researchers. Govori (2013) on access to finance in Kosovo observed that many SMEs especially almost all new enterprises which had difficulties in accessing external financing due to lack of collateral and the unwillingness of banks to finance new established small enterprises. Okpara & Kabongo (2009) had also pointed out that one of the major reasons for the difficulty of borrowing money from the bank was because of lack of required collateral to be used as security against the borrowed funds.

5.2.2 Lack of Equity base has affected their Business

38 SMEs representing 63% strongly agreed that lack of equity base had affected their business; 20 SMEs representing 33% agreed that lack of equity base affected their businesses and 2 SMEs representing 4 % were not sure whether lack of equity base had affected their businesses.

The Micro Finance Institutions, Banks and Ministry of Finance officials who were interviewed on this theme all agreed that one of the reasons why even those SMEs that are registered fail to do is to contribute equity when they are asked to do so by lenders and financiers.

The findings have revealed that SMEs did not have enough capital and only depend on owners investing large amounts of money from personal resources. The aspect therefore of investing more is of a challenge as they need capital which in most cases is not available and thereby having lesser returns due to little investment they manage to put in. This is due to the fact that, when a large amount of money is invested in a business it gives a chance for the owners to purchase modern inputs including machines transportation equipment's (trucks, cars), building warehouses, employ skilled labors, and investing in market research which in turn will lead to the higher outputs. Therefore, SMEs that were established with investing in large amount of money performed better compared to those started by the small amount of money. Hence, capital structure (capital size) has a great effect on SMEs growth since it can determine the amount of income accrued by the owners.

The findings agree with many empirical researchers. Govori (2013) on access to finance in Kosovo observed that SMEs started their businesses with their internal or owners' equity. This was observed from almost all new enterprises which had difficulties in accessing external financing. This was compounded by SMEs' lack of collateral and the unwillingness of banks to finance new established small enterprises. Pandula (2011) also concluded by saying that many new firms may not have accumulated adequate assets and may not meet the collateral requirements of financiers. This made it difficult for them to access loans.

5.2.3 Lack of Experience in Management has affected their Businesses

29 SMEs representing 49% strongly agreed that lack of experience in management had affected their businesses. 8 SMEs representing 14% agreed that lack of experience in management had affected their businesses, 7 SMEs representing 12% were not sure. 9 SMEs representing 15% disagreed that lack of experience in management had affected their businesses and 6 SMEs representing 10% strongly disagreed that lack of experience in management had affected their businesses.

With regard to issue of SMEs management, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that or shown that, most of the SMEs were owned and operated by owners themselves compared to those managed and operated by workers. Moreover, most of them have gone into that business without training from formal institutions about entrepreneurship. The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that, nearly all SMEs were faced by lack of management in their daily operations that made them to get less income which in turn lowered their performance.

The results show clearly that 63% of the SME owners/managers agreed that lack of management experience in managing this type of business has hampered their businesses. Management is not only needed in SMEs, but in many business organizations. Owners/managers of such need to plan and control, lead, organize and hire (staffing) if SMEs are to survive in order to obtain the necessary skills to run these businesses. SMEs failure is a result of lack of managerial experience in many instances.

The above finding was strongly supported by many empirical researchers among them are Hisrich and Drnovsek (2002). In their study, it was revealed that managerial competencies positively played a significance part in the performance of SMEs. Other who supported this view

are Martin and Staines (2008). Shepard, Douglas and Shanley (2000) further observed that many an entrepreneur often start a new enterprise, while ignorant of many key elements of running their own enterprises. Other researchers such as Lotz & Marais (2007); Sola, Teruel & Solano (2014) had observed that what helps most entrepreneurs is their experience and knowledge about all functional areas of business for survival and success.

5.2.4 Lack of Technology has affected their Businesses

30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

With regard to issue of SMEs technology, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that there is lack of technology in most types of SMEs.

The majority of the SME owners/managers agreed that (85%) believed that technological advancement can improve growth of the SMEs. Capital or loans could be channeled to many SMEs owners, but without technology in the modern world, business becomes difficult and hard to attain. Technology simply means tools that can simplify many issues of life in the business environment such as the use of a computer, calculator, and internet among others. With technology business life becomes easy and exchanging of information. Therefore, technology is undeniable in our businesses.

This result of the importance of having technology had been supported by studies carried out by Levey and Powell (2000) in that application of technology adoption of Information Technology assist organizations in storing information, as well as communicating with customer, suppliers and business partner who facilitate business transactions, and enhance the overall performance of SMEs, leading to a better performance in reducing the operating expenses as a whole. Arinaitwe (2006) also concurred with the findings above on technology in that the primary reasons small business continued to face growth challenges in developing countries even when governments have supported SMEs is their lack of technological capabilities.

5.3 External Factors that Affect Growth in SMEs in Lusaka

External factors were equally studied in order to ascertain whether they had an effect on the growth of SMES. There are many challenges in that regard in the external environment of SMEs. The study collected data on such factors, which included high taxation, high interest rates, tight conditions with banks, corruption, competition and inflation.

5.3.1 High Taxation had affected their Businesses

30 SMEs representing 50% strongly agreed that high taxation had affected their businesses. 20 SMEs representing 33% agreed that high taxation had affected their businesses, 10 SMEs representing 17% were not sure.

With regard to issue of taxation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of the term taxation.

The survey results revealed that 83% of the SME owners/managers believe that tax laws have affected the growth of their business. This could be true in many developing countries; regulations on tax have not been consistent and in most cases taxes have impacted negatively on the profit of these SME owners/managers.

This is consistent with the findings of past research, where tax compliance costs for SMEs are viewed to have negative impacts on SMEs (Venter and de Clercq, 2007). The most difficult areas for compliance have been singled out as income tax and Value Added Tax (Mollentz, 2002). Tax requirements add to the administrative burden of small businesses and use resources that could, otherwise, be used for managing such businesses more effectively (Abrie and Doussy, 2006).

5.3.2 High Interest Rates had affected their Businesses

25 SMEs representing 42% strongly agreed that high interest rates had affected their businesses. 30 SMEs representing 50% agreed that high interest rates had affected their businesses, SMEs representing 8% were not sure. With regard to issue of high interest rates, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of high interest rates from banks who give loans to them. The survey results revealed that 92% of the SME owners/managers believe that high interest rates impact negatively on their businesses. High interest rates to a business are a cost that impacts negatively

on the profit of these SMEs. This is undeniable evidence in most developing countries of the world.

Many studies that have been conducted on the impact of high interest rates on the performance of business have reported the negative impact it brings to the business. Oaya and Mambula (2004) found high lending rate to have impacted negatively on the SMEs in Nigeria's economic development. Storey (2014) has revealed that many of these SMEs ended up getting loans at higher interest rates because banks considered them as high-risk borrowers. Others researchers that have agreed with this finding are Okezie, Ihugba, Alex Odii and Njoku (2014) and Obiajuru (2012) and had observed that high interest rate is a challenge to SMEs in that those financial institutions that were available charged higher interest rates of about more than 28 percent in additional to loan collateral which SMEs did not have.

5.3.3 Tight conditions with Banks had affected their Businesses

30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, SMEs representing 5% were not sure. SMEs representing 5% disagreed that lack of technology had affected their businesses and SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

With regard to issue of tight conditions from banks, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that the conditions have made these SMEs managers to shun such loan services available to them.

The survey results revealed that 92% of the SME owners/managers believe that financial institutions have tighter conditions on loans they give to SME and that had impacted negatively on their businesses as they cannot afford to get a loan. Tighter conditions do not mean lack of collateral, but many stringent state of affairs in which SMEs are unable to provide answers to the lenders. Tighter conditions mean SMEs remain with their equity in their businesses because of inaccessibility to credit facilities.

This finding is consistent with the findings of Oaya & Mambula (2004) in which it was revealed that due to stringent conditions that were set up by industry to access credits to SMEs, the credits granted to SMEs had little impact on their growth.

5.3.4 Corruption on SMEs Businesses

30 SMEs representing 50% strongly agreed that corruption had affected their businesses. SMEs representing 33% agreed that corruption had affected their businesses, SMEs representing 7% disagreed that corruption had affected their businesses and 6 SMEs representing 10% strongly disagreed that corruption had affected their businesses.

With regard to issue of corruption the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that corruption has affected many institutions in Zambia, hence forth has a spiral effect on the SMEs. The survey results revealed that 83% of the SME owners/managers believe that corruption had impacted negatively on their businesses as they fail to get the services directly from the service providers. Instead services are provided to people who can bribe service providers to provide them.

This finding is consistent with the findings of the World Bank (2005) where it was revealed that 70 percent of SMEs confirmed that corruption hindered so much of their operations. The Ministry of Commerce, Trade and Industry (2003-2004) in Zambia after a survey that was conducted had found corruption as one of the factors that constituted the main reasons for low formality with SMEs.

5.3.5 Competition on SMEs Businesses

SMEs representing 57% strongly agreed that competition affected their businesses. SMEs representing 30% agreed that competition had affected their businesses, SMEs representing 8% disagreed that competition had affected their businesses and SMEs representing 5% strongly disagreed that competition had affected their businesses.

With regard to issue of competition, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that there is high competition in these SMEs because many of those go into the same enterprises such as retailing of the same materials. The survey results revealed that 87% of the SME owners/managers believe that competition had impacted negatively on their businesses as they fail to compete with many businesses. It is without doubt that developing countries such as Zambia among others compete with other countries due to globalization resulting in increased trade barriers and other restrictions generally favor those countries. As a result of globalization coupled with market economy, SMEs fail to compete with foreign companies. Competition is good in a market economy because it increases

efficiency and quantity supplied. Demand is fixed by the invisible hand. On the other side, competition is not good especially when the market is not developed in SMEs and this has a negative impact.

This finding is consistent with the findings of the Finscope survey (2010) where it was found that competition ranked as the third greatest obstacle to growth for businesses. Govori (2013) found that one other factor that affected the growth and development of SMEs in Kosovo was competition. Govori (2013) further observed that SMEs were usually not very competitive when it comes to market knowledge, innovation, prudent investment, business operations and good management. A survey of SMEs in developing countries by the World Bank, findings of research with regard to competition represented a risk for survival for individual enterprises. The barriers resulted in weaker competition, unfair competition and adversely affected investments (World Bank 2010).

5.3.6 Inflation on SMEs Businesses

SMEs representing 48% strongly agreed that inflation had affected their businesses. SMEs representing 27% agreed that inflation had affected their businesses, SMEs representing 25% were not sure. With regard to issue of inflation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed acknowledged that inflation has been found to affect the SMEs negatively because those who borrow are affected as their money lose value.

The survey results revealed that 75% of the SME owners/managers believe that inflation had impacted negatively on their businesses as they lose the value of the capital. This means that the strength of the kwacha is weakened and in turn affects the business growth of SMEs. This is not strange as the Zambian economy portrays such characteristics. Having a weakening kwacha may be harmful to business profits of the SMEs. If the government stabilizes inflation results, it will reduce lending rates for SMEs.

This finding is consistent with the findings of Ehlers and Lazenby (2007) who found that weak kwacha and high inflation rates were some of the characteristics of Zambian economic environment.

5.4 Summary

The main purpose of this chapter was to discuss the findings of the study which was focused on factors affecting growth in small and medium enterprises in Lusaka. The discussion was that there were internal and external factors affecting growth in small and medium enterprises financing in Lusaka. The growth in finance was measured by measured by certain observable characteristics in which it was revealed that many SMEs were not registered, the number of full time workers for the enterprise were in the range of one to ten employees and the majority of the SMEs were owned by individuals and helped by their own families. This had made it difficult for them to access certain business opportunities outside their businesses.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATION

6.1 Introduction

This study on the factors affecting growth in small and medium enterprises financing in Lusaka has provided substantial understanding on the dilemma faced by SMEs in the growth of finances. The previous chapter dealt with the discussion and analysis of the findings of the study. This chapter looked at the conclusion and recommendations, and further looked at proposed future researches to enrich the study of SMEs growth in finance.

The purpose of this study was to examine factors affecting growth in small and medium enterprises financing in Lusaka visa vie exploring the state of growth in SMEs financing, identifying internal factors that affect growth in SMEs financing and identifying the external factors that affect growth in SMEs financing.

Questions guiding the study were:

- i. What is the state of growth of SMEs in Kabwata Constituency, Lusaka?
- ii. What are the internal factors that affect growth of SMEs in Kabwata Constituency, Lusaka?
- iii. What are the external factors that affect growth of SMEs in Kabwata Constituency, Lusaka?

6.2 Conclusions

The growth of SMEs in Kabwata Constituency of Lusaka is closely associated with a number of factors. The present study revealed that some factors have adversely affected the growth of SMEs in Kabwata Constituency, Lusaka. Financial inadequacy is a factor which has significantly constrained the growth and expansion of the SME sector in Kabwata Constituency, Lusaka. The lack of access to new technology is another vital factor which has limited the growth and expansion of SMEs. However, access to new technology is directly linked to the availability of financial resources. Government regulations on imports and exports, particularly imposed duties and restrictions on certain raw materials also act as limitations on the growth and expansion of SMEs. This study also revealed that the level of education of the owner of the enterprise has a direct impact on the growth of SMEs. Moreover, this study revealed that the majority of

Kabwata SMEs have little access to the international market and serve only the domestic market which in turn has had a negative impact on the expansion of SMEs.

6.3 Recommendations

The findings have revealed a number of issues which required the researcher to make specific recommendations at the following levels that were set out in chapter one under significance of the research. These are: SMEs owners, the-would be small investors in SMEs, the government or policy makers (Ministry of Finance). The following are specific recommendations that have been proposed by the researcher.

6.3.1 At the Level of SMEs Owners

In order for the SMEs owners to help themselves trying to resolve the problem of factors affecting growth in SMEs financing, the researcher proposed that SMEs owners/managers have to work hard to formalize their businesses such as registration in order to do business in a formal way and get advantages that go with formal registration. There are many benefits of registering a business such as applying for loans, supplying goods to other registered companies among others. Another recommendation is that SMEs must avoid proprietorship type of ownership as this will merge them with potential investors such as a cooperative that is SMEs should form cooperatives to guarantee them for credit facilities as this will boost their owners' equity. The cooperative model is the best for SMEs especially when most SMEs are at a micro level. The SME owners/managers are also recommended to take advantage of government programmes to train them in many management issues that will help them to run their businesses and SME owners/managers to take advantage of technological advancement to improve their business.

6.3.2 Availability of Managerial Skills

The government should start offering basic business and financial management skills as this will enable the SMEs to make informed investment decisions. This will enhance their entrepreneurial skills that will enable them to recognize and exploit the available business opportunities.

6.3.3 Access to Infrastructure

Access to infrastructure affects the growth of SMEs only to a moderate extent. However, the study recommends renovations of public goods such roads, electricity power and water to weather changes.

6.3.4 Access to Finance

The study found out that most SMEs prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs. The study there fore, recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing.

6.3.5 Government Policy and Regulations

The study found out that the government policy and regulations has a moderating effect on the growth of SMEs .The study therefore recommends that the government should move in quickly to create policies that favour the growth and expansion of SMEs. This will save the businesses from the challenges they face when trying to access financing from mainstream commercial banks.

6.3.6 At the level of the-would be Small Investors in SMEs

In order to help the would be SMEs, it is recommended that the would be SMEs are aware of what goes on in the sector before rushing into the sector. Awareness and understading the problem of factors affecting growth in SMEs financing will help the would be SMEs to make a judicious decision before joining the sector.

6.3.7 At the level of the Government or Policy Makers (Ministry of Finance)

Having looked at the contribution of SMEs in various literature reviewed and realized the importance of this sector in the economic development of this country, the Government should seriously regulate many external factors affecting finance such as tax laws, interest rates and

tighter conditions by banks so that many would be and those already in the sector could help grow the economy especially at a time when many white collar jobs are scarcely available and make the SMEs to benefit more.

6.4 Areas for Further Study

- i. The current study focused on ‘factors affecting the growth in SMEs financing with regard to Kabwata constituency of Lusaka Urban’. Research efforts are needed to examine these factors in all the provinces and rural areas in order to have a comparison of the findings as this study put much emphasis in few selected areas of Lusaka.
- ii. Most of the internal and external factors were selected in this study and leaving other factors such as the role and contributions of donors in financing the sector, the role and contributions of other sectors such as agriculture in financing the sector because financing does not mean money but as well as other financing in kind. Such needs to be studied and see how they affect growth in SMEs financing.
- iii. Most of the studies in SMEs financing have concentrated on SMEs that are in urban areas, nothing has been heard about SMEs in rural areas. Therefore, additional studies can be conducted with regard to SMEs in rural areas because factors affecting SMEs in urban areas are different from factors affecting growth of finance in rural areas.
- iv. There is further need to measure growth in SMEs financing from many different SME sectors such as agriculture, manufacturing, retailing among others. This is important to avoid generalisation in that other SMEs in other sectors could not have been explored.

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APPENDICES

Appendix 1: Informed Consent and Questionnaire

Dear respondent,

The questionnaire presented is purely for academic purposes. It is a requirement for the partial fulfillment of the award of a Masters' Degree of Business Administration (MBA) Finance. Your cooperation will be highly appreciated.

Section A: Optional

1. **Gender:** Male [] Female []
2. **Your Age:**
3. What is your Educational Level? Masters [] Bachelors [] Diploma []
College Certificate [] Grade 12 [] Grade 9 [] Grade 7 []
4. What is your Marital Status? Single [] Married [] Widow []
Separated [] Divorced []

Section B

5. Have you registered your enterprise? Yes [] No []
6. Which industry most closely describes your business?
Manufacturing [] Service [] Retailing [] Agriculture []
7. Which one of the following best describes the ownership of your enterprise?
Sole proprietorship [] Partnership [] Cooperative [] Private []
Public [] Others (specify).....
8. How long have you been in this business? 2 years or less []
3 years to 5years [] 6 years to 10 years [] 10 years & above []
9. Number of full time workers in your enterprise? Less than 10 [] 10-30 []
30-50 [] 50-100 [] More than 100 []
10. Do you keep records for your business? Yes [] No []
11. If yes, how do you keep them? Manually [] Electronically (computerized) []
12. Are you aware of the availability of sources of finance for SME? Yes [] No []
13. If yes, which sources of finance do you know? Tick all that apply.

- a) Commercial banks Yes [] No []
- b) Non-banking financing institutions Yes [] No []
- c) Micro financing institutions Yes [] No []
- d) Money lenders Yes [] No []
14. Which is your preferred source of business finance? (tick all that apply)
- Savings [] Family/Friends [] Bank Loan [] Indigenous lender []
- Leasing [] Financial Institution [] Others (Specify).....
15. If it's a financial Institution, what financial instrument it it?
- Loan [] Leasing [] bonds [] Others (Specify).....
16. Have you ever taken loan from banks before? Yes [] No []
17. If NO, why?.....
18. What type of documents were you asked for.....
19. How easy was it to produce such documents?.....
20. Has the enterprise requested finance from micro-finance institution?
- Yes [] No []
21. If your answer is NO, WHY? (tick one that apply)
- a) Not aware of the programme []
- b) This programme was not available []
- c) Did not meet the acceptance criteria []
- d) Procedure to obtain this financing was too complicated []
- e) Did not opt financing under this programme []
- f) Others (please specify).....
22. Please, tick what suits your own experience about each of the following statements using the statement below:

	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree			
	1	2	3	4	5			
	How is the state of growth of micro financing institutions in SMEs financing?			1	2	3	4	5
a	Are you aware of the existence of Micro							

	Financing Institutions in Lusaka?					
b	Do you know why they were formed?					
c	Have MFIs benefitted entrepreneurs in Lusaka?					
d	How are the conditions for loans in Micro Financing Institutions?					
e	How are interest rates compared to big banks?					

23. Please, tick what suits your own experience about each of the following statements using:

Strongly Disagree	Disagree	Not Sure	Agree		Strongly Agree		
1	2	3	4		5		
	Challenges in accessing bank loan		1	2	3	4	5
a	Interest Rates						
b	Cumbersome procedure						
c	Collateral requirement						
d	The cost of transaction						
e	The availability of accounting information						

24. Please, tick what suits your own experience about each of the following statements using the statement below:

Strongly Disagree	Disagree	Not Sure	Agree		Strongly Agree		
1	2	3	4		5		
	Are there socio-economic factors that affect your SME?		1	2	3	4	5
a	For your living, do you rely on income from your SME?						
b	Do you have any training in entrepreneurship?						

c	Do you have experience in running your SME?					
d	Were you motivated in your SME business?					
e	Do you socialize with different types of people?					

25. Please, tick what suits your own experience about each of the following statements using the statement below:

Strongly Disagree		Disagree	Not Sure	Agree	Strongly Agree		
1		2	3	4	5		
	In your views about SMEs, what do you know about the following statements?		1	2	3	4	5
a	Many SMEs are at the same level?						
b	Many SMEs are growing?						
c	Do you believe that small firms have more credit problems than large firms?						
d	Are you required to pay any fee for your business?						
e	Do you have adequate assets for your business?						

26. Please indicate your views about the following statements in relation to finance for the business on a scale.

Strongly Disagree		Disagree	Not Sure	Agree	Strongly Agree			
1		2	3	4	5			
	Your views about the following statements in relation to SME environment			1	2	3	4	5

a	Does corruption affect your business?					
b	How competitive is your business?					
c	Does Government support SMEs?					
d	Does inflation affect your SME business?					
e	Does tax affect your SME business?					

27. What do you think government should do to develop SMEs access to bank finance?

.....

Appendix 2: Check List for the Key Informants

1. Are you aware of the existence OR the state of growth in SMEs financing of Small Medium Enterprises and their economic importance?
2. What is the role of commercial banks on the promotion and facilitation of accessing finance investments in Zambia?
3. What type of people or organisations do you give loans to?
4. How do commercial banks support SMEs in accessing financial support?
5. What are the conditions for banks to give loans to individuals and organisations?
6. Are you aware of types of Finance Institutions and type of services they offer in Lusaka province?
7. If yes, do you know the challenges facing small scale entrepreneurs in accessing loan from Banks?
8. What challenges do you think government has in developing SMEs?
9. Do you think the Government is doing enough to help SMEs in Zambia?
10. If no, what do you suggest the Government should do?

