

**ADDRESSING CHALLENGES IN ACCESSING FINANCE BY SMALL
AND MEDIUM ENTERPRISES (SMES) IN ZAMBIA: A PRAGMATIC
APPROACH**

BY

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**A Dissertation submitted in Partial Fulfillment of the requirements for the
award of the Master of Business Administration in Finance**

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LUSAKA

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DECLARATION

I, **Jemana Bwembya**, hereby declare that this is my original work and has not been submitted to any other College, Institution or University other than the University of Zambia and that all sources of information have been duly acknowledged in partial fulfillment of the award of the Masters of Business Administration -Finance.

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APPROVAL

This Dissertation by Jemana Bwembya is approved as a fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA) - Finance.

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ABSTRACT

The objective of the study on ‘Addressing Challenges in Accessing Finance by Small and Medium Enterprises (SMEs) in Kitwe District of Zambia, was to examine the constraints experienced by SME owners in their quest to access financing from financial institutions, to fund business initiatives such as startup endeavors, business operations, and business expansion. The study employed a mixed method research design. The sample for the quantitative approach for the study comprised 60 SMEs and 6 Banks while 4 institutions dealing with SMEs were included as key informants for the qualitative approach. Questionnaires were used to collect data which was subsequently analyzed using Descriptive analysis and chi square test of independence in IBM SPSS Statistics version 28. For the qualitative approach, interviews were for data collection while content analysis was used for data analysis. The findings revealed that access to finance has a significant relationship with SME capabilities of procuring new technology and improving performance for them to survive and attain sustainability and growth, hence the need to resolve the long-standing SME financing challenges like high interest rates, short term loan product offerings, and rigid requirements of collateral and audited financial statements. On the other hand, the study revealed that SME survival was not only dependent on accessibility to finance but also proper SME management, which affects operations and profitability and subsequently loan repayment capabilities. The findings also revealed that banks continued to prefer immovable assets as collateral when lending to SMEs. The study therefore recommends taking measures to resolve the challenges in SME financing through formulation of schemes to lend to groups of SMEs at relatively low rates while the group members of SMEs share default risks, implementation of Credit Guarantee Schemes, formulation of collateral registers with guidelines on valuation and disposal of securities, as well as provision of incentives to banks that lend and effectively monitor the performance of SMEs to ensure success. The implication of this study is that Government and nongovernmental organizations could make use of the research findings to reflect on the challenges, develop and implement effective intervention policies and laws in accordance with international best practices, aimed at spurring the SME sector for sustainable and inclusive growth.

Key Words: Small and Medium Enterprises (SMEs), SME Financing Challenges, SME Growth

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DEDICATION

This Dissertation is dedicated to my late mother Elizabeth Chisanga Bwembya, who often spoke about the importance of education. She always encouraged me to work hard and never give up on education no matter what obstacles I faced. Ms. Bwembya laid a great foundation upon which this success is premised and she would certainly have been the happiest person to read the Thesis. I shall forever love and cherish my mother. May Her Soul Continue to Rest in Heavenly Peace (MHSCTRIHP).

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ABBREVIATIONS

BoZ	Bank of Zambia
CEEC	Citizen Economic Empowerment Commission
COVID-19	Corona Virus Disease 2019
FSP	Financial Service Provider
GDP	Gross Domestic Product
GNI	Gross National Income
IFC	International Finance Corporation
KCM	Konkola Copper Mines
MCM	Mopani Copper Mines
MDG	Millennium Development Goals
MNDP	Ministry of National Development Planning
OECD	Organization for Economic Co-operation and Development
PLC	Public Limited Company
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
ZDA	Zambia Development Agency

OPERATIONAL DEFINITIONS OF TERMS

Small Enterprise is any business enterprise registered with the Patents and Companies Registration Agency (PACRA) bearing the following features:

- i) In the case of manufacturing and processing enterprises, total investment of plant and machinery, (exclusive of land and buildings), between Eighty Thousand Kwacha (ZMW80,000.00) and Two Hundred Thousand Kwacha (ZMW200,000.00);
- ii) In the case of trading and service providing enterprises total investment of up to One Hundred and Fifty Thousand Kwacha (ZMW150,000.00);
- iii) Annual Turnover of between One Hundred and Fifty Thousand Kwacha (ZMW150,000.00)and Two Hundred and Fifty Thousand Kwacha (ZMW250,000) Kwacha; and
- iv) Employing between Eleven (11) and Forty-Nine (49) persons.

* (Ministry of Commerce, Trade and Industry, 2008)

Medium Enterprise is any business enterprise larger than a small enterprise registered with PACRA and bearing the following features:

- i) In the case of manufacturing and processing enterprises, total investment of plant and machinery, (exclusive of land and buildings), between Two Hundred and One Thousand Kwacha (K201,000) and Five Hundred Thousand Kwacha (K500,000);
- ii) In the case of trading and service providing enterprises total investment between One Hundred and Fifty-One Thousand Kwacha(K151,000) and Three Hundred Thousand Kwacha(K300,000);
- iii) *Micro, Small and Medium Enterprise Development Policy 16;
- iv) Annual turnover of between Three Hundred Thousand Kwacha (K300,000) and Eight Hundred Thousand Kwacha (K800,000); and
- v) Employing between Fifty-One (51) and One Hundred (100) persons.

*Ministry of Commerce, Trade and Industry, 2008

Access to finance- good physical contact to lenders that are willing to lend or absence of hindrances to obtaining financial products like deposits, loans and services including insurance and equity products at an affordable cost,

*Chowdhury &Alam 2017.

Challenges to access financing- obstacles or hindrances faced in attempts to obtain funds for startup businesses and operations.

*Chowdhury &Alam 2017.

Collateral –Valuable property owned by someone who wants to borrow money that they agree will become the property of the company or person who lends the money if the debt is not paid back.

*Cambridge Dictionary.

Business growth – a stage where the business reaches the point of expansion and seeks additional options to generate more profit.

*Attract Capital, 2020.

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CHAPTER 1

INTRODUCTION

Introduction and Background

Small and Medium Enterprises (SMEs) are globally recognized as a key driving force to economic development, jobs and wealth creation. According to the OECD (2018), SMEs play a key role in economic growth, job creation, regional and local development and social cohesion.

Several SMEs are entrepreneurial in nature and are, therefore, very important to the innovation and economic growth of a country (Spear 2006). SMEs operate in diverse industries or groups of businesses like provision of services, agricultural, trade and the manufacturing sectors. Some of these companies are very innovative and have the potential to grow (Shane & Venkataraman, 2000).

Enhancing SMEs remains high on the policy agenda around the world, and many governments developed new initiatives in the course of 2016 and the first half of 2017. These were all designed to ease access to various sources of finance, in addition to the wide range of policy instruments already in place (OECD, 2018). Some of the interventions implemented by various governments across the globe, among them the United Kingdom, Australia, Greece and Czech Republic, which were highlighted in the OECD 2018 report, include credit guarantee, crowd funding activities (peer-to-peer lending and crowd-sourced equity funding) and regional specific funding among others (OECD 2018).

Similarly, the Zambian government attaches great importance to the growth of SMEs in the Country and has been making efforts to support SMEs (Nuwagaba, 2015). The Government of Zambia has been instrumental in creating an enabling business environment for SMEs by setting out initiatives through the Small Industries Development Organization (SIDO) which was later renamed as Small Enterprise Development Board (SEDB) (ZDA, 2015).

The SME sector is estimated to account for 97 % of all businesses in Zambia, 70 % of GDP and 88% of employment (ZDA, 2017). SMEs also play a key role in society as they tend to employ a large share of the most vulnerable segments of the workforce (ZDA, 2017). ZDA also holds the view that improving SMEs would help to reduce the youth unemployment rate and increase

the number of women in employment, as well as contribute to the progress towards achieving the United Nations Sustainable Development Goals of reducing social exclusion and enhancing productive capacities. Furthermore, it is accepted that SMEs have the potential to help achieve the Sustainable Development Goal on biodiversity and protection of wildlife, forestry and water that affect climate change (ZDA, 2017).

Access to finance is a critical prerequisite for the development and creation of SMEs (OECD, 2018). Long standing challenges in access to finance limit creation and growth of SMEs in many countries, which has often given rise to policy intervention (OECD, 2018).

In an effort to develop the SME sector, the Zambian government has taken several interventions. In November 2016, the Industrial Development Corporation (IDC) of South Africa signed a line of credit of USD20m with the Development Bank of Zambia (DBZ) to support SMEs in Zambia and in October 2010 the African Development Bank (AfDB) approved USD50m line of credit to DBZ for lending to local SMEs (ZDA, 2017). Other Government interventions include establishing the Citizens Economic Empowerment Commission and signing through ZDA, Memoranda of understanding with various banks among them Banc ABC, Madison Finance and Mizuho Financial Group to facilitate access to finance for SMEs.

Despite the foregoing, most SMEs in Zambia still struggle with accessing financing thereby making it difficult for them to grow (Nuwagaba, 2015). Therefore, the objective of this research is to examine the nature and causes of the challenges to proffer solutions to the challenges faced by SMEs when accessing funds for business operations.

1.2 Statement of the Problem

The growth and sustainability of the world's economy is focused on the SME's ability to create wealth for the owners and employment opportunities for the larger population thereby alleviating poverty and enhancing a country's economy (Karani 2015). Several SMEs are entrepreneurial in nature and are, therefore, very important to the innovation and economic growth of a country (Spear 2006).

In Zambia, the SME sector is estimated to account for 97 % of all businesses, 70 % of GDP and 88% of employment (ZDA, 2017). Given these statistics, the Zambian Government

attaches great importance to the development of the SME sector and has implemented various measures to ease access to finance and promote SME creation and growth. The measures include enactment of the Citizens Economic Empowerment Act of 2006 and the Movable Property Security Interest Act of 2016 to respectively offer loans and enable SMEs to borrow using movable assets. Other interventions include provision of loans under the Ministry of Youth, Sport and Child Development and Ministry of Tourism empowerment programmes (African Decision Newsletter 2020; MYSCD 2020).

To complement government efforts, the Zambia Development Agency (ZDA) developed strategies to promote the SME sector like enabling them to supply to chain stores, access government and mining contracts and export in order for them to realize profits and sustain their businesses with retained earnings (ZDA 2020).

On the other hand, under the Green Jobs Programme in Zambia, the International Trade Center in conjunction with WTO, Zambian Government and other stakeholders, address shortcomings in accessing financial services through trainings and mentorship in the areas of financial record and contract management which assures financial service providers of higher success rates and complements their monitoring and performance evaluation duties (Green Job Programme Report n.d.)

However, SMEs have continued to experience insufficient funding and this adversely affects their development and sustenance, subsequently diminishing their ability to effectively contribute to national economic growth (Karatin, 2015). In Zambia, the unmet demand for credit by both formal and informal SMEs is estimated at an annual finance gap of \$5.2 trillion which is 1.4 times more than the current credit supply to SMEs (Zambanker, 2018). It is also worth noting that CEEC in 2018 funded 64 SMEs against the target of 1600 because of the low level of empowerment funds released by the Zambian Treasury since 2014 with no funds having been released in 2018 compared to the budgeted ZMW42 million (CEEC Annual Report, 2018).

Additionally, SMEs that access debt financing from commercial banks face challenges like high interest rates and short-term repayment periods. This reduces SME profitability thereby threatening their survival and growth (Nuwagaba 2015). On the other hand, SMEs face the challenge of provision of immovable assets as the principal collateral because of difficulties in

determining the value of the movable collateral (Nuwagaba, 2015) as well as audited financial statements requirement.

SMEs on the Copperbelt Province, which is the hub of Zambia's economy because of its mining industry, and Kitwe city in particular, have not been spared from the aforementioned challenges in accessing funds. The challenges faced by SMEs in Kitwe, like in other parts of the Country, include high interest rates and short-term repayment period on bank loans, rigid requirement of immovable assets for collateral and financial statements. Additionally, government institutions like CEEC are inadequately funded and are biased to agribusiness and manufacturing, which makes it difficult for SMEs in other industries like mining to access funding from the institution.

Therefore, the research was undertaken to focus on change, documenting what is happening currently and recommending solutions that could be actualized to enhance financing for SMEs to enable them contribute to economic growth.

1.3 Purpose of the Study

The purpose of the study was to establish challenges in accessing finance by SMEs in Kitwe district of Zambia, with a view to formulating mitigation measures and eventually enhance their contribution to national economic growth.

1.4 Specific Research Objectives

In the quest to generate knowledge to contribute to the existing data, this study was guided by the following specific research objectives: -

- i. To examine the role of SMEs in the national economy.
- ii. To establish SME perceptions on the challenges they face in accessing financing;
- iii. To establish attempts made by SMEs to access finance for their enterprises; and
- iv. To determine effective measures in addressing challenges faced by SMEs in accessing finance.

1.5 Research Questions

Based on the specific objectives, this study sought to answer the following research questions:

- i. What is the role of SMEs in the national economy?
- ii. What are the perceptions by SMEs of the challenges they face in accessing financing (Nominalist Ontology and use of abduction)?
- iii. What attempts have SMEs made to access finance for their enterprises (Nominalist Ontology and use of abduction)? and
- iv. How can SME access to business financing be enhanced (Functional Pragmatism)?

1.6 Scope of the Study

The study was conducted to establish the challenges experienced by SME owners in accessing business financing in order to identify remedial measures from the actors' point of view, which would provide an evidence base for stakeholders in the SME sector to address the challenges. The study was conducted in Kitwe District of the Copperbelt Province in Zambia. The population of SMEs in Kitwe is indeterminate as some of the registered SMEs are dysfunctional while some of those that are operational are not registered. Although Kitwe has diverse business opportunities for SMEs, most of them are focused on the mining industry where they are either contracted directly by the mining firms or sub-contracted by other SMEs to carry out mining or supply, repair, maintain or operate mining equipment. Other business opportunities include trade, agribusiness, construction, and service provision. The scope of the study was limited to recruiting volunteers to participate by responding to questionnaires and interviews. The period for the researcher to engage volunteer participants was 3 months. The study focused on the Theories of Change (ToC) in alleviating challenges in SME financing with a view to proposing interventions in line with international best practices.

1.7 Significance of the Study

Since SMEs have been recognized by both developed and less developed countries as instruments for economic growth and development, there is an obvious and serious to resolve long standing challenges in accessing financing which is one of the crucial factors to SME survival, sustainability and growth. Therefore, the significance of this study lies in the fact that it was aimed at giving a coherent analysis of the nature of the challenges in accessing business financing for SMEs in Kitwe and in the Country at large with a view to finding effective remedies. The study was timely because the Country is presently confronted with challenges like low economic growth and high unemployment rate which could be mitigated through a robust SME sector. The implication of the study is that Government and other stakeholders can use the knowledge to develop innovations, laws and policies to enhance SME access to financing. In turn it is hoped that the survival and growth of SMEs will enable them to significantly contribute to reduction of unemployment levels especially for youths and women and the enhancement of the Country's GDP.

1.8 Organization of the Dissertation

The dissertation is organized and divided into six (6) chapters. Chapter One gives the Introduction/Background to the Study, Statement of the Problem, Purpose of the Study, Research Objectives and Questions, Scope and Significance of the Study. Chapter Two presents the Theoretical Framework on which the study was hinged, and the Literature Review which analyzed existing information on the topic, and in the process, identified gaps therein. Chapter Three presents the Methodology which was used in the collection and analysis of data. The Chapter highlights the Research Design, Sampling Procedures, Data Collection Instruments and Data Analysis techniques and Ethical considerations. Chapter Four presents the findings of the study through answers to the research questions. Chapter Five discusses the findings. Chapter six gives the conclusion of the study based on the objectives and presents recommendations for enhancing SME financing as well as Limitations of the Study.

1.9 Summary of Chapter One

The Chapter presented the background of the study highlighting challenges in accessing financing for SMEs and the interventions that Government has put in place to address the challenges. The Chapter also highlighted the Statement of the Problem, purpose of the Study, Research Objectives and Questions, Significance of the study, as well as operational definition of key terms used in the study and how the dissertation is organized. The Chapter Two provides a review of literature on challenges in SME financing with the primary aim of grounding the study in the context of existing knowledge, and in the process, identifying gaps, thereby justifying the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This Chapter begins with the Theoretical Framework that guided the study. The Chapter proceeds to review literature based on the study research objectives and questions. Literature on challenges and interventions by various stakeholders aimed at addressing the challenges is reviewed since this study seeks to recommend courses of action that will address SMEs' difficulties in accessing finance.

2.2 Theoretical Framework

Inadequate access to funds for investments is one of the greatest constraints to SME growth while access to financing is an important determinant of firm performance (Coste & Hristova, 2016; USAID 2019). Access to financing allows firms to invest in productive assets that promote growth, increase production, and hire new employees as inputs to production (USAID 2019). However, as already pointed out, in the attempt to access debt financing, SMEs face high interest rates, do not get long term loan products, or may not even get loans at all because they do not possess collateral and audited financial statements. ZSD Zambia (2017) indicates that part of the problem in failure to access credit is legal (requirement of immovable collateral) as well as informational (credit history and probability of repayment). Additionally, most financial systems do not factor loans based on contracts or trade credit or equity investing, all of which might otherwise benefit high-growth SMEs (USAID 2019). To address these constraints, SME financing programs are common among donors and policymakers with a view to developing new products and programs to provide SMEs with the financing they need to grow. Interventions include subsidized loans, credit guarantees, and risk-sharing arrangements (OECD, 2016; USAID 2019). In this regard, this study endeavored to recommend measures that are effective in spurring SME growth through improved access to finance. The remedies for SMEs' improved access to finance revolve around the Theories of Change (ToC) which suggest solutions to the problems of lack of access to and availability of access to appropriate.

This research is therefore grounded in the ToC in order to promote access to SME finance (USAID, 2019).

2.2.1 Access to Credit Information Theory of Change

OECD (2013) reports that SMEs do not provide adequate information and often lack capacity to produce adequate financial reporting, resulting in limited information available for the bank to make an informed lending decision. Because banks cannot adequately assess the risk and expected returns of the loan, they either charge a risk premium or deny the loan. Therefore, improving the flow of information between SMEs and lenders could promote SME lending (OECD, 2013, USAID 2019)

The OECD encourages establishment of a credit information bureau to enhance creditors' access to the borrowers' historical credit behavior, while accounting standards ensure greater transparency and reliability of financial accounts (OECD 2013). Improving financial literacy and the SMEs' capacity to report to financial institutions can further improve the information exchange between banks and SMEs (FSD Zambia 2017). OECD 2013) add that evidence shows that information asymmetries limit SMEs' access to finance and that credit information can improve financial inclusion for SMEs. Adequate information helps a lender to decide whether a firm is creditworthy and could be used to generate credit scores, predicting repayment based on borrower characteristics (USAID 2019). The World Bank (2014) reports that only about 50 percent of countries have a credit bureau, and that evidence shows that policy efforts directed at introducing credit registries can reduce information asymmetries between borrowers and lenders and can improve access to finance at the firm level. Several studies show a positive link between reforms in information-sharing systems and increased access to finance (World Bank, 2014).

Other than credit bureaus, banks have continued making efforts to improve access to information about potential SME borrowers by taking advantage of cross-selling opportunities with SMEs through provision of checking accounts, transaction banking services, and cash management services (USAID 2019). Through these services, the banks develop relationships with the SMEs and gain information about their financial behaviors, which, in turn, leads to SME lending (World Bank 2014; USAID 2019).

Therefore, in the quest to improve SME access to finance, stakeholders like government, financial institutions and SMEs should adopt best world practices as advised by the OECD and World Bank which include establishment of credit bureaux/credit registries as well as banks taking advantage of their clients to acquire adequate information to enhance information sharing systems. By making reforms in the information sharing systems, stakeholders would be promoting the Access to Credit Information Theory of Change.

2.2.2 Collateral Laws Theory of Change

Because of general risk in SME lending and inadequate information on the creditworthiness of SMEs, lenders usually ask for collateral to guarantee a loan. Data from the World Bank Enterprise Survey shows that around 79 percent of loans or lines of credit require some form of collateral (World Bank, 2014). However, movable assets, as opposed to fixed assets like land or buildings, often account for most of an SME's capital stock (Ayyagari et al., 2017). For example, in the developing world, 78 percent of the capital stock of businesses is in movable assets like machinery, equipment, or receivables, while only 22 percent is in immovable property (Ayyagari et al., 2017). On the other hand, lenders are often unable to accept movable assets as collateral because of nonexistent or outdated secured transaction laws and collateral registries (World Bank 2014; USAID 2019).

Many legal systems place unnecessary restrictions on collateral, leaving lenders unsure whether a loan agreement will be enforced by the courts (Ayyagari et al., 2017). Even with appropriate systems in place, uptake may be slow, since lenders must develop new products, learn to evaluate new types of collateral, and develop new practices for collection and liquidation (USAID 2019). Therefore, collateral system reforms could lead to greater lending, especially for smaller and younger firms. World Bank (2018) indicates that after reforms enlarging collateral menus were passed in a number of Eastern European countries to include movable assets like machinery and equipment, firms in movable-intensive sectors borrowed more, invested more in fixed assets, hired more workers, and became more efficient and profitable. Accordingly, the expansion of collateral laws to include movable assets can have positive impacts on SME growth, efficiency, and profitability if stakeholders adopt the Collateral Law Theories of Change.

2.3.3 Subsidized Loans Theory of Change

SMEs need a loan or credit to purchase services or equipment to run their businesses. However, most lenders are not willing to lend to SMEs on account of high default risk. A subsidy could change lenders' practices in lending to SMEs because it compensates for the lower returns to lenders from lending to less profitable SMEs that previously could not get financing (USAID 2019). Economic theory would suggest that access to subsidized credit should lead to higher SME growth, which is why subsidized credit lines and loans are popular (Ayyagari et al. 2017)

OECD (2013) writes that some governments (Kazakhstan, the Kyrgyz Republic and Mongolia), support SME access to finance through measures like subsidized interest rates, direct loans and tax exemptions, typically targeting specific sectors of the economy in order to support their development.

Between 1979 and 1991, the World Bank provided Sri Lanka with \$110 million in financing for SMEs through a series of four credit programs, known as the Small and Medium Industries (SMI) Program. The World Bank did not lend the funds directly; rather, the Program operated through an autonomous body known as the National Development Board (NDB). The NDB provided capital to participating financial institutions (PFIs), which then retailed the loanable funds to firms. Under the Program, firms would approach the participating credit institutions and apply for a loan. Upon approval, the firm's application would be forwarded to the NDB, which, in turn, would approve the loan and consequently refinance the PFI. A 10-year study of the Program showed that, although receiving the subsidized loan did lead to higher levels of investment for financially constrained firms, the firms did not increase their profits anymore nor did they become more economically efficient than those firms that received a loan without the subsidy and as such, subsidies should be used with precautions to ensure that they are prudently utilized and monitored (World Bank, 2014). However, it is worth mentioning that this assertion poses a geographical and knowledge gap in the context of SMEs experience in Zambia as it is yet to be established whether SMEs in Zambia would remain unprofitable even after being offered subsidized loans.

It must also be stated that although loan subsidies increase SME access to funds and consequently investment, mechanisms for effective monitoring should be put in place to ensure that SMEs do not over invest in equipment and machinery without proper projections of returns. The investment should be commensurate with returns. The other downside of credit subsidies is that they tend to distort competition in the market which is why it is imperative that they be deployed with care.

2.2.4 Credit Guarantees Theory of Change

Bank lending, which is a traditional source of business funding, has remained the main source of external financing for firms of all sizes world over. However, SMEs that access bank credit are subjected to harsh conditions because of high default rates while others fail to access finance because of inadequate collateral. On the other hand, most banks remain reluctant to lend to small firms because of a higher perceived risk and high transaction costs for the bank (OECD 2013, USAID 2019).

Because of the foregoing, donors and governments can encourage banks to lend to SMEs by sharing some of the credit risk through guarantees, either for a portfolio of loans or for individual loans. Risk-sharing arrangements, in which a donor or institutions reimburse a bank for a portion of the principal losses incurred on defaulted loans, can increase lending to SMEs (USAID 2019). Credit guarantees lower the amount of collateral that an SME needs to pledge to receive a loan because the guarantor provides part of the collateral (OECD 2013). According to World Bank (2014) credit guarantees can help SMEs grow more rapidly in terms of capital growth, although the loan guarantee also increases the probability of default.

Credit Guarantee Schemes (CGSs) are a popular policy instrument to facilitate SME access to finance both in developed and developing countries, but success often depends on the design and adaptation of its mechanism to local needs and objectives (USAID 2019). CGSs have been in use for many years in OECD countries and have been adopted in a wide range of emerging economies from the late 20th century onwards. There have been many successful examples as well as failed schemes. Both have provided useful insight into the benefits and pitfalls of CGSs (OECD, 2013).

OECD (2013) summarized the benefits as follows:

- CGSs are useful tools to direct credit towards groups of borrowers that are creditworthy but would not otherwise receive a loan because of insufficient collateral or credit history information.
- CGSs can be an incentive for banks to enter a new market and develop required expertise without high risk. By working with a guarantee scheme banks may also be encouraged to open more branches to reach a larger number of SMEs.
- A CGS also enables banks to expand their portfolio as a result of the leverage effect which allows providing more credit than capital available as a result of the lower risk. Leverage ratios in a number of European schemes including Turkey are around ten. This means that around ten units of guarantees have been issued for each unit of capital in the fund. In other cases, including those of Germany, Austria and France, leverage ratios are even higher than this.

Conversely, OECD (2013) summarized the downside of CGs as follows:

- Lenders taking advantage of the lower risks involved by increasing their profits.
- The effectiveness of a CGS can also be undermined by the problem of getting lenders involved in the scheme in the first place.
- Additional costs are likely to be incurred including additional administrative costs of participation incurred by the lending institutions, the cost of setting up the scheme and the cost of financing the guarantees. In many cases, these costs are likely to be passed on to borrowers, offsetting the benefits of lower interest rates.
- Adding another administrative layer to the lending process might also increase the time required to secure loans.
- Increase in moral hazard of both borrowers and lenders. Knowing that their loans are guaranteed, borrowers might not feel obliged to repay the loan, as losses will be absorbed by the guarantee agency. On the other hand, there might be laxity on the part of banks in their screening and monitoring of applications because of the lower risk

resulting from the guarantee. Sometimes the failures in the set-up of a guarantee scheme only become apparent after several years.

In summary, the Theories of Change form a basis for addressing the challenges faced in accessing SME financing. Adopting the Theories of Change should be a priority for policy makers to enhance SME financing. As discussed above, CGSs can be useful in addressing specific market failures related to SME lending while the establishment of a sound regulatory environment remains a precondition for the efficient operation of the financial markets. For example, an efficient financial market will regulate and reduce the information asymmetries between the parties through rules of accounting standards and credit information bureaus. At the same time, effective collateral regimes which are well drafted and enforce laws on property rights and bankruptcy procedures, will contribute to SME finance by reducing the risks and potential losses for lenders when providing loans based on collateral. It must also be mentioned that collateral registration is an important element to encourage banks to lend based on collateral and to insure creditors' claims on assets in cases of default.

Nevertheless, a number of creditworthy SMEs will not receive a bank loan because they lack collateral or only have collateral like intellectual property or movable assets that cannot easily be assessed by banks. In such cases, CGSs, subsidized loans and other instruments which target firms with high cash flow potential could help to provide easier access to finance.

2.3 Literature Review

2.3.1 Role of SMEs in National Economies

According to the OECD (2017) SMEs play an important role in national economies around the world by creating employment, value addition and contributing to innovation. SMEs are central to the efforts to achieve environmental sustainability and more inclusive growth (OECD 2017). In the OECD area, SMEs are the predominant form of enterprise, accounting for approximately 99% of all firms and providing the main source of employment, accounting for about 70% of jobs on average. SMEs are also major contributors to value creation, generating between 50% and 60% of value added on average (OECD, 2016b). The OECD (2016b) also reports that SMEs contribute up to 45% of total employment and 33% of GDP in developing countries. However, with the consideration of informal businesses, SMEs contribute to more than half of

employment and GDP in most countries irrespective of income levels (International Financial Corporation 2010). In addition, SME development can contribute to economic diversification and resilience especially for resource-rich countries that are particularly vulnerable to commodity price fluctuations (OECD 2016b).

Although not all SMEs are innovative, new and small firms are often the driving force behind the sort of radical innovations that are important for economic growth, since they can work outside of dominant paradigms, exploit technological or commercial opportunities that have been neglected by more established companies or enable the commercialization of knowledge that would otherwise remain un-commercialized in universities and research organizations (OECD, 2010a).

SMEs also contribute to value creation by adopting innovation generated elsewhere and adapting it to different contexts through incremental changes, and by supplying new or niche products which respond to diverse customer needs. They also contribute by serving locations that do not have a large enough scale to attract larger firms, (OECD 2010a).

Economic development is a process of economic transition involving the structural transformation of an economy through industrialization, rising GNP, and income per head (OECD 2012). Economic growth contributes to the prosperity of the economy and is desirable because it enables the economy to consume and contribute to more goods and services by increasing investment and employment, efficient use of inputs to expand output, and technological progressiveness (OECD 2012). The World Bank Report (2017) indicates that there is evidence that countries and firms grow faster when they are integrated with Global Value Chains through sustainable SMEs. On the other hand, write that any nation that experiences economic development and growth will benefit from improvement in the living standards especially if the Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (World Bank 2017).

World Bank (2021) adds that SMEs create job opportunities across geographic areas and sectors, covering a wide range of the labour force, including low-skilled workers, and providing prospects for development of skills. SMEs also help support their employees' access to health care and social services and as such, they are an important channel for inclusion and poverty reduction, especially but not exclusively in emerging and low-income economies (OECD

2016). Thus, upgrading productivity in a large population of small businesses, including in traditional segments and the informal economy, can create the opportunity for governments to attain both economic growth and social inclusion objectives, including escaping from low productivity traps and improving the quality of jobs for low-skilled workers (OECD, 2009, 2017b).

Small businesses can also represent an effective tool to address societal needs through the market and provide public goods and services. This is the case of social enterprises, which bring innovative solutions to the problems of poverty, social exclusion and unemployment, and fill gaps in general-interest service delivery (OECD, 2020). In many countries, the economic weight of the social and solidarity economy, in which social enterprises operate, has increased steadily in recent years, including in the aftermath of the global crisis. For instance, in France, in 2014, the social economy accounted for 10% of the GDP. In Belgium, between 2008 and 2014 employment in social enterprises increased by 12% and accounted, in 2015, for 17% of total private employment (OECD 2016). In the United Kingdom, in 2015, 41% of social enterprises had created jobs compared to 22% of SMEs (OECD 2020).

Furthermore, World Bank (2021) reports that SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development and that they represent about 90% of businesses and more than 50% of employment worldwide. Additionally, formal SMEs contribute up to 40% of national income (GDP) in emerging economies and these numbers are significantly higher when informal (unregistered) SMEs are included (World Bank 2021). It is estimated that 600 million jobs would be needed by 2030 to absorb the growing global workforce. This makes SME development a high priority for many governments around the world (World Bank 2021).

2.3.2 The Role of SMEs in the Zambian Economy

The discussion on the role of SMEs in Zambia is in line with Research Objective no. 1. As already pointed out, SMEs are identified as an important development agent globally. Similarly, in Zambia, SMEs have been recognized as crucial drivers of economic development. In Zambia, the SME sector is estimated to account for 97 % of all businesses, 70 % of GDP and 88% of employment, (ZDA, 2017). Deresa, (2014) writes that SMEs can act as the engine

of growth for Zambia's economy if they have access to market resources, including financing and an enabling environment.

In 2015, the United Nations General Assembly defined 17 Sustainable Development Goals (SDGs) comprising 169 related targets which should be achieved by 2030. These goals and targets are an essential part of the 2030 Agenda for Sustainable Development and build on the Millennium Development Goals of 2000 that were not fully achieved by 2015 (UN 2018). The UN SDGs address three central aspects of sustainability: economic prosperity, social equity and environmental protection. These target the major economic, social, and environmental concerns the world is currently facing.

The Ministry of National Development Planning Report (2020) states that Zambia considered the 2030 Agenda for sustainable development as a national agenda, since the development challenges that the nation seeks to address resonate with the goals agreed in the global Agenda. To this end, Sustainable Development has been taken as a constitutional issue and was included among the National Values and Principles in the 2016 amended Constitution aimed at guiding decision-making on the development process for Zambia. Consequently, the SDGs were mainstreamed into Zambia's 7th National Development Plan to the extent of 75% of the SDGs of applicable targets being fully aligned to the National Plan and 11% being partially aligned MNDP (2020).

In view of the foregoing, it is worth mentioning that the UN Report (2018) highlighted that together with innovation, entrepreneurship by SMEs was identified among key drivers of sustainability because of their potential to foster economic growth, promote sustainable agriculture and innovation, increase social cohesion, reduce inequalities, introduce climate change mitigation technologies and establish environmentally sustainable practices and consumption patterns. Therefore, the starting point for achieving the SDGs is the economic domain; individual entrepreneurs, startups and SMEs and their nexus to social and environmental development.

Kambone, (2017) agrees that sustainable development has been an important subject of discussion in the recent years, especially after it was raised in the UN Report on Sustainability, published in 2012 which resulted in the connection between sustainable development and SME

sector attracting a lot of attention from various stakeholders. The research findings of Kambone (2017) affirmed that SMEs help in the economic development of a country, in that they create employment opportunities, contribute to GDP and also provide government with revenue.

It is therefore worth noting that economic development can be driven by a strong SME sector. It is often acknowledged that governments should promote SMEs because of their greater economic benefits reckoned against large firms, in terms of efficiency, growth and job creation as it is estimated that they create 88% of employment (ZDA, 2017) and that they also play a key role in society as they tend to employ a large share of the most vulnerable segments of the workforce (ZDA, 2017). Further, many researchers have observed that SMEs enhance social change and community development and that, therefore, coordinated efforts should be taken by various stakeholders, particularly government, financial institutions and non-governmental agencies with the aim of supporting and boosting economic growth and development by fostering a strong SME sector.

However, despite countless pronouncements committing to developing the SME sector by the Zambian Government, Zambia has continued to lag behind in development and this has resulted in high poverty and unemployment levels. SMEs' establishment and expansion largely depends on well-articulated business growth strategies and access to relevant financial services.

Chisala (2008) writes that during the 1960s and 1970s Malaysia and Zambia had similar initial endowments of natural resources and had almost the same strength of economies with similar per capita incomes. Malaysia had rubber and tin as its main natural resources, while Zambia had huge deposits of copper and cobalt. However, Zambia has remained behind in terms of economic development, while Malaysia is now one of the most industrialized countries and has attained the status of an upper middle-income country. Kambone (2017) also writes that a survey conducted by the Ministry of Commerce Trade and Industry in 2007 indicated that at independence in 1964 the Zambian economy was broadly stable but characterized by slow growth and that using the World Bank Atlas method of ranking World economies, Zambia's GNI per capita stood then at US\$200. This was higher than those of Botswana, Egypt and Thailand, a state that endured until the late 1970s and early 1980s. Kambone (2017) adds that Zambia's GDP was also larger than that of Botswana, Gabon and Panama during this period and therefore questions how Zambia has lagged behind these countries.

The failure to industrialize Zambia could be attributed to inadequate commitment by successive Zambian governments to domesticate and effectively implement international best practices aimed at developing the SME sector, in spite of the realization that SMEs ought to be the bedrock of the economy. The prevailing situation therefore calls for stakeholders to return to the drawing board to address some of the fundamental issues in the SME sector which include access to financing. A robust SME sector should lead to attainment of economic growth and ultimately sustainable development, thus this research sought to gather solutions to the mentioned challenges by blending SME owner's points of view with international best practices which could be adopted by policy makers in government and other stakeholders in the sector.

2.4 Sources of Financing for SMEs

Several studies have accentuated the importance of SMEs in contributing to economic growth and job creation which makes SME sector development key among topics on the global development agenda. Many scholars have also highlighted that the ability of SMEs to stimulate growth and significantly contribute to economic development is limited by their ability to find adequate finance.

World Bank (2021) indicated that the size of the financing shortfall is in excess of \$2 trillion and suggests that an estimated one-half to two-thirds of formal SMEs lack proper access to finance. Access to finance is one of the severe constraints faced by SMEs, in addition to weak investment climate and poor infrastructure.

The IFC Report (2013) states that the financing constraint is more severe in less-developed countries, where financial markets are not well-developed, regulatory, and legal frameworks are weak, informational asymmetries are persistent, and risk management systems are not as robust; contending that a developed financial sector helps mobilize and allocate resources, and manage risks, thereby contributing to economic development.

It is a notorious fact that commercial banks are the major source of funding for SMEs as they provide approximately 70 and 58% of funding to formal micro enterprises and SMEs,

respectively (OECD 2016). For informal SMEs, commercial banks provide around 30% of the funds, while for micro enterprises, the figure is around 21%.

The IFC Report (2013), states that around 55 to 68% of formal SMEs-13.8 to 20.4 million firms- in developing economies are estimated to be unserved or underserved by the formal financial sector. This amounts to a credit gap of \$0.9 to \$1.1 trillion and is equivalent to 26 to 32% of current outstanding SME credit. Almost half of this credit gap is for medium sized enterprises, while small and very small enterprises constitute 29 to 36% and 19 to 23% respectively of the total credit gap for formal SMEs. In contrast, in developed economies, around 16% of formal SMEs are unserved or underserved, which amounts to a credit gap of 5 to 6% of current outstanding SME credit in these economies (OECD 2016).

The gap relative to current outstanding SME credit varies widely across regions. For example, Sub-Saharan Africa and Middle East and North Africa would require more than 300% increase in outstanding SME credit to close this financing gap, compared to 7 to 8% and 25 to 30% in East Asia and the Pacific, and Europe and Central Asia, respectively (IFC Report 2013).

Because of the credit gap, this study analyzes alternative sources of funding which include state-owned banks or other government agencies, non-bank financial institutions, personal savings, investment angels and relatives and friends. The availability of alternative finance can reduce dependence on bank lending as the main source of finance and could therefore increase the resilience of the financial system and the wider economy.

2.4.1 Government sources

Most governments worldwide have expressed interest in developing the SME sector because it carries the potential to significantly contribute to economic development. Most governments are also aware that SMEs are often unable to raise finance for their profitable projects. Investment opportunities are potentially lost, and the result is that national wealth is lower than it might otherwise be. Phiri (2016) writes that governments are eager to support innovation, where SMEs often excel and consequently boost economic growth and employment opportunities. To support SMEs in Zambia, government-owned agencies or programmes like the Citizen Economic Empowerment Commission (CEEC) currently provides debt finance to SMEs at 12% (CEEC Annual Report 2018), against the commercial banks' average nominal

lending of 25.6% as of February, 2021. This rate was considered too high to support economic growth. (Monetary Committee Statement 2018). The Citizens Economic Commission Act No. 9 of 2006 is principally aimed at uplifting the targeted citizens who have suffered marginalization, to level the playing field and raise the citizens to a position where they can effectively participate in the national economy and most importantly, to ensure that women, youth and physically challenged persons have access to capital necessary to start and build businesses and fund local mechanisms for investments. The CEEC supports businesses like agribusiness, aquaculture, informal gold mining, manufacturing, packaging, product development and facilitates market access.

The CEEC had between 2008 and 2018 received ZMW284, 181,000 against the budget and amount approved by parliament of ZMW760, 743,710 thereby creating a finance gap of 63% (CEEC Annual Report 2018). CEEC had a recovery rate of 62% in 2018 against the annual target of 65% out of the issued loans amounting to ZMW42, 743,710. The commission only funded 64 projects against 1600 applicants in 2018 because Government did not release funds in that particular year. As a result the Commission was only able to issue loans using funds from loan repayments for 2017.

As much as the CEEC has provided an opportunity, especially to women and the youth, it can be argued that access to CEEC funding is limited because of insufficient funding by Government coupled with defaults in loan repayment by previous beneficiaries. Improved disbursement of funds by Government could significantly enhance access to SME financing thereby impacting the living standards of the citizens especially those in rural areas since 90% of projects are funded in accordance with the Commission's district value chain approach policy (CEEC Annual Report 2018).

Furthermore, there is the issue of alleged politicization of CEEC because of Section 6 of the Citizens Economic Empowerment Act which provides that 'The President may give to the Commission such general or specific directions with respect to the discharge of its functions as the President considers necessary and the Commission shall give effect to such directives'. Section 7 further states that 'The Commission may, after the approval of the Minister, enter into agreements with any organization or institution on any matter relevant to the carrying out of the Commission's functions under this Act'. Kachungu (2017) argues that the two sections in the Act demonstrate that the Commission does not operate or formulate policy decisions

without the oversight of Government. Kachungu (2017) further asserts that the greatest challenge the Commission is experiencing in this regard is that all commissioners are appointed by the President through the Minister, and not accountable to the National Assembly, adding that, with such a reporting structure, there is a risk that Parliament might fail to appreciate the status and importance of the Commission. However, Kachungu (2017) did not elaborate how the control of CEEC operations through the cited legal provisions led to politicization of the funds where it could be argued that CEEC finance was only available to those SMEs that were politically aligned to the ruling party. Theoretically such an argument could support an assertion that the politicization of the CEEC led to increased nonpayment on the loans as some of the funded SMEs may not have what it takes to run their businesses successfully but still access funds through political connections. There appears to be a knowledge gap on the issue of politicization of the funds under CEEC.

Because of limited access to CEEC funding, SMEs that may not have access to other alternative sources of financing continue to rely on commercial bank financing. Growth is thereby negatively affected. Meanwhile, Phiri (2016) writes that citizens that have made attempts and/or have acquired loans from CEEC complain of the collateral requirements in the form of land, equipment and group security of guarantee. Kachungu (2017) adds that citizens also complain about the loan application procedure which is described as long and complex as they are required to complete and sign an eleven (11) paged application form which is challenging to those who have low level education. The other challenge in accessing funds from CEEC is attributed to factors like length of time it takes to process the application due to large numbers of applicants and limited funding received from the government, among others (Phiri 2016). These challenges still remain an impediment to SMEs accessing funds despite Government efforts to alleviate SMEs financing constraints.

2.4.2 Personal savings and funds from family and friends

Potentially, personal saving is a very good source of finance to start a small business while borrowing from friends and family is also ideal because these investors may be willing to accept a lower return than many other investors as their motivation to invest is not purely financial. Mutiria (2017) emphasizes that apart from generating the business ideas that have made some entrepreneurs into millionaires or even billionaires, some SME owners sacrifice a huge chunk of personal savings as initial capital investment into their businesses. On the other

hand, Mpambela (2019) states that it is dangerous to start a new business entirely financed through borrowed funds because if the business fails, one might fail to repay the loan and possibly damage their financial reputation permanently. Mpambela (2019) advises SMEs to start small and reinvest the profits into future growth as this is a form of savings compared to borrowing when they have a big business idea which comes with default risks.

However, the OECD (2012) contends that the challenge inherent in personal financing for most SMEs is inadequate personal savings to finance SME foundational operations. The observation by the OECD is pertinent in Zambia as most SME owners are not able to save adequate resources to finance a business because most of them have low income and the situation is exacerbated by high costs of living. Low income and high costs of living have affected these potential SMEs which have either failed to take off or collapsed shortly after inception. This often results in SMEs resorting to making attempts to access bank loans.

The reviewed literature did not generally demonstrate capabilities of SME owners to save amidst high costs of living and low income, especially in developing countries like Zambia. This presented a knowledge gap.

2.4.3 Business/Investor Angel

Bridge (2020) describes an investor angel as a high net-worth person who supplies funds, which may be a one-time investment, or an ongoing financial support for small startups or entrepreneurs, usually in exchange for equity in the company. Kachungu (2017) writes that a successful arrangement with a business angel can help a business grow at a much faster rate than would have been impossible without them because in some instances they also provide valuable skills, business contacts and expertise to a business.

The advantage of funding from an angel investor is that there is less risk in comparison to a bank loan since the money is not often paid back to the investor because they receive equity in exchange for financing. Kachungu (2017) writes that experienced investors take a long-term view and understand that they may not see a return on their investment for a long period of time and that therefore there is less risk.

On the other hand, it is worth mentioning that although angel investors make it possible for a start-up business to commence operations, there are disadvantages to this form of funding, like

the loss of equity. Bridge (2016) states that angel investors may also expect a substantial return on their investment, sometimes equal to 10 times their original investment within the first five to seven years which can create additional pressure for the SME to succeed. Nonetheless, it is worth mentioning that business angels are not a common source of SME funding in Zambia because established investors often prefer to buy stakes in big companies that are listed on the Lusaka Stock Exchange. Suffice to state that this form of funding may be even more difficult to access as compared to other sources of funding because potential business angels are not particularly looking for investments. This means it can be difficult to find a potential financier who is interested in investing in SMEs. It is yet to be established whether this kind of financing could be domesticated in Zambia since there seems to be little literature on business angel funding activities which presents a knowledge gap.

2.5 Challenges in SME financing

The majority of SMEs face challenges in acquiring the financing they need to reach their potential. According to OECD (2015) these challenges vary from rigid collateral requirements, cost of credit, inadequate information, and short repayment periods among others. The study reviewed literature on challenges in accessing credit finance in line with research objective no. 2, which was to establish SME perceptions on the challenges they face in accessing business financing. These challenges are discussed below; -

2.5.1 Rigid Collateral requirements

According to Turner & Martin (2000) strict loan conditions are a major challenge to SMEs' access to finance. Banks usually require that clients provide collateral like land or other immovable property to secure their loans. However, Mutira (2017) states that many creditworthy SMEs do not have the types of collateral required by commercial lenders and therefore have trouble accessing needed financing. Yoshino and Taghizadeh-Hesary (2017) state that startup companies were finding it increasingly difficult to borrow money from banks because of strict asset-backed lending as most banks require that SMEs have collateral which tends to be the major significant factor for mitigating the credit risk of the SMEs. As indicated by various scholars, collateral requirement is a challenge to most SMEs because sometimes these businesses are owned by low-income entrepreneurs and families who normally do not

have tangible valuable collaterals. Even when collaterals are offered, it is difficult to determine their market value. Often these problems result in the rejection of SME loan applications (Bruhn et al 2013). The highlighted challenge which speaks to Research Question 2 prompted this study with a view to sharing experiences of SME owners and eliciting views on how the challenges could be addressed.

2.5.2 Cost of Credit

According to Kwaning et al (2015), banks incur costs in assessing credit, monitoring loans and transaction costs are directly related to profitability. The higher the cost of processing a transaction, the lower the return (Kwaning et al 2015). SMEs' loans often consume time to assess, monitor and manage performance. Nuwagaba (2015) also reported that financial institutions in Zambia face high financing costs and this makes access to finance by SMEs difficult as they are in turn charged high interest rates. Many banks perceive small businesses to require much more advisory support than large corporate clients and this involves cost (Kwaning et al 2015). Deresa (2014) also reports that most commercial banks in Zambia consider the cost of lending to the SME sector to be considerably higher than lending to other sectors adding that, high costs are attributed to the relatively greater amount of time necessary to monitor SME loan compliance and that commercial banks do also factor in a premium for risk when determining the interest rates (Winborg 2000). Findings in a study conducted by Mutiria (2017) showed that the cost of acquiring credit is also a major challenge for SMEs seeking business financing because the cost of acquiring a loan to do business usually reduces the revenues and profits of the business. However, there was a knowledge gap as the scholar did not demonstrate how high interest rates on loans could be reduced for SMEs to increase earnings for them to survive and sustain businesses. Findings by Deresa (2012) also show that lack of affordable loan products was a major challenge to the growth and expansion of SMEs.

2.5.3 Information Asymmetries

Kwaning et al (2015) in their study stated that many loan beneficiaries complained that financial institutions do not explain how interest rates are calculated on their loans. This means that most SMEs, do not understand terms and conditions, and are also oblivious of the

interpretation of the percentage charged on the loans. Meanwhile, Yoshino and Taghizadeh-Hesary (2017) reported that it was difficult for banks to evaluate SMEs since they did not often have solid accounting systems. According to ZDA (2015), there are gaps and challenges in information from funders to the SMEs in Zambia that are affecting SME financing and hindering the growth of SMEs. It is asserted that most lenders do not give specific details on how the SMEs can access the funds and these funds have strict rules which are mostly unfavorable and time consuming for SMEs. The survey findings by Ackah & Vuvor (2011) shows that SME operators understand little about the basic principles of commercial bank lending and borrowing practices and conversely, the survey showed that small business owners normally give false information when accessing loans from financial institutions hence the need to adopt the Theories of change on Access to Credit Information (USAID 2019) by improving Credit registries.

2.5.3.1 Absence of information infrastructure for SMEs

As stated above, there is an asymmetric information problem between suppliers and demanders of funds in general (Mutiria 2017). Many big enterprises list their shares on stock markets and issue their securities in bond markets. Therefore, institutional information sharing schemes of capital markets can be used to facilitate access to a wide range of information needed to estimate the credit worthiness of big enterprises (Yoshino and Taghizadeh- Hesary 2017). On the other hand, most SMEs have no connection with capital markets. Financial institutions can closely and continuously observe borrowers, but it is costly to do so for borrowers of small loans. The paucity of information infrastructure for SMEs exacerbates the information asymmetry problem (Chisala, 2008). Small business owners most often possess more information about the potential of their own businesses but in some situations it can be difficult for business owners to articulate and give detailed information about the business to the satisfaction of the financiers (Sung et al 2019). Additionally, small business managers tend to be conservative when it comes to providing external financiers with detailed information about the core of the business because they believe in one way or the other, information about their business may leak through to competitors (Winborg & Landstrom, 2000). Therefore, information infrastructures are necessary to remedy the problem of information asymmetry. OECD (2018) reports that Japan established its Credit Risk Database (CRD) in 2001 led by the Japanese Ministry of Economy, Trade and Industry and the Small and Medium Enterprise

Agency (SMEA) which provides credit risk scoring, data sampling, statistical information and related services. It is worth mentioning that many other countries have developed information infrastructure that address information asymmetries.

2.5.4 Challenges relating to SME Management and Skills

The World Bank's 2013 Enterprise Survey shows that the number one barrier to growth for firms in Zambia is access to credit followed by practices reminiscent of inadequate and poor record keeping and corporate governance of the SME sector. OECD (2018) also writes that apart from difficulties in accessing finance, the other major challenges affecting SME growth are inadequate management skills and competencies. It can therefore be asserted that management skills and competencies have a positive influence on the performance of SMEs. Within this approach, critical thinking and problem solving are recognized as key skills, while it is also appreciated that skill development regarding risk-taking, innovation, creativity and collaboration needs to be valued more (OECD, 2018). A more hands-on approach is also required for the development of project management and budgetary skills (Cooney 2012).

Sitharam & Hoque (2016) also write that lack of managerial competency is one of the major reasons why SMEs fail because small business owner-managers have very basic understanding of financial and accounting information and have serious problems with financial planning literacy. In the same argument, it has been asserted that SME managers have little knowledge about financial matters, and that those with little or limited financial planning skills do not even value the information extracted from financial statements (OECD 2018). In view of the foregoing arguments, it is worth noting that SMEs that have challenges in management skills, corporate governance, financial and record keeping management among others, might fail to remain profitable and consequently develop unfavorable loan repayment culture. In addition, banks are not willing to lend to SMEs that are poorly managed without proper financial records. Kambone (2020) adds that poor skills or incapability often result in inefficiencies and the businesses incurring huge operational costs which lead to collapse. SMEs need to invest in skills development.

2.6 Access to Finance and SMEs Performance

Improving access to finance for SMEs is essential because it is critical for the growth of SMEs as it allows SME owners to innovate, improve efficiency, expand to new markets, and provide millions of jobs. It is also worth noting that reducing the credit gap has been a fundamental agenda amongst financial institutions, governments and donors in order to design lending products and policies that support SME financing to enable them innovate, perform effectively to survive, sustain and grow (OECD 2016). This study was therefore necessary to establish how SMEs' access to finance could be enhanced in view of the realization that growth of SMEs is dependent on availability of finance among other factors. Therefore, this study came up with research hypothesis 1 as follows; -

H1: There is association between access to finance and SME performance and thus, survival, sustainability and growth

2.7 Access to finance and Technology

The other primary reason why SMEs continue to face growth challenges in developing countries, despite significant support from governments and other organizations is lack of access to new technology and poor or insufficient technological capabilities (World Bank, 2013). Cooney (2012) adds that small businesses are still hindered by their lack of technological implementation, despite great technological advancements globally. Sitharam & Hoque (2016) also write that the engagement of Information Technology in development of SMEs is a formidable step in ensuring systems efficiency that leads to increased productivity.

It is clearly evident that SME business involves more than financial start-up, as it also requires the use of technology to make it a success and subsequently build a favorable repayment culture of credit. However, it can be said that most SMEs fail to procure and employ new technology because of paucity of funds. In view of the foregoing, this study came up with a research hypothesis no. 2 as follows:

H2: There is association between access to finance and procurement of new technology

2.8 Measures to address SME Financing Challenges.

The reviewed literature on measures aimed at addressing challenges in accessing SME financing was in line with research objective no. 4 as below; -

2.8.1 Policy Reforms

To address the challenges in SME financing, some governments and financial institutions are relaxing collateral requirements or eliminating them altogether. Innovations for Poverty Action (IPA) (n.d) reports that the Colombian Government, with support from the International Finance Corporation (IFA 2013) introduced a new Secured Transactions Reform that provides a legal framework for accepting movable collateral like vehicles, machinery, accounts receivable and inventory. The reform has two main facets. First, it establishes a unified online registry for all movable assets used as collateral, so that potential creditors can verify whether assets offered as collateral are subject to other obligations. Second, the law improves enforcement in cases of default. By reducing banks' risk in accepting alternative forms of collateral, the reform is expected to increase access to credit for SMEs (IPA n.d).

Similarly, in Zambia, Government enacted the Movable Property Security Interest (MPSI) Act no. 3 of 2016 which aims to make movable property a reliable form of collateral assets, thereby diversifying the nature of assets used as surety in SME financing. Mapani & Musonda (n.d) write that the overall objective of the MPSI Act is to make it attractive for lenders to accept movable assets used as collateral, leading to increased lending. However, there is a knowledge gap because it is yet to be established whether the MPSI Act no. 3 of 2016 has mitigated the challenges in accessing SME financing by assessing whether there is substantially increased bank lending to the sector.

2.8.2 Credit Guarantee Schemes (CGS)

Yoshino & Taghizadeh (2018) in their report stated that Credit Guarantee Schemes were effective tools in the quest to reduce the supply-demand gap in SME financing, but their statement is based on findings from a survey conducted in Asia and therefore poses a

geographical gap for findings to be applicable to the Zambian scenario. However, the Zambian Government through the Ministry of Finance in 2017 set up an Entrepreneurial Fund for the private sector to enable the establishment of a system that facilitated the issuance of long-term credit guarantees to SMEs in Zambia at low-interest rates (Daily Nation March, 2020). The Zambia Credit Guarantee Scheme Limited (ZCGS) was set up with the aim of providing a platform for financial institutions to offer affordable financial products and services at reduced risk to SMEs, thereby promoting growth and competitiveness of SMEs. There were also indicative reports that US\$5Million had been provided as seed money by Government for the scheme and in September 2018, the ZCGS was officially launched (Daily Nation March, 2020).

However, there has been little information that can point to how the organization is contributing to addressing the problems they sought to cure in SME financing. It remains to be established whether the credit guarantee scheme has indeed been actualized and contributed to alleviating the challenges in access to credit.

Nonetheless it is agreed that credit guarantees are ideal for reducing risks and encouraging banks to lend significantly to SMEs but there should be precautions taken by the guarantors to ensure that banks take keen interest in lending to viable SMEs and effectively monitor the investments. Implementing the CGS would be in line with the Theory of Change on Credit Guarantee (USAID, 2019) and recommendations by the OECD (2018).

2.8.3 Alternative Sources of SME Business Funding

The Zambian Government, through the Ministry of Youth, Sport and Child Development (MYSCD) implemented the Multi-Sectoral Approach to Youth Empowerment Programme with the aim of empowering registered youth owned SMEs in various youth empowerment programmes to enable them contribute to sustainable national development (MYSCD 2020). The MYSCD provided business loans to Zambian youth citizens aged between 18 and 35 years, with a Green National Registration Card, youth owned companies and youth cooperatives for the development of businesses in various industries among them timber and honey value chain, plastic recycling plants, small scale mining, micro, small and medium enterprises, resettlement of youth in youth resettlement schemes, skills development programmes, youth innovation fund, Pave Zambia Youth Empowerment Programme and youth milling plants (MYSCD 2020).

Furthermore, in 2020, the Ministry of Tourism and Arts launched a ZMK30 million youth empowerment fund under the Presidential Arts Development and Empowerment Scheme aimed at helping artists mitigate the economic impacts of the COVID-19 pandemic (African Decision Newsletter 2020). The scheme provided a revolving fund that offered loans to arts businesses and practicing artists who were registered members of national arts associations in Zambia. Loan amounts ranged from ZMK2 000 to ZMK1 million, payable within one to six years, depending on the amount (African Decision Newsletter 2020).

On the other hand, the World Bank through partnership with the Zambian Government has been supporting empowerment for women through the Girls' Education and Women Empowerment and Livelihood (GEWEL) programmes. The World Bank provided an additional \$142 million GEWEL Project in 2021 to support the government of the Republic of Zambia to increase access to livelihood support for women and access to secondary education for disadvantaged adolescent girls in extremely poor households in selected districts (World Bank 2021). The Supporting Women's Livelihoods (SWL) component was implemented by the Ministry of Community Development and Social Services and has so far provided 75,000 women from extremely poor households in 51 districts across all 10 provinces of the country with livelihood packages consisting of life and business skills training, a productive grant equivalent to \$225, mentorship, and support to form savings groups (World Bank 2021).

Despite these initiatives, there is still limited access to SME financing. The Government funding programmes are limited to a few people and in some instances are politically motivated. Further, high interest rates and prohibitive collateral requirements still place significant constraints on the growth of many SMEs. It is also difficult to determine the correct market value of movable assets. Access to medium to long-term financing necessary for capital investment is still difficult hence the significance of this study to establish other measures that could mitigate the challenges.

In summation, it can be said that the highlighted measures may be appropriate for addressing challenges faced by the SMEs in accessing finance. For instance, the Japanese stakeholders and others in Asia which include China and Korea have been making significant strides in addressing the SME's difficulties and enhancing their growth by adopting various measures like CGS which countries like Zambia could domesticate with a view to promoting SME growth (Yoshino & Taghizadeh 2018; USAID 2019). Some scholars argue that the best source

of new SME financing is through SMEs' own funds. However, most SME owners have low income and as such, saving for business purposes is extremely difficult. This is certainly the case in Zambia and other developing countries where the majority citizens fail to have significant savings on account of high costs of living and low income.

It is therefore imperative that challenges in debt financing for SMEs are resolved as bank loans remain the major source of business finance. This gave rise to the need for this study, to generate ideas from the actors' point of view on viable ways the challenges could be addressed but also taking into consideration the world's best practices.

2.9 Lessons Learnt from Literature

The reviewed literature established knowledge and a perceptive of the current research in SME business financing which provided the direction and a base for this research to be conducted. The researcher learnt that despite many studies having been conducted and recommendations made, challenges in accessing business financing had remained unresolved because there may be some considerable gaps between the theories and their corresponding real-world implementation. All the literature reviewed on surveys although conducted in different countries with different economic conditions and contexts, converged on the assertion that credit financing had remained the most common source of business finance across the globe and that it was an important ingredient for SMEs' performance and growth, hence the need for stakeholders to find long lasting solutions to the challenges apparent in credit financing.

It must be mentioned nonetheless that, Policy makers and other stakeholders have implemented different programs in an effort to broaden SME access to financing. As highlighted in most OECD and World Bank reports, some countries have made initiatives like setting up credit information sharing mechanisms, promoting the use of movable assets as collateral and credit guarantee schemes to promote bank lending to SMEs. It is therefore imperative that Policy makers and influencers in Zambia takes a new approach which requires experimentation to understand what is effective in resolving SME challenges in accessing finance in different contexts. There is also need for sporadic and thorough evaluations of the adopted measures to ascertain whether they should be continued, modified, or terminated.

CHAPTER 3

METHODOLOGY

3.0 Overview

The purpose of this Chapter is to discuss and describe the general methodology that was used in this study. It highlights the research design, research site, population, sampling procedure and data collection instruments. It also presents data analysis and ethical considerations.

3.1 Research Design

This study used mixed methods in order to have enhanced validity of the research through triangulation and convergence of multiple and different sources of information (Venkatesh et al., 2013). Generally, the design is appropriate as it provides an accurate and authentic description of the lessons and experiences of the SME owners and players in the financial institutions which is helpful in developing a set of redial measures to address challenges in SME financing. Mixed methods research helps to resolve the limitation of using a single method design to understand the research problem (Creswell et al., 2011). Mixed methods research removes the restriction of using only certain types of tools for data collection associated with a single study design or to connect several studies to reach an overall objective (Teddlie et al., 2009). Creswell et al., (2011) note the existence of three main paradigms for mixed methods research, namely, pragmatism, transformative-emancipatory and critical realism. Some researchers suggest that pragmatism is the most suitable paradigm for justifying the use of mixed methods research (Teddlie et al., 2009; Greene, 2006). The pragmatic approach supports both positivist and interpretivist approaches in the same research study as part of abduction reasoning. Pragmatism provides a practical way of applying mixed methods research in a research project (Peng, Nunes and Annansingh, 2011) hence the use of this approach in this study.

3.2 Research Site

This study was conducted in Kitwe City of the Copperbelt Province. Kitwe was purposively selected since the key institutions which were relevant to the study like financial institutions

and the CEEC which promote and facilitate micro and small business financing have branches and a District Programme Coordinator respectively in the City. The City also has a large number of SMEs which have made numerous contacts with different banks for financial support and therefore have a lot of experiences to share. Additionally, it was easier for the researcher to approach these SME operators since the researcher resided within Kitwe at the time of the study. Choosing any other city could have meant travelling long distances to make contact with the SME operators, which would have been difficult and costly.

3.3 Population

Liyanda (2017) states that Zambia has over 1.2 million businesses in the SME sector, both informal and formal, adding that almost half of this population perceive access to credit as a major obstacle to SMEs in Zambia. However, the population of SMEs in Kitwe is indeterminate because some SMEs are not registered while others which are registered are non-operational. It is worth noting that it is difficult and expensive to collect data from every individual or business player for large and dispersed populations and therefore it is appropriate to use a sample (Bhandari, 2020). Additionally, carrying out research using a sample of the population makes storing and analyzing smaller data sets easier and more reliable.

3.4 Sampling Procedure and Sample size

This Study used probability sampling method and specifically simple random sampling technique in order to achieve a representative population of the SMEs. According to Kombo and Tromp (2006), the advantage of this sampling is that it reduces the risk of sampling bias and enhances validity. Wani (n.d) adds that in random sampling, every unit in the population has an equal chance of being selected which makes it free from subjectivity and personal error. Bhandari (2020) on the other hand, contends that the use of non-probability sampling though more convenient and cheaper, relies on statistical inferences which are about a broader population and might be weaker than with a probability sampling. In view of this, as was the case for this study, simple random sampling was used to make more precise inferences about the population of SME players. For the interviews to produce adequate qualitative data, the study used purposive sampling to engage participants that could provide in-depth and detailed information (Kombo and Tromp 2006).

Since the population of SMEs in Kitwe is indeterminate because some of them are unregistered, while some of those registered are dysfunctional, it was estimated that seventy (70) participants were ideal for a mixed method study which is grounded in existing theory (Creswell, 2003). The sample size was also considered ideal on the basis of the mixed method design as it is a complex method and therefore requires expert knowledge in order to handle a large sample size. In this study, the sample was drawn from 6 key stakeholder institutions being Cavmont Bank, Absa Bank, Investrust Bank, Eco Bank, Izwe Financial Services and Get Started Cash Advance. Out of these institutions, 4 returned the questionnaire. Additionally, questionnaires were distributed to 60 SMEs out of which 51 responded. 4 experts/officials dealing with SMEs were interviewed from the Association for Mine Suppliers and Contractors of Zambia (AMSCZ), Kitwe District Chamber of Commerce, CEEC and Zambia Agribusiness and Trade Project (ZATP) under the Ministry of Commerce, Trade and Industry

3.5 Data Collection Instruments

This study used interviews and questionnaires to gather data from respondents. Kombo and Tromp (2006), write that use of both open and closed ended approaches gives a researcher a complete and detailed understanding of the issue under research. However, Focus group discussion could not be employed because of restrictions on public gatherings at the time of the study during the height of the COVID-19 Pandemic.

3.5.1 Interviews

The Interview Guide was made up of a set of open-ended questions which helped the researcher to obtain in-depth information from experts/officials dealing with SMEs. Fox (2009) writes that interviews are most effective for qualitative studies because they help to explain, understand, and explore research subjects, opinions, experiences, and phenomena. Interviews in this study also allowed flexibility to the researcher to rephrase and make follow-up questions to better understand the responses from participants. The interview guide comprised questions which addressed the four (4) research objectives and questions of the study.

3.5.2 Questionnaire

This study also employed a questionnaire comprising a mix of open and close ended questions to collect data from SME owners and bank officials. The open-ended questions offered respondents an opportunity to give comprehensive views. The data collected using questionnaires was both qualitative and quantitative in nature and therefore appropriate for the mixed method study. This instrument was also ideal as it enabled participants to respond at their own convenience. In addition, Bhati (2020) writes that there is less bias in questionnaires because they have a standard set of questions, and they are also easier to administer and are cost effective. Furthermore, questionnaires were useful to the study as they covered aspects of the three research questions. Moreover, questions provided on the questionnaire were easy to respond to, thereby saving time. The first part of the questionnaire sought to find out general information about the firms such as industry/service offered and/ or activity of the firm; the number of employees of the firm and its ownership. The second part of the questionnaire considered critical problems faced by the firms, source of funding, attempts made to obtain financing and how funds were utilized. This attended to research questions 1 and 2. The last part sought to establish how availability of funds enhances SME activities and views on how Government and banks could make loans easily accessible for SMEs.

3.6 Sources of Data

This study used primary data. The primary data was collected directly from respondents through interviews and questionnaires which were derived from the research objectives and research questions.

3.7 Data Analysis

Mixed method analysis involves the use of both quantitative and qualitative analytical techniques within the same framework, which is guided by either a priori, a posteriori, or iteratively decisions. This study employed a mixed method analysis involving the analysis of both data types (quantitative and qualitative data) which was given approximately equal priority as a result of a priori decision on the belief that it was likely to provide richer data and interpretations. Johnson et al., 2007 states that the qualitative method relies on the judgment of the researcher and hence, the trustworthiness and the objectivity of the research becomes questionable while the quantitative method on the other hand, is criticized for relying on numeric or quantification of data, thus paying little or no attention to interpretations,

descriptions and interactions of a quantitative research. The use of the mixed method in a single study therefore helps to reduce or eliminate the inherent weaknesses in the individual methods and improve the inherent strengths in the individual methods and thereby off sets any individual method biases (Greene 2007). The use of mixed method also met the rationale of triangulation.

3.7.1 Qualitative Data Analysis

For qualitative data analysis, the study employed content analysis. Owen (2012) writes that content analysis can be used to identify the intentions, focus or communication trends of an individual, group or institution as well as to analyze focus group interviews and open-ended questions to complement quantitative data, which was in line with the research since it was a mixed method study. To this end, the research used conceptual analysis (which is one of the general types of content analysis) to determine the existence of concept in the collected data from the interviews and open-ended questions in the questionnaires. The data analyzed in this method included views, ideas, perceptions, experiences on challenges experienced in accessing business financing and suggestions on how the challenges could be resolved which was obtained mainly through interviews. The text was then hand coded into manageable content categories. Owen (2012) indicated that when text is hand coded, the researcher can recognize errors like typos and misspellings easily. It is also worth mentioning that only relevant data was coded in line with the Research Objectives, Questions and Theoretical framework of the Study (Fielding & Lee 1990). Abrams et al (2011) also indicate that selective reduction allows the researcher to focus on and code for specific words or patterns that inform the research questions. To this end, Content analysis was useful in addressing Research objectives and questions which guided this study.

3.7.2 Authenticity

Lincoln and Guba (1985) write that authenticity of content analysis begins with selecting the best data collection methods to answer research questions, adding that there is need for the researcher to be objective and ensure that the data accurately represents the information that the participants shared and that interpretations of the data are not manipulated by the researcher. Elo & Kyngas (2008) also state that the findings must reflect the participants' voice and conditions of the inquiry, and not the researcher's biases, motivations, or perspectives. Authenticity of data is questionable when discussing the findings from content analysis as there is always some degree of interpretation when approaching a text (Graneheim and Lundman

(2004). In this regard, the researcher ensured that research instruments chosen for content analysis, i.e., interviews and questionnaire answered the research questions and interpretation of the data was free of biases and manipulation.

3.7.3 Quantitative Data Analysis

The research used Descriptive analysis in the IBM SPSS software version 28 to analyze the quantitative data which was obtained from closed ended questions on the questionnaires distributed to SME owners and bank personnel. Descriptive analysis was useful in addressing research question number 1 and 2 which sought to establish what perceptions SMEs have on challenges they face in accessing financing and what attempts SMEs have made to access finance for their enterprises. Roldos (2021) writes that Descriptive analysis is the most basic and most common form of data analysis concerned with describing, summarizing, and recognizing patterns through calculations of existing data, like mean, median, mode, percentage, frequency, and range. Additionally, the study carried out chi- square tests of independence to determine whether there were relationships between categorical variables. Chi-square is useful for analyzing categorical variables especially those nominal in nature (Hayes, 2021). The chi-square in SPSS utilizes a contingency table also known as Cross Tabulation to analyze the data which is classified according to two categorical variables.

3.8 Data Reliability

A reliability test was carried out in SPSS using the Cronbach alpha which measures the internal consistence or reliability. The reliability for the 5 major variables for this study was 0.72 or 72% which is acceptable. The general rule is that alpha of 0.6 to 0.7 indicates an acceptable level of reliability and 0.8 or greater is a very good level but values higher than 0.95 are not necessarily good, since they might be an indication of redundancy (Tavakol & Dennick, 2011). Alpha is an important concept in the evaluation of assessment or questionnaires because it shows the extent to which items on a scale or test contribute positively towards measuring the same construct (Tavakol & Dennick, 2011).

3.9 Ethical Issues

Prior to undertaking this study, permission was sought from the University of Zambia. The participants were informed of the purpose of the study which was to understand the challenges in accessing finance by SMEs with a view to finding solutions that could be implemented to enhance the SME sector and subsequently promote national economic growth. The researcher sought consent from participants and assured them of confidentiality and informed them that the study was for academic purposes only. In addition, the participants were informed that they reserved the right to withdraw from participation at any given time even though they initially agreed since participation was voluntary. They were also allowed to choose not to respond to any question if they were uncomfortable to do so. The researcher also ensured observance of the COVID 19 protocols.

3.10 Time Scale

The study was expected to take three (3) months to collect data, analyze and write the report. However, it took five (5) months because of respondents' unwillingness to engage in personal meetings or exchange documents during the COVID 19 Pandemic.

CHAPTER 4

FINDINGS AND DATA ANALYSIS

4.0 Introduction

The data collection for this study was done through questionnaires and expert interviews. A sample size of 70 respondents was targeted out of which 60 SMEs, 4 Banks and 2 financial lending institutions were given questionnaires, interviews were conducted with 4 officials from organizations dealing with SMEs. Out of the 60 questionnaires circulated to SMEs, 51 were returned representing 85% response rate. This was good considering that the study was conducted during the peak of the COVID 19 Pandemic when most people were reluctant to meet others or exchange documents. Out of the 4 bank questionnaires, 3 were returned while only 1 financial lending institution returned its questionnaire, representing 75% and 50% response rate respectively.

A higher response rate would have been preferred, but there were many reasons for the percentage achieved. The most crucial reasons for the less than desired response rate were:

- (i) Some of the SMEs were reluctant to participate because they were avoiding physical meetings and exchange of documents due to COVID 19; and
- (ii) Some SMEs were reluctant because the challenges in SME financing had remained unaddressed for the last decade despite them submitting various proposals through research papers and other different for a. They deemed participation in such studies a mere waste of time.

Despite these problems, the overall response rate of 78.6% for the purpose of this study is fairly good. Below are the presentations of the details of the responses.

4.1 Characteristics of the surveyed SMEs

All the SME respondents are located in Kitwe and have a working force of between 1-10 and more than 20 employees with professionals in some managerial positions. The following figures further describe the characteristics of the surveyed SMEs: -

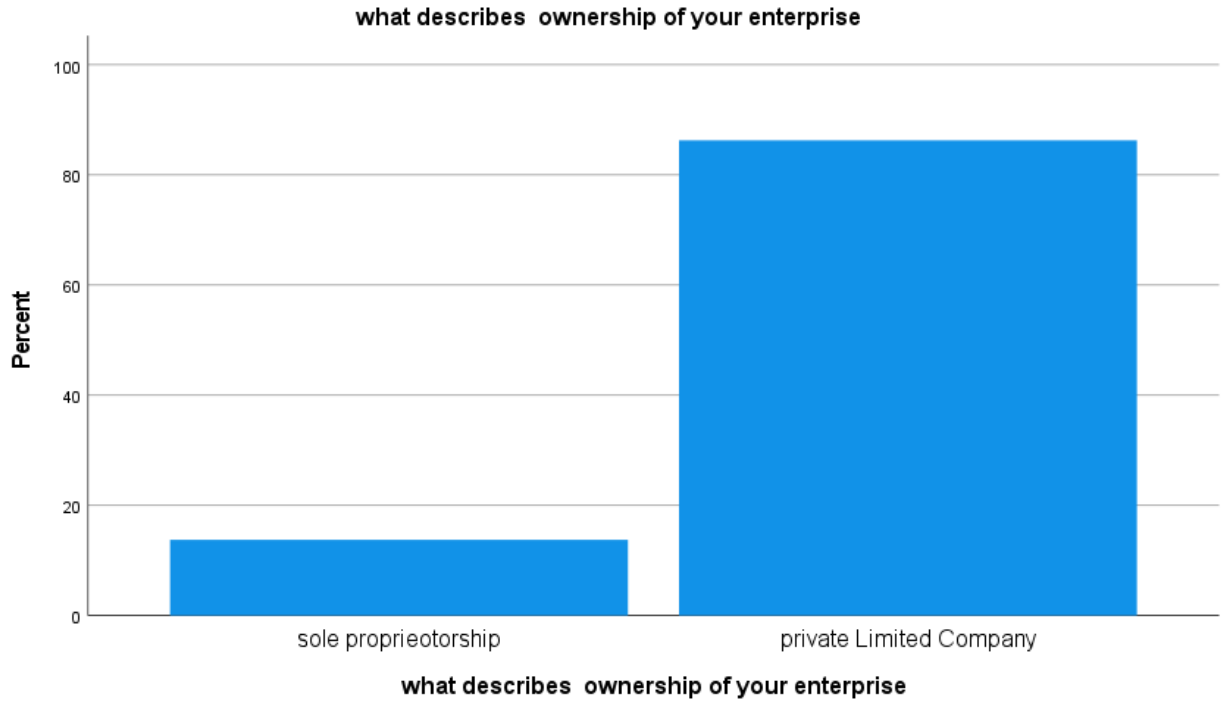


Figure 4.1 Ownership of Enterprise

85% of the respondents are Private Limited Liability Companies while 15% are Sole Proprietors

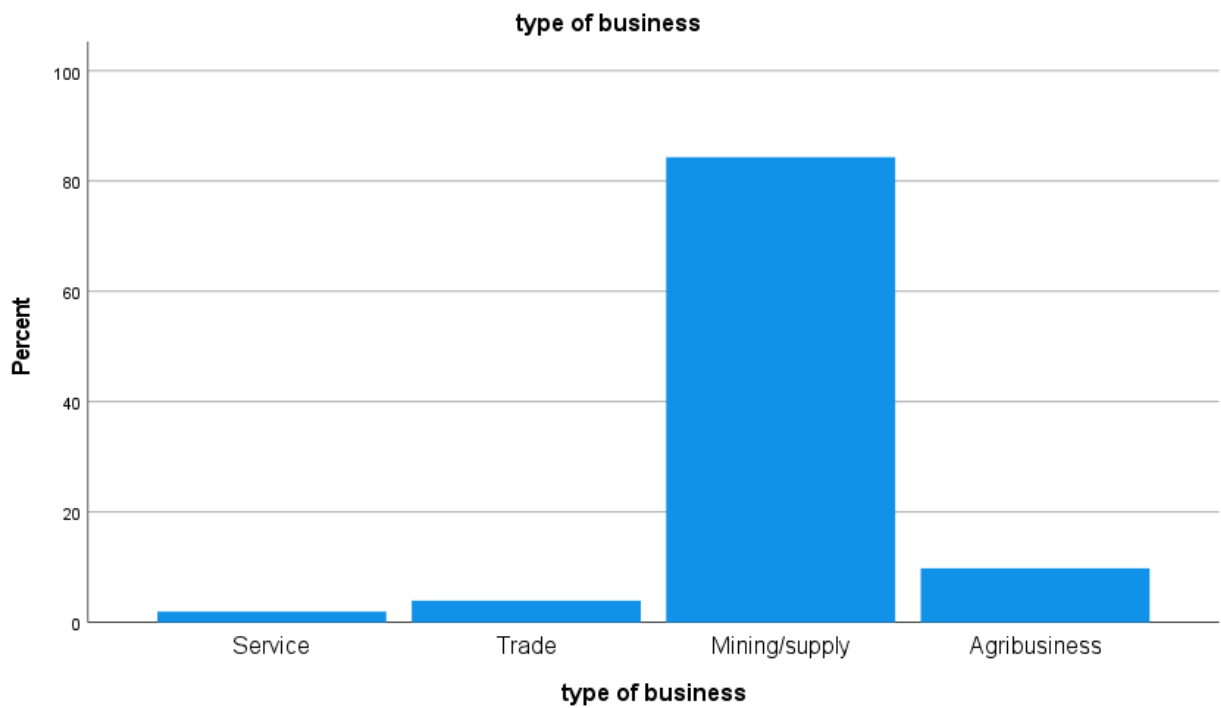


Figure 4.2 Type of business

85% of the surveyed SMEs are engaged in mining/mining supply, 10% are in Agribusiness, 4% are in Trade while 2% are engaged in security service provision. SMEs in retail trade sell clothes, cell phones, computers and accessories while those in agribusiness have farms and sell farm produce like poultry, fish, vegetables and crops.

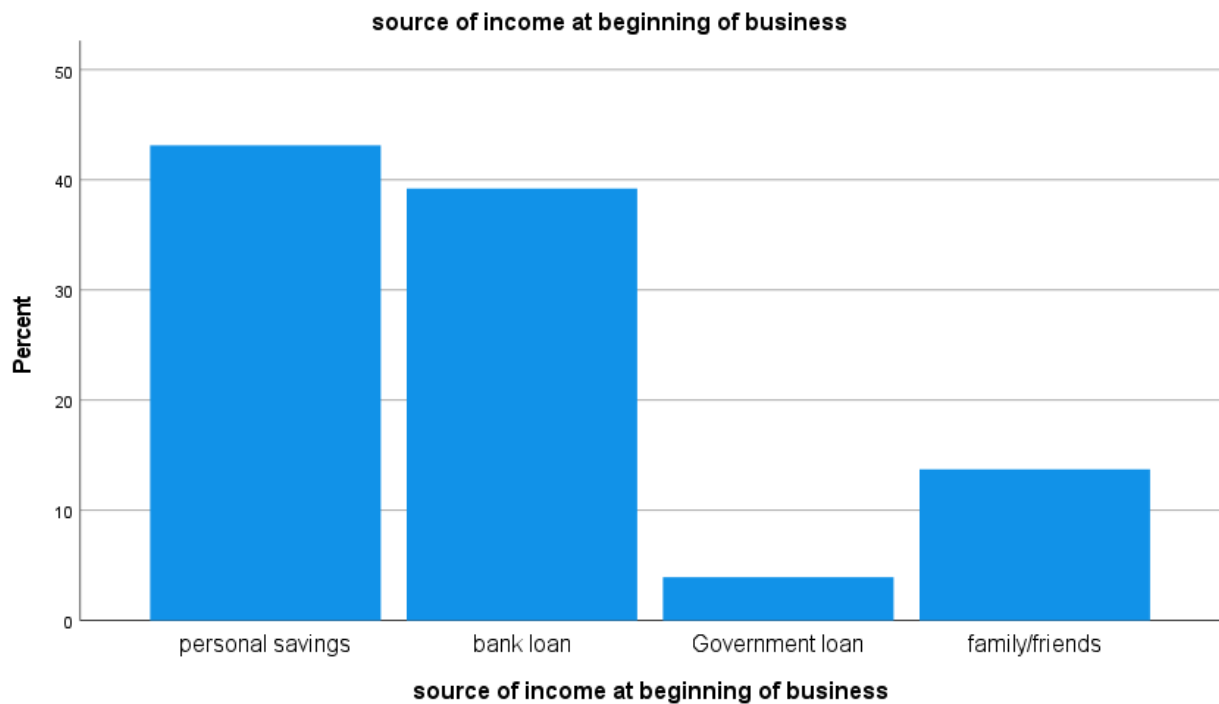


Figure 4.2 Source of income at start of business

44% of the surveyed SMEs indicated that the source of income at the beginning of their business was personal savings, 38% indicated bank credit, 4% percent Government funding while 14% used funds either borrowed or given by family and friends.

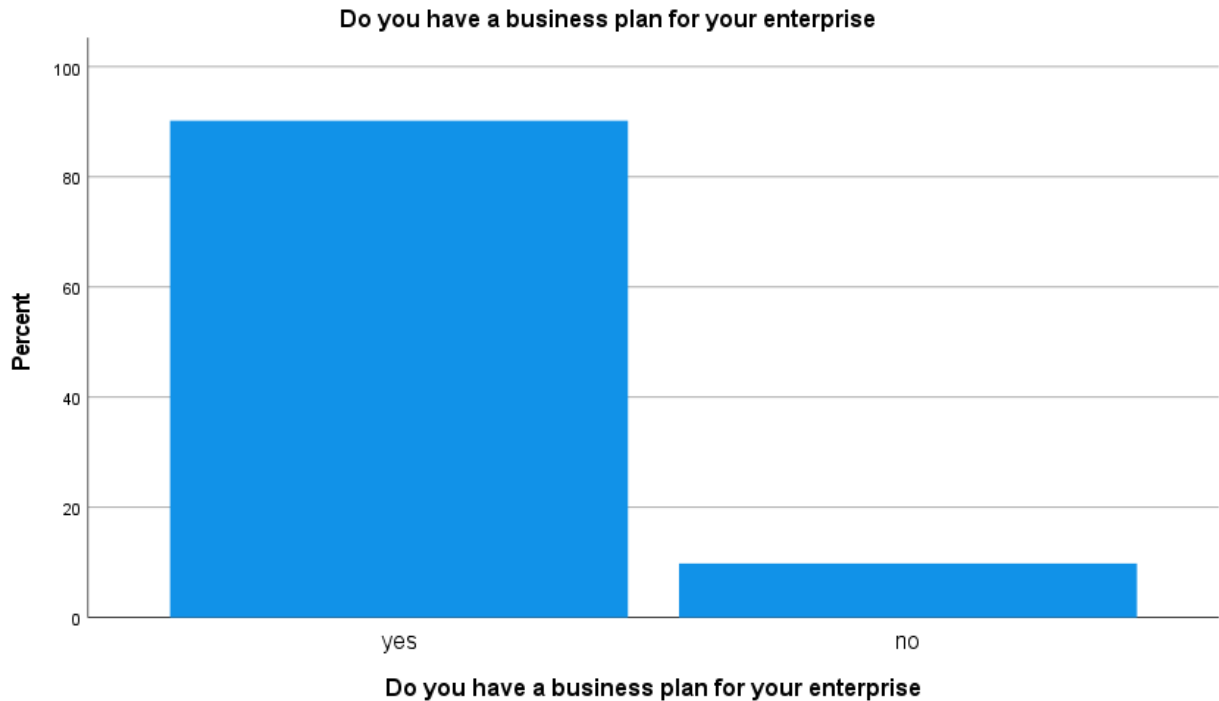


Figure 4.3 Business plans for Enterprise

90% of the surveyed SMEs indicated that they had a business plan while 10% stated that they did not have a specific business plan.

4.2 Role of SMEs in National Economies.

What is the role of SMEs in national economies? - Research Objective no. 1

The experts from institutions dealing with SMEs interviewed in the study acknowledged that SMEs have been recognized as the bedrock of development in any economy. “SMEs are a significant multi sector in that they are potential, and in some cases actual employers, policy movers and influencers of change in the general economic outlook of the country” stated one respondent. “It is difficult to develop a country’s economy if the SME sector is not strengthened” stated another respondent. Another respondent stated that the SMEs play an important role as they create employment opportunities, contribute to national GDP and enhance economic growth. “SMEs are the drivers of an economy because of creation of employment, value addition, innovation, industrialization and revenue generation for government, stated the respondent. These responses met objective no 1 which was to examine the role of SMEs in national economies.

However, the respondents converged in pointing out that there was need for concerted efforts by Government and other stakeholders to implement effective policies and measures to promote SMEs, develop industries and create a suitable environment for expansion with a view to realizing optimal benefits from the SME sector which include employment opportunities, increased revenue and significant contribution to the GDP. On the other hand, the respondents were of the view that the country's MNC sector was slowing down while the population was growing, necessitating growth in the SME sector which should translate to enhancement of the economy.

4.3 Challenges faced by SMEs in Access business financing

Research Question 2: what are the perceptions by SMEs of the challenges they face in accessing financing?

The SMEs who participated in the study indicated that collateral requirement, high interest rates and short term repayment period attached to bank loans were the most critical in accessing business financing. Other problems included cumbersome procedure (certification processes and audited financial statements). The figure and table below show the responses;

Statistics

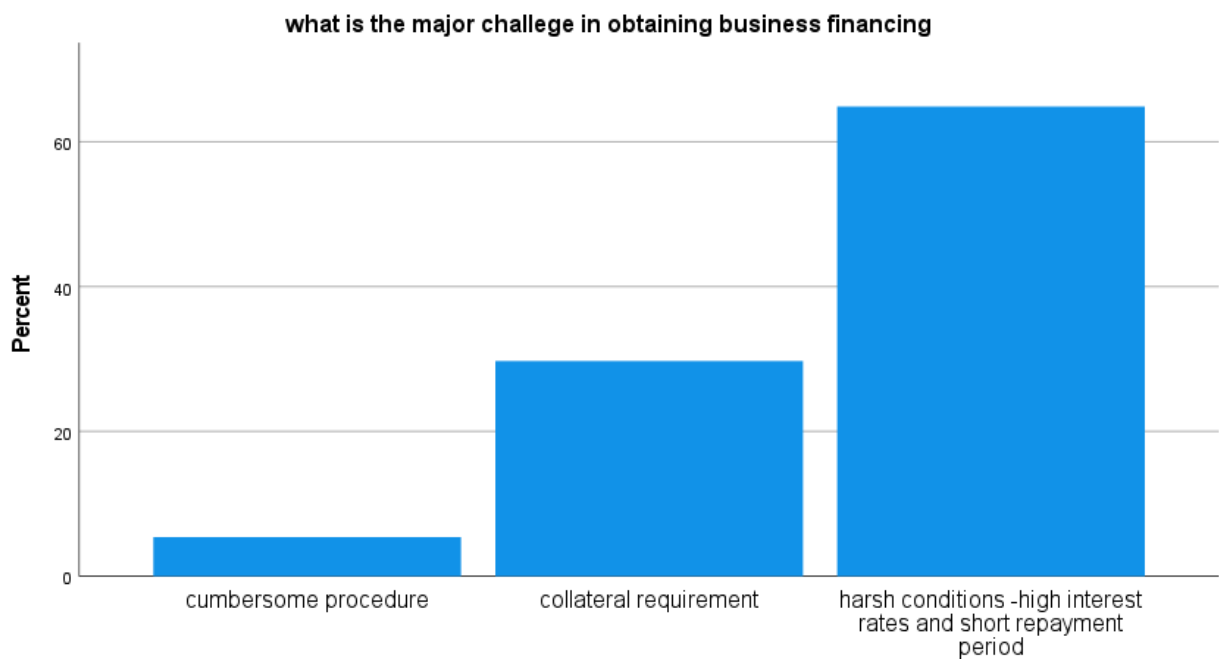
what is the major challenge in obtaining business financing

N	Valid	37
	Missing	16

Table 4.1 Major Challenges in Obtaining Business Finance

what is the major challenge in obtaining business financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	cumbersome procedure	2	3.8	5.4	5.4
	collateral requirement	11	20.8	29.7	35.1
	harsh conditions -high interest rates and short repayment period	24	45.3	64.9	100.0
	Total	37	69.8	100.0	
Missing	System	16	30.2		
Total		53	100.0		



what is the major challenge in obtaining business financing

Figure 4.4 Major Challenges in Obtaining Financing

On the other hand, data from the interviews revealed the following summarized points as challenges faced by SMEs in accessing financing for start-up and expansion of businesses:-

- rigid and traditional requirements of collateral, by the banks including provision of audited books and cash flow forecast;
- high interest rates;
- Short term loan products;
- banks preference to invest in treasury bills as opposed to SME lending, thereby allocating insufficient funds to SME lending;
- high default rate which discourages banks from lending to SMEs; and
- high competition rate for bank loans between SMEs and Multinational Corporations (MNCs).

4.4 Attempts and Successes Made by SMEs to Obtain Loans

Research question no. 3. What attempts have SMEs made to access finance for their enterprises?

Table 4.2 Bank Loans

Have you ever applied for a loan from the bank?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	41	77.4	80.4	80.4
	No	10	18.9	19.6	100.0
	Total	51	96.2	100.0	
Missing	System	2	3.8		
Total		53	100.0		

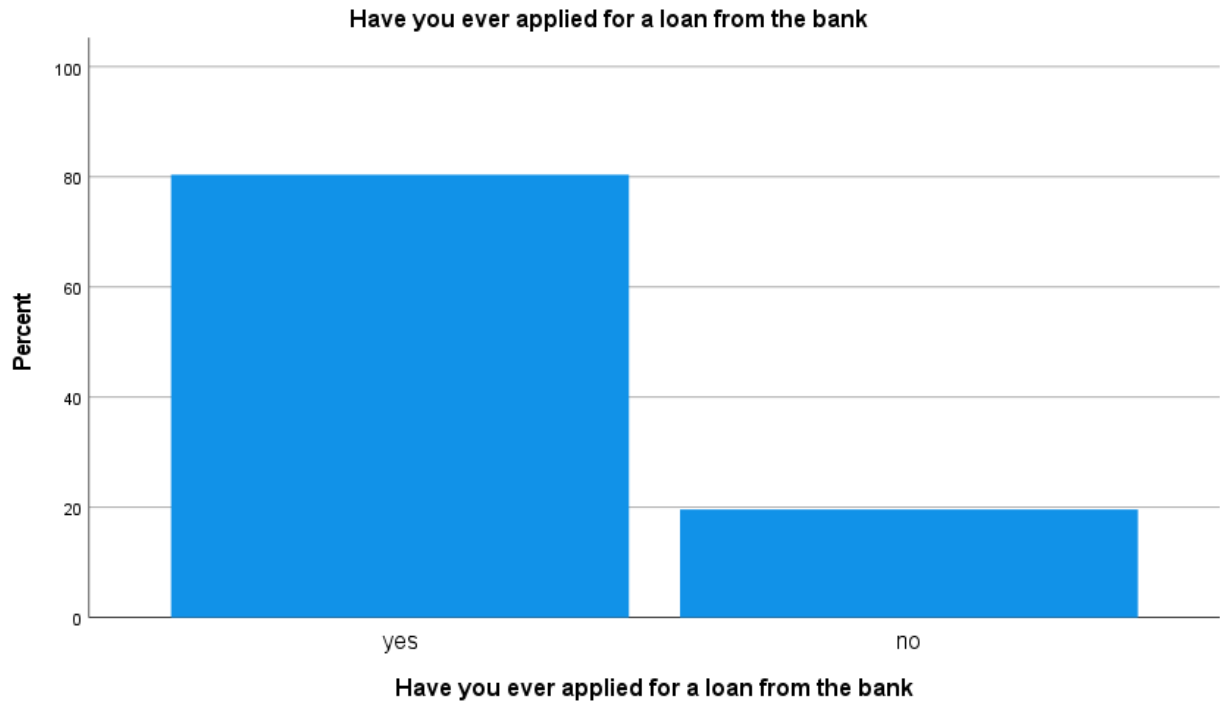


Figure 4. 5 Bank Loans

As shown in the above figure, 80.6% of the surveyed SMEs applied for loans while 19.4% did not make any attempts to obtain credit finance.

Table 4.3 Form of Collateral

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fixed assets	40	75.5	97.6	97.6
	movable assets	1	1.9	2.4	100.0
	Total	41	77.4	100.0	
Missing	System	12	22.6		
Total		53	100.0		

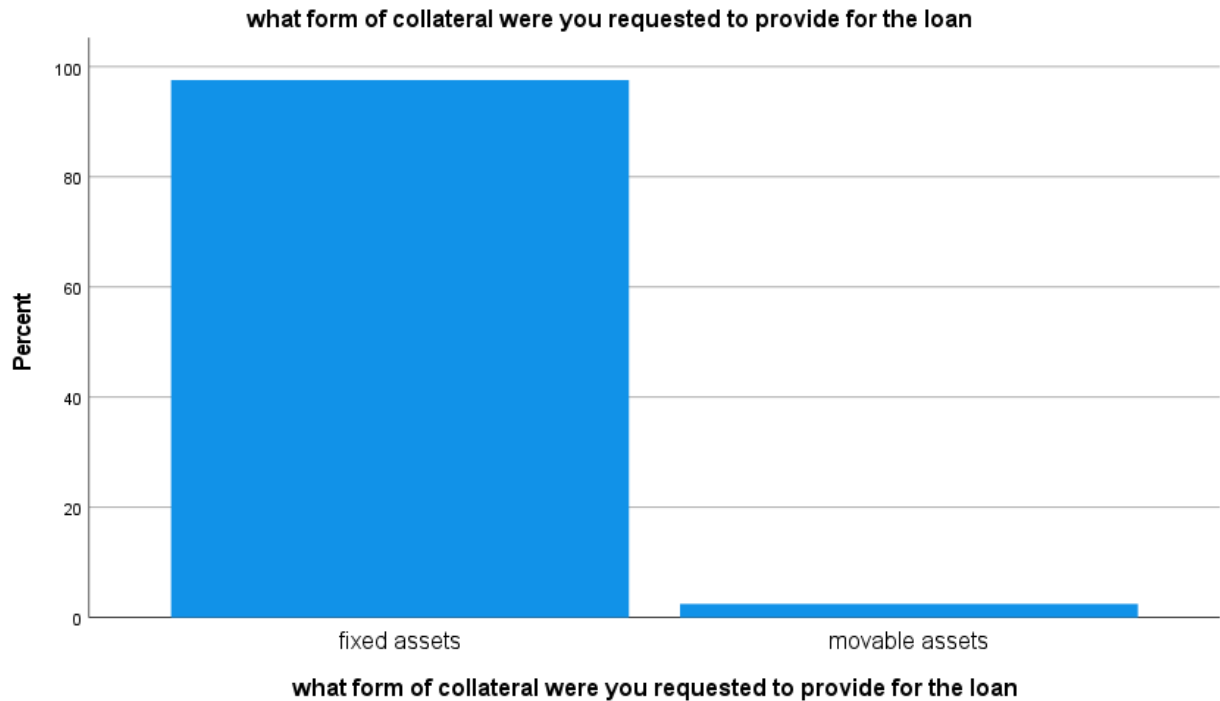


Figure 4.6 Form of collateral

97.6% of the 41 SME respondents who applied for bank loans were requested to provide immovable assets as collateral while 2.4% were requested to provide movable assets.

Table 4.5 Loan Approval

Was the loan application approved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	32	60.4	76.2	76.2
	No	10	18.9	23.8	100.0
	Total	42	79.2	100.0	
Missing	System	11	20.8		
Total		53	100.0		

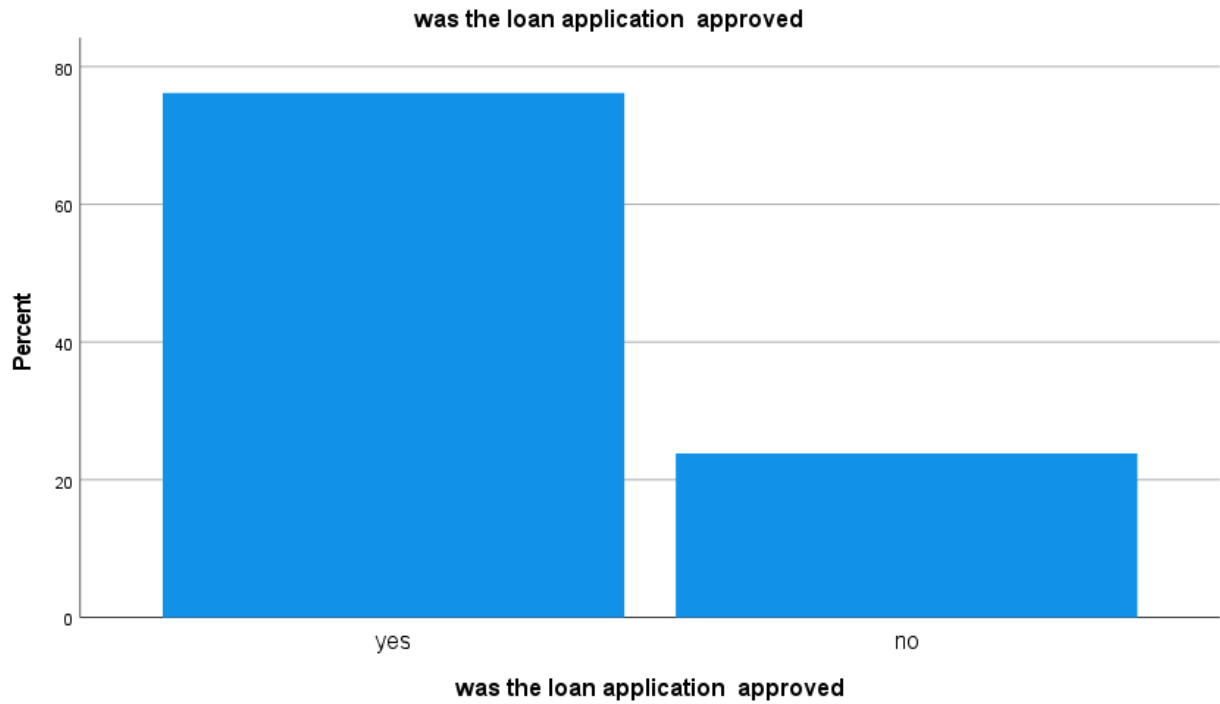


Figure 4.7 Loan approval

76.2% of the SME respondents were given loans while 23.8% of loan applications were not approved because of unsuitable collateral, poor credit rating or uncertain cash flow projections.

Table 4.6 Loan utilization

		What was the loan utilized for?			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	business investment	31	58.5	93.9	93.9
	diverted funds	2	3.8	6.1	100.0
	Total	33	62.3	100.0	
Missing	System	20	37.7		
Total		53	100.0		

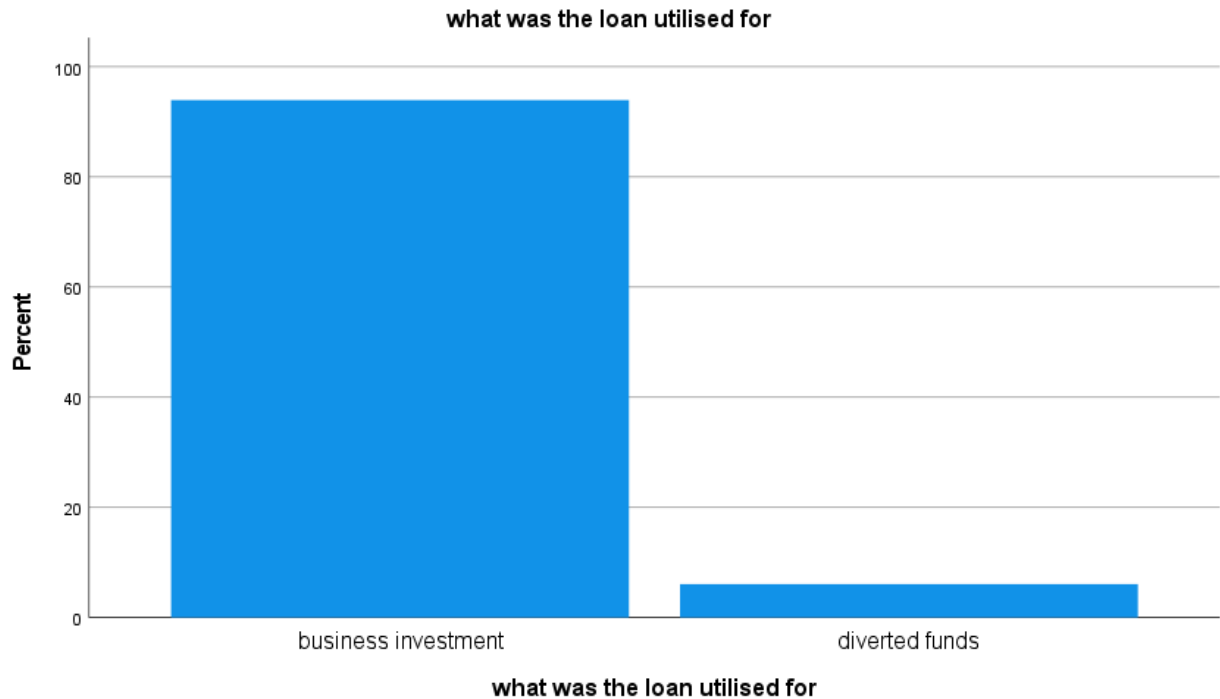


Figure 4.8 Loan utilization

The findings show that 93.9% used the funds obtained from the bank for business investments while 6.1% diverted funds.

Table 4.7 Loan Repayment

How did you repay the loan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	business generated fund	22	41.5	73.3	73.3
	selling assets	6	11.3	20.0	93.3
	personal finance	1	1.9	3.3	96.7
	loan from another institution	1	1.9	3.3	100.0
	Total	30	56.6	100.0	
Missing	System	23	43.4		
Total		53	100.0		

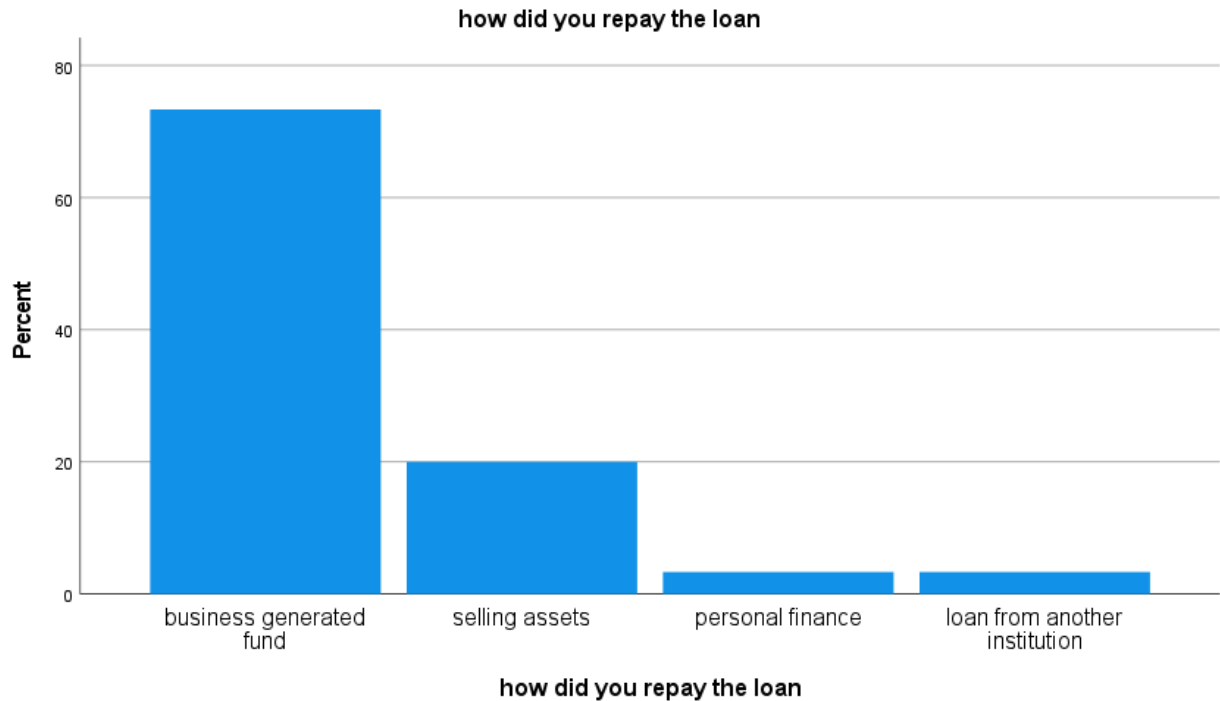


Figure 4.9 Loan Repayment

The findings show that 73.3% of the surveyed SMEs who obtained loans paid back or are paying back using business generated funds, 20% paid back after selling property, 3.3% paid back using personal funds while 1.9% paid back using a loan from another bank.

Table 4.7 Reasons for rejection of Loan request

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	poor credit history	1	1.9	12.5	12.5
	enterprise could not provide adequate collateral	7	13.2	87.5	100.0
	Total	8	15.1	100.0	
Missing	System	45	84.9		
Total		53	100.0		

Figure 4.4.7 Reasons for rejection of Loan request

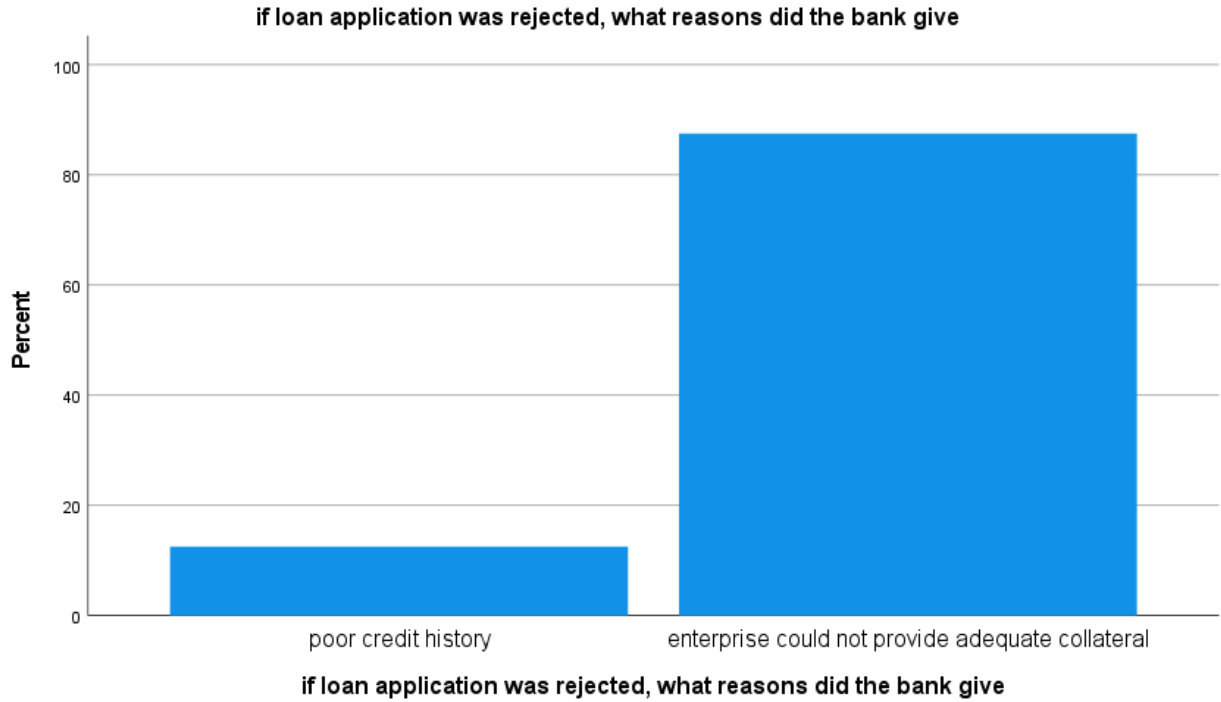


Figure 4.10 Reasons for rejection of Loan request

12.5% of the respondents whose applications for loans were rejected attributed the non-approval to poor credit rating while 87.5% attributed it to inadequate collateral.

Table 4.8 Impact of non-approval of loan

How did non approval of loan application affect your business?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	serious financial difficulties	3	5.7	33.3	33.3
	cancelled business plans	6	11.3	66.7	100.0
	Total	9	17.0	100.0	
Missing	System	44	83.0		
Total		53	100.0		

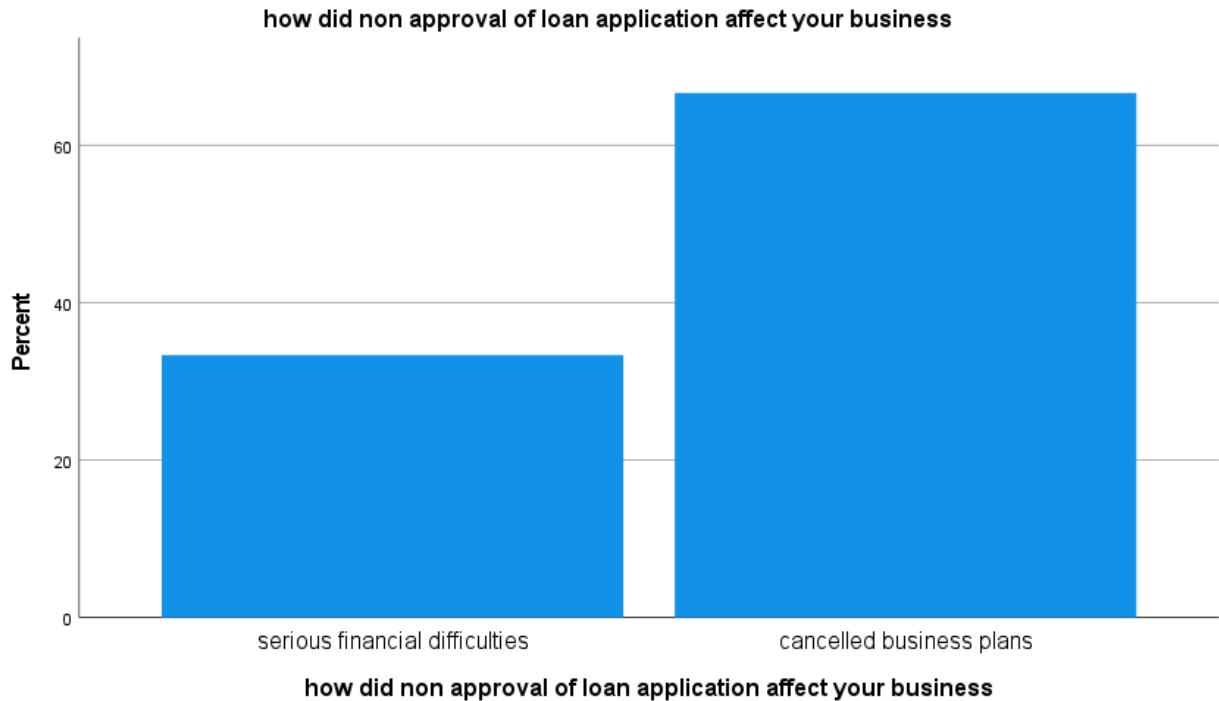


Figure 4.11 Impact of non-approval of loan

33.3% of the SMEs whose loan applications were not approved faced serious financial challenges in meeting operational and investment costs while 66.7% had to cancel their business plans.

In summary, the above data shows that 80.4% of the 51 SMEs applied for loans and 97.6% were required to provide fixed assets for collateral while 3.4% were required to provide movable assets. Out of the 41 SMEs that applied for loans, 76.2% were approved while 23.8% were rejected due to either inadequate collateral or poor credit rating. 93% of the SMEs utilized the loan funds for business investments while 6.1% diverted funds. 73% paid or are paying back loans using business generated funds, 20% from funds raised after selling assets, 3.3% using loans obtained from another institutions and 3.3% using personal finance.

4.5 SME Survival, Sustenance and Growth in relation to availability of finance.

The study carried out the Chi square test of independence in the IBM SPSS descriptive statistics to test the research hypothesis to establish whether or not there was association between availability of bank loans and SME performance as well as availability of bank loans and acquisition of new technology, which influence survival, sustenance and growth of SMEs.

The null hypothesis (H0) for Chi- square Test of independence is that there is no association between the two variables or that the two variables are statistically independent

The research Hypothesis (H) is that two or more variables are associated with one another.

The Decision Rule for rejection or acceptance of null hypothesis is that;

1.Reject Ho if the calculated chi-square value is greater than or equal to the critical chi- square value at the given degrees of freedom and conclude that there is a relationship between the variables at chosen level of significance.

2. Accept Ho if the calculated chi-square value is less than the critical chi square value at the given degree of freedom and conclude that there is no relationship between the variables at the chosen level of significance

In the cross tabulations carried out in SPSS, researcher used 5% level of significance or a 95% level of confidence to carry out the test to determine the relationship between availability of funds (bank loan) and SME performance, and also between availability of funds and acquisition of new technology.

4.5.1 Hypothesis Test 1– access to bank finance and SME Performance

H: There is association between access to bank finance and SME performance.

Case Processing Summary

	Valid		Cases Missing		Total	
	N	Percent	N	Percent	N	Percent
Have you ever applied for a loan from the bank * does availability of bank finance have influence on operational performance	51	96.2%	2	3.8%	53	100.0%

Have you ever applied for a loan from the bank * does availability of bank finance have influence on operational performance Cross tabulation.

		does availability of bank finance have influence on operational performance			
			yes	No	Total
Have you ever applied for a loan from the bank	Yes	Count	40	1	41
		Expected Count	33.8	7.2	41.0
		% within Have you ever applied for a loan from the bank	97.6%	2.4%	100.0%
		% within does availability of bank finance have influence on operational performance	95.2%	11.1%	80.4%
	No	Count	2	8	10
		Expected Count	8.2	1.8	10.0
		% within Have you ever applied for a loan from the bank	20.0%	80.0%	100.0%
		% within does availability of bank finance have influence on operational performance	4.8%	88.9%	19.6%
Total	Count	42	9	51	
	Expected Count	42.0	9.0	51.0	
	% within Have you ever applied for a loan from the bank	82.4%	17.6%	100.0%	
	% within does availability of bank finance have influence on operational performance	100.0%	100.0%	100.0%	

Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	33.277 ^a	1	<.001		
Continuity Correction ^b	28.154	1	<.001		
Likelihood Ratio	28.121	1	<.001		
Fisher's Exact Test				<.001	<.001
Linear-by-Linear Association	32.625	1	<.001		
N of Valid Cases	51				

- a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 1.76.
- b. Computed only for a 2x2 table

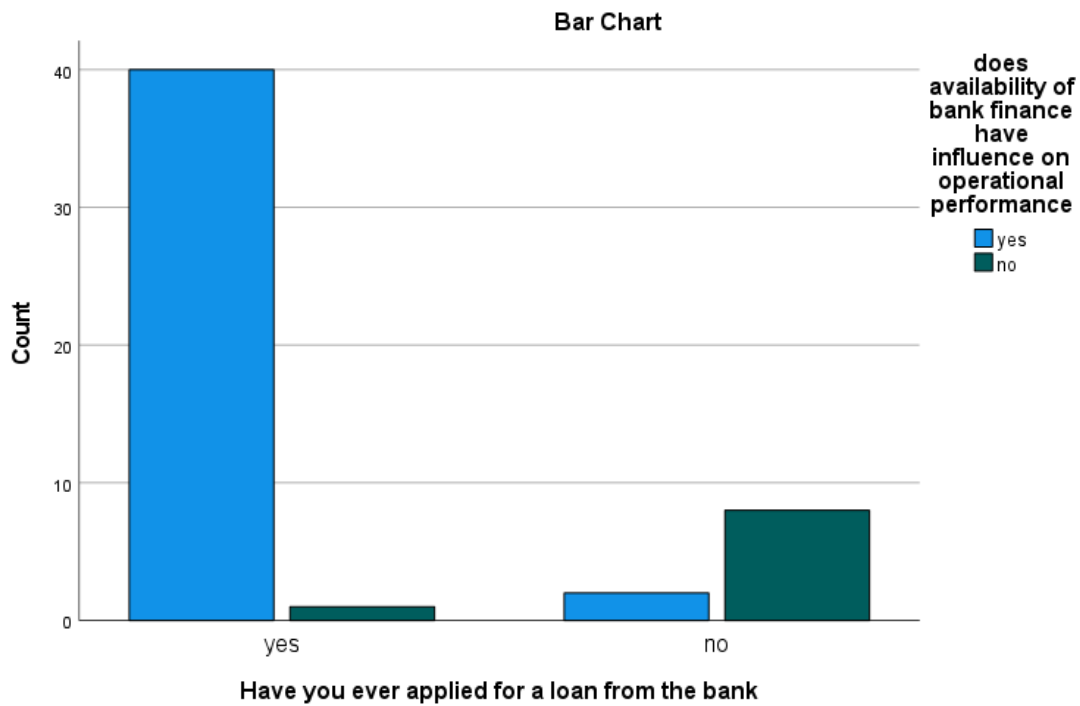


Figure 4.12 Bank Finance and Operational performance

From the above test, the calculated chi square value is 33.277 and its p- value is less than .001. Since p value is less than 0.05 (chosen level of significance) we reject null hypothesis and conclude that there is association between access to bank finance and SMEs’ operational performance.

4.5.2 Hypothesis Test 2– Loan application and Procurement of New Technology

H: There is association between access to finance and procurement of new technology

Crosstabs

Case Processing Summary

Valid		Cases Missing		Total	
N	Percent	N	Percent	N	Percent

Have you ever applied for a loan from the bank * does availability of bank finance have influence on introduction of new technology	51	96.2%	2	3.8%	53	100.0%
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Have you ever applied for a loan from the bank * does availability of bank finance have influence on introduction of new technology Cross tabulation

		does availability of bank finance have influence on introduction of new technology		Total	
		Yes	No		
Have you ever applied for a loan from the bank	Yes	Count	40	1	41
		Expected Count	33.8	7.2	41.0
		% within Have you ever applied for a loan from the bank	97.6%	2.4%	100.0%
		% within does availability of bank finance have influence on introduction of new technology	95.2%	11.1%	80.4%
	No	Count	2	8	10
		Expected Count	8.2	1.8	10.0
		% within Have you ever applied for a loan from the bank	20.0%	80.0%	100.0%
		% within does availability of bank finance have influence on introduction of new technology	4.8%	88.9%	19.6%
Total	Count	42	9	51	
	Expected Count	42.0	9.0	51.0	
	% within Have you ever applied for a loan from the bank	82.4%	17.6%	100.0%	
	% within does availability of bank finance have influence on introduction of new technology	100.0%	100.0%	100.0%	

Chi-Square Tests

	Value	Df	Asymptotic Significance (2- sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	33.277 ^a	1	<.001		
Continuity Correction	28.154	1	<.001		
Likelihood Ratio	28.121	1	<.001		
Fisher's Exact Test				<.001	<.001
Linear-by-Linear Association	32.625	1	<.001		
N of Valid Cases	51				

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 1.76.

b. Computed only for a 2x2 table

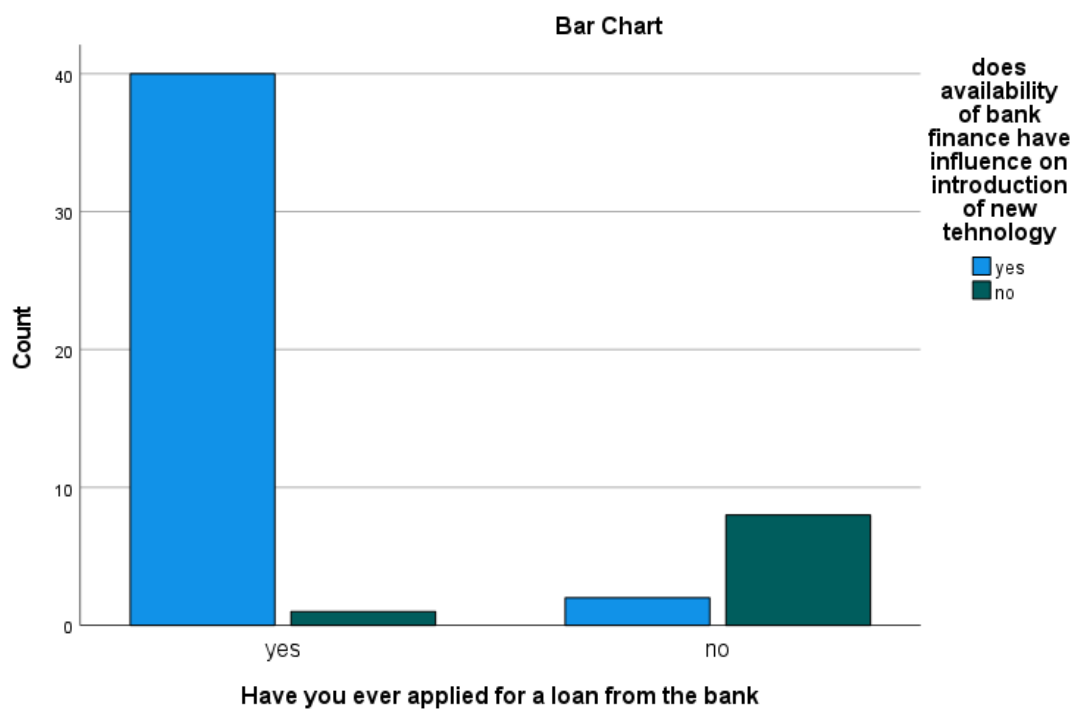


Figure 4.13 Bank Finance and Introduction of new Technology

From the above test, the calculated chi square value is 33.277 and its p- value is less than .001. Since p value is less than 0.05 (chosen level of significance) we reject null hypothesis and conclude that there is an association between application for loan from banks and introduction of new technology meant to promote growth.

4.5.3 Summary on Chi Square tests

From the above tests, it is evident that failure to access credit finance has a great impact on performance and subsequently growth of SMEs. The results demonstrate that SMEs hold the view that access to credit finance provides the opportunity for them to enhance firm performance and procure new technology to enable them survive, sustain and grow. The findings thus demonstrate that there is a relationship between access to finance and survival, sustainability and growth of SME firms. This study therefore affirms to the views held by several other scholars and international organizations like World Bank and OECD as shown in the literature review of journals and reports and thus, there is need for concerted efforts to improve access to finance because it is one of the most significant determinants of SME growth since it affects SME performance and ability to employ new technology.

4.6.1 Sources of SME Financing

Boom et al. (1983), like most writers on the subject of SME financing, described two basic types of financing namely debt and equity. The table below shows the distribution of the survey SMEs preferred sources of funding:

Table 4.9 Preferred Sources of business financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	personal savings	17	32.1	33.3	33.3
	credit financing	25	47.2	49.0	82.4
	family/friends	9	17.0	17.6	100.0
	Total	51	96.2	100.0	
Missing	System	2	3.8		
Total		53	100.0		

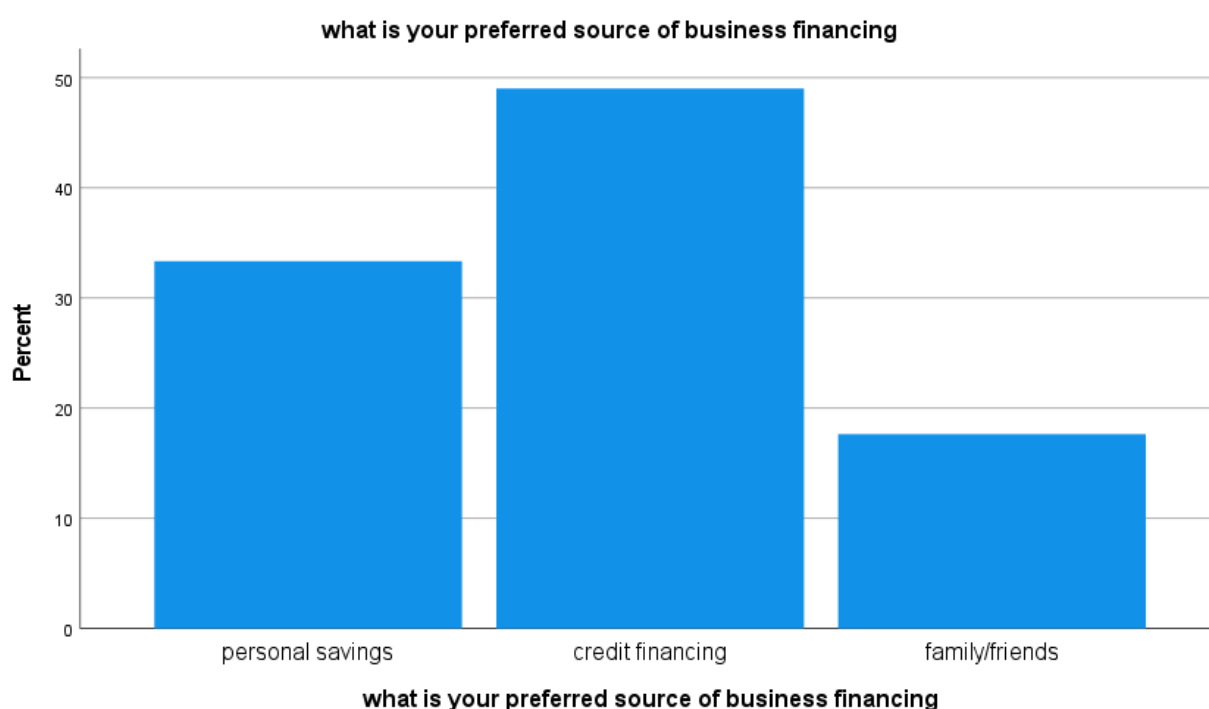


Figure 4.16 Preferred Sources of Business Financing

The study showed that 47.2% of surveyed SMEs preferred credit financing, 32.1% preferred personal savings while 17% preferred borrowing from family/friends. Like many other studies discussed above (OECD 2018), this study revealed that bank financing had remained the most common source of SME financing in spite of the harsh conditions and rigid collateral requirements attached to it.

On the other hand, from the interviews, one of the respondents stated that the SMEs had over a long period of time relied on debt financing to fund their startups, operational costs and

investment needs although most of them have difficulties in debt financing because of high interest rates, short repayment periods and unavailability of or inadequate collateral.

However, two other respondents held the view that banks do not genuinely support SMEs and usually want them to fail so that they could dispose of the asset given as collateral hence the harsh conditions under the assertion that SMEs were too risky. “In most cases the banks did not even monitor the businesses to ensure that they were being run according to submitted business plans prior to obtaining the loan, since they have little or no interest at all” stated one of the respondents. Because of the aforementioned reasons, some SMEs prefer equity financing.

4.6.2 Citizen Economic Empowerment Fund

The respondents in the study stated that SMEs in Trade and Mining were unable to access financing from CEEC because of the bias towards sectors like Agribusiness, manufacturing and value chain processes hence they have not made attempts to apply for financing. Additionally, it was asserted that those that were engaged in Agribusiness were facing difficulties to access funds because of inadequate funding to the CEEC resulting in their applications not being considered.

4.7 Banks’ experiences in financing SMEs

Three banks and 1 lending financial institution out of 6 returned the questionnaires. One respondent who participated in the study stated that their bank offered loans upon provision of collateral like land, assets like vehicles and equipment, cash cover, assignment of receivables and corporate guarantees, while 2 banks only offer loans on provision of land and immovable property like houses or business buildings. On the other hand, the lending institution only lends to clients with salaries for easy recovery.

All the respondents indicated that they have a specific focus dealing with SMEs and they communicate about the loans on offer through the media and sales teams. However, they stated that the loan schemes are designed by their respective bank head offices. The respondents from the banks stated that they usually offer loans to existing deposit clients who are in need of credit while the financial lending institution respondent stated that the institution offers loans to walk-

in clients in need of credit as well as refinancing of existing debts provided the clients were on a stable salary from their employer.

4.7.1 Factors considered by the banks before lending to SMEs

The respondents indicated that they consider various factors before lending to SMEs among them type of industry, quality of information submitted by the clients, feasibility of the business, collateral, ability to repay, cash flow and good credit record. They all indicated that they have an organized credit risk management which is done by Credit Risk Analysts and they are largely automated.

In order to analyze and address the factors the banks consider when lending to SME's an 11 points Likert scale was used to analyze 11 common variables to the banks. The table below shows the analysis done and presents the results;

Table 4.10 Factors Considered when Lending to SMEs.

	N		Mean	Std. Deviation	Skewness	Std. Error of Skewness	Rank
	Valid	Missing					
Forecasted balance sheet and P/L ACC	3	0	7.67	3.215	-1.545	1.225	8
Projection of income and cost in cash flow forecast	3	0	3	2	0	1.225	2
Good track record	3	0	5.33	3.055	-0.935	1.225	6
Timing of the cash flow	3	0	9.33	0.577	1.732	1.225	9
Abilities and experience of entrepreneurs	3	0	4.33	1.528	0.935	1.225	4
Quality of information submitted to the bank	3	0	2.33	1.528	0.935	1.225	1
Feasibility of the business	3	0	4	1.732	-1.732	1.225	3
Collateral security provided	3	0	5.67	4.509	-0.331	1.225	7
Ability to repay the loan	3	0	4.67	2.082	1.293	1.225	5
Owners' equity stake	3	0	11	0		1.225	10
Business	3	0	7.67	0.577	-1.732	1.225	8

An average score of 5.5 was used to analyze which factors were important and which ones were less important based on their mean score. The results show that six (6) variables were considered to be more important by the bank as factors when taking decisions to lend to SME's because of their mean score which was below 5.5. Five (5) variables were considered to be less important by the banks as their mean score was above 5.5. The last column of the table labeled "Rank" presents the overall ranking of the variable based on the information supplied by the banks. The significance of the ranking shows that rank of one (1) is of highest significance while ten (10) is of lowest significance. Therefore, quality of information submitted to the banks is of higher significance when banks are making decisions to loan to SMEs while owners' equity stake is of lower significance.

4.7.2 Factors that usually cause rejection of loan applicants

The respondents indicated that most of the applicants for loans are rejected by the banks because of perceived inability to repay the loans. One of the banks indicated that most of the applicants operate in the mining sector and the most common reason for inability to repay is the uncertainty in the mining caused by, among other factors, fluctuating copper prices on the international market and changes in taxation which in some instances result in suspension of mining operations and subsequent failure or delayed payment to contractors. Sudden cancellation of contracts was also a factor, making it difficult for the clients to repay the loans.

Other factors include unrealistic business plans, inadequate management skills, poor information sharing or absence of transparency in SME business which brings the study to the ToC to resolve information asymmetries. Additionally, SMEs are denied loans because of missing or inadequate collateral and poor credit rating.

Likert scale of three (3) points was used to analyze what factors usually result in loan proposals being rejected by the bank. The table below shows some of the common factors that were presented by the banks and the corresponding mean score based on the answers banks gave on the questionnaires. A mean score of less than two (2) indicates that such a factor is not usually common for the banks; a mean of two (2) indicates that most banks consider that factor whilst a mean of above two (2) indicates that most banks consider that factor as important when rejecting loan proposals.

Table 4.11 Factors which result in rejection of Loan applications

	N		Mean	Std. Deviation	Std. Error of Skewness	Skewness
	Valid	Missing				
Unrealistic business plan	3	0	3	0	1.225	
Inadequate management skills	3	0	2.33	1.155	1.225	-1.732
Poor information	3	0	2	1	1.225	0
Lack of transparency in SME business	3	0	2.33	1.155	1.225	-1.732
Lack of good track record	3	0	3	0	1.225	
Bank lack of understanding SME needs	3	0	1.67	1.155	1.225	1.732
Lack of acceptable collateral	3	0	3	0	1.225	

The results indicate that five (5) of the seven (7) common factors given by the banks have a mean score above two (2) while the remaining factors have mean scores of 2 and below. Therefore, in order for SMEs to access these loans they need to make sure that they are meeting the requirements for the following five (5) factors;- realistic business plan, adequate management skills, transparency in SME business, good track record and acceptable collateral. These have to score above mean score of two (2) if they are to be successful in acquiring loans.

4.7.3: Important Requirements for SMEs to obtain loans

A Likert scale of three (3) points was used to establish which requirements are important for SMEs to successfully obtain finances. The table below shows the results obtained. Factors with a mean score less than two (2) indicate that most banks do not consider it important, factors with mean score of two (2) indicate that a number of banks consider that to be an important factor while factors with mean score above three (3) indicate that most banks consider such a factor an important requirement for SMEs to successfully obtain finance.

Table 4.12 Requirements for SMEs to obtain loans

Factor/Variable	N		Mean	Std. Deviation	Std. Error of Skewness	Skewness
-----------------	---	--	------	----------------	------------------------	----------

	Valid	Missing				
Ability to provide collateral	3	0	3	0	1.225	
Number of years in business	3	0	3	0	1.225	
Good track record of loan repayments	3	0	3	0	1.225	
Strong entrepreneurial characteristic	3	0	2.33	1.155	1.225	-1.732
Good business plan	3	0	2.33	1.155	1.225	-1.732
Cash flow sufficient to repay loan	3	0	3	0	1.225	
Complete information on the application form	3	0	2.33	1.155	1.225	-1.732
Satisfactory reputation and trust worthiness	3	0	3	0	1.225	
Sufficient amount of owners' equity	2	1	2	1.414		

From the results in the above table it can be noted that most variables i.e. good track record of loan repayment, strong entrepreneurial characteristic, good business plan, cash flow sufficient to repay loan, complete information on the application form and satisfactory reputation and trust worthiness, had a mean score above two (2) which indicates that those variables are important when SMEs are obtaining finance. Only one variable, which is sufficient amount of owners' equity, had a mean score of two (2) which indicates that it is important although not all banks consider it to be of the same importance. Therefore, SMEs need to ensure that all variables that are above mean score of two (2) are met if their access to finances is to be successful.

4.8 Addressing challenges in SME financing

4.8.1 Interventions

Two of the interviewed participants stated that the enactment of the Movable Property (Security Interest) Act no. 3 of 2016, which sought to allow SMEs to borrow with movable assets like vehicles and equipment, cash cover, assignment of receivables and corporate guarantees was a step in the right direction in addressing the traditional requirement of immovable assets for security in credit financing. However, another respondent noted that banks had continued to prioritize immovable assets as collateral. One of the respondents held the view that banks do not genuinely support SMEs as they allegedly did not monitor SMEs projects but only waited for them to default in order for them to seize and dispose of the immovable assets which are easier to evaluate and dispose of.

Another respondent stated that a number of interventions have been put in place through CEEC citing the agriculture, livestock and aquaculture sector where support was being provided in

the enhancement and streamlining of a range of policies that are required to provide a robust and enabling environment for the conduct of agribusiness and trade.

The respondent stated that CEEC in-conjunction with the Ministries of Agriculture and Livestock and Fisheries gives out loans in the form of equipment, animals, seed and other farming material and directly pays suppliers as opposed to giving cash to farmers and other business owners. This was meant to curb diversion of business funds and subsequent default in loan servicing. “A case in point is the Zambia Aquaculture Enterprise Development Project (ZAEDEP) where the Ministry of Livestock and Fisheries was running the project for fish farming with loans in the form of construction of ponds, fingerlings, feed and other equipment for the value chain, including cold storage and transport” stated the respondent. Trade was also incorporated. The respondent added that the loans were valued at K84, 000.00 at 12% interest. The recoverable period commences six (6) months after the business is operational while technical support and training is provided by the Ministry.

However, only 199 were considered for the value chain projects i.e. fish production, processing and storage, transportation and marketing out of 905 applicants in 2020 and subsequently only 16 were given loans for the primary project of fish production but 6 pulled out on grounds that they wanted government grants and not loans. This demonstrates that there is still need for more efforts to enhance access to funding by adequately funding CEEC so that more applicants could be considered for funding.

Additionally, the respondent stated efforts were being made to improve the policy framework and strengthen the national quality and logistics infrastructure needed to support agribusiness and trade. A case in point is the Zambia Agribusiness and Trade Project (ZATP) which was networking with other institutional stakeholders like the Business Regulatory Review Agency (BRRA), The Competition and Consumer Protection Commission (CCPC), Zambia Development Agency (ZDA), Zambia Bureau of Standards (ZABS) and the Ministries of Agriculture and Fisheries and Livestock to enhance information sharing and recognition of business opportunities.

4.8.2 Outcomes of the Interventions

The respondents indicated that the outcomes of the above measures may be determined in various ways as it has generally been agreed over time that institutional frameworks had made the SMEs easier to identify for ease of doing business. On the other hand, the SMEs have more information and more opportunities for networking as they interact on various platforms like the ZDA and CEEC among others.

Further, another respondent stated that some banks were slowly beginning to allow SMEs in the mining and construction industries to access loans by using contracts and receivables as alternative security other than just immovable collateral assets, although the interest rates are still high which erodes most of the profits for SME owners thereby resulting in difficulties for SMEs to survive and sustain the business.

4.8.3 Factors that still require Interventions

The respondents stated that there were still a number of factors that still require interventions if SMEs were to effectively run and significantly contribute to the economic growth of the Country. Among the issues still requiring interventions are:-

- a. High cost of borrowing and lack of interest on the part of banks to genuinely and practically support SMEs;
- b. Lack of tax incentives for SMEs;
- c. Perceived weak legislation supporting SMEs;
- d. Inadequate funding to CEEC which results in only a few applicants being offered loans and bias towards agriculture and manufacturing sectors;
- e. Large number of pre-requisites for SMEs to standardize their businesses. Currently, the list of institutional requirements ranges from PACRA registration, ZRA registration, ZABS certification, ZDA affiliation, Zambia Compulsory Standards Agency certification and others. It was observed that these processes were lengthy and tedious which sometimes results in SMEs omitting some of the requirements and eventually being penalized or denied access to credit by banks and CEEC and
- f. Non actualization of Credit Guarantee Scheme.

4.8.4 Proposed measures to address unresolved Challenges in SME financing

To attain Research objective no. 4 and attend to Research question number 4, the study gathered the following common concepts in the suggestions from the respondents on how the abovementioned challenges can be resolved:

1. There was a proposal for credit risk mitigation where Government could facilitate signing of Memoranda of Understanding (MoU) with banks to create schemes of group lending for long term loan products at a low interest rate and compel group members to share credit risk;
2. implement the Credit Guarantee scheme which should cover a portion of loss for the lender in cases of default;
3. The respondents called for reforms and increased funding to CEEC to enable more SMEs access funds;
4. The participants emphasized the importance of establishing an information infrastructure to provide a base for credit assessments for lenders and that there should be continued information sharing amongst stakeholders as this would mitigate the existing information asymmetrical problem;
5. That there should be incentives for banks that lend to and effectively monitor SMEs to ensure success;
6. The participants stressed the need for strengthened legal framework aimed at enhancing SME access to financing and
7. Government and other stakeholders to continue making combined efforts in SME capacity building in areas like business management and technological skills in order for SMEs to be efficient and improve performance which should ultimately spur profitability and loan repayment capability.

CHAPTER 5

DISCUSSION OF FINDINGS

5.0 Overview

This chapter presents the discussion of findings highlighted in the preceding chapter. The layout is based on the following subtitles derived from the research objectives.

5.1 Role of SMEs in National Economies (Research Objective no. 1)

The study acknowledges that SMEs have been recognized as the foundation of development in any economy. It has been pointed out by many scholars and organizations that SMEs play a key role in national economies around the world because they generate employment, promote value addition and contribute to innovation, as already alluded to in the literature review (OECD 2018). The study also established that SMEs are essential in the quest to achieve environmental sustainability and more inclusive growth because they are key players in the economy and the wider eco-system of firms. Additionally, it has been observed that SMEs are a significant multi sector in that they are potential, and in some cases actual employers, policy movers and influencers of change in the general economic outlook of the country. It is also worth mentioning that even though not all SMEs are innovative, new and small firms usually exploit technological or commercial opportunities that have been neglected by more established companies as pointed out by the OECD (2010a) in the literature review. These findings met research objective no. 1 and addressed research question no. 1

5.2 SME perceptions on the challenges they face in accessing financing (Research Objective no. 2)

The study revealed that debt financing had remained the most common among SMEs. However, the SMEs who participated in the study indicated that collateral requirement, cumbersome procedure, high interest rates and short-term repayment period attached to debt financing from commercial banks were among the major challenges they faced. This was confirmation of what other scholars and organizations had reported as highlighted in the literature review (Nuwagaba 2015; OECD 2013; USAID 2019). This study also confirms the

findings by other scholars (Nuwagaba 2015; Liyanda 2017; Kambone 2017; Phiri 2016) that these challenges have adversely affected growth of SMEs which has led to some of them eventually collapsing as they either failed to access debt financing because lack of collateral or were subjected to high interest rates and short repayment period which resulted in low profitability.

Conversely, findings from the questionnaires administered to bank officials revealed that banks usually consider quality of information submitted by SMEs in their quest to obtain loan products as it helps them in assessing credit worthiness and loan repayment capabilities. The aforementioned puts emphasis on the need to address information asymmetrical problems. O

Other considerations by banks which pose as challenges to SMEs are provision of collateral, cash flows and adequate SME management skills.

On the other hand, data from the interviews revealed that rigid and traditional requirement by the banks of provision of audited books and cash flow forecast; collateral, high interest rates and short-term loan products were among the major challenges SMEs faced in accessing debt financing. Additionally, the study revealed that the stakeholders held the view that banks had a preference to invest in treasury bills as opposed to SME lending, thereby allocating insufficient funds to SME lending.

It is worth mentioning that the responses from both the questionnaires and the interviews converged on high interest rates and short term repayment periods, collateral requirements and cumbersome procedure which includes provision of audited books and cash flow forecast, as major challenges experienced by SMEs in accessing finance. This discourse achieved Research objective no. 2, answered to Research question no. 2, fulfilled the purpose of triangulation and also confirmed the findings of other studies as discussed in the literature review which have outlined similar challenges in accessing SME financing. It is therefore crucial for stakeholders to continue engaging with a view to addressing the identified challenges which have remained unresolved over the years. This should to enable SMEs to access financing with ease so as to promote sustainability and growth.

5.3 Attempts made by SMEs to Access Finance for their Enterprises (Research Objective no. 3)

The study established that that 80.4% of the 51 SMEs that participated in the study, applied for loans and 97% were required to provide fixed assets for collateral while 4% were required to provide movable assets. Out of the 41 SMEs that applied for loans, 76.2 % were approved while 23.8% were rejected due to either inadequate collateral or poor credit rating. 93% of the SMEs utilized the loan funds for business investments while 6.1% diverted funds. 73% paid or were paying back loans using business generated funds, 20% from funds raised after selling assets, 3.3% using loans from another institution and 3.3% used personal finance. These findings demonstrate that most SMEs still depend on traditional debt financing in spite of the harsh conditions attached to bank loans. This also confirms the findings by other scholars cited in the literature review (Liyanda 2017; Nuwagaba 2015; Phiri 2016) thus raise the need to resolve the challenges that are experienced in debt financing. This demonstrates the significance of this study. The findings were in line with objective no. 3 which also addressed research question no. 3.

5.4 Measures to Address Challenges in SME Financing (Research Objective no. 4)

The respondents from SME owners, banks and experts dealing with SMEs made several proposals to address the challenges experienced in SME debt financing among them high interest rates and short term repayment periods, rigid collateral requirement of immovable assets for collateral, cumbersome procedures attached to bank loans and insufficient availability of funds under CEEC. The suggestions were in line with Research Objective 4 and Question 4 which sought to come up with ways in which SME financing could be enhanced. The proposed measures are also in line with the Theoretical framework on the Theories of Change in which this study was grounded in order to address the constraints in accessing debt financing. It is imperative for the underscored challenges to be resolved because the study through the Chi square tests showed that there is association between debt financing and SME performance and thus survival, growth and sustainability of SMEs. Below are the proposed measures to enhance access to business financing and subsequently promote growth:

5.4.1 Credit Risk Mitigation

The findings of the study confirmed that SMEs are charged high interest rates and given short repayment periods because they are considered risky. To mitigate the credit risk, respondents proposed creating schemes that would allow a group of SMEs to borrow and share credit risk

thereby mitigating losses for the banks while on the other hand allowing SMEs to borrow at lower rates. Additionally, it was proposed that Government should facilitate signing of Memoranda of Understanding (MoU) with banks to institute the scheme of group lending for long term loan products at low interest rates.

Further, it was proposed that Government should also facilitate the actualization of Credit Guarantee Schemes (CGSs) which have been spoken about at various platforms but little had been done to implement them. The study revealed that CGS was viewed as an effective tool for supporting SME lending and alleviating the financing constraints they faced. The respondents also held the view that CGSs, were in line with international best practices, to provide important security for lenders as the guarantor pays a portion of the loans issued to SMEs in an event of default to lessen the lenders' loss. Adoption of the schemes would be corresponding with practices advocated by OECD (2018), USAID (2019) and World Bank (2018) and also the recommendations of Yoshino & Taghizadeh (2018) whose study in Asia revealed that CGSs were an effective tool to encourage SME debt financing. However, it must be mentioned that there should be precautions in the selection of SMEs to ensure that the scheme is not abused by over borrowing or diverting borrowed funds because the credit risk is covered by the guarantor. The following figure illustrates how the mentioned schemes would resolve the challenges in debt financing thereby achieving objective no. 4:

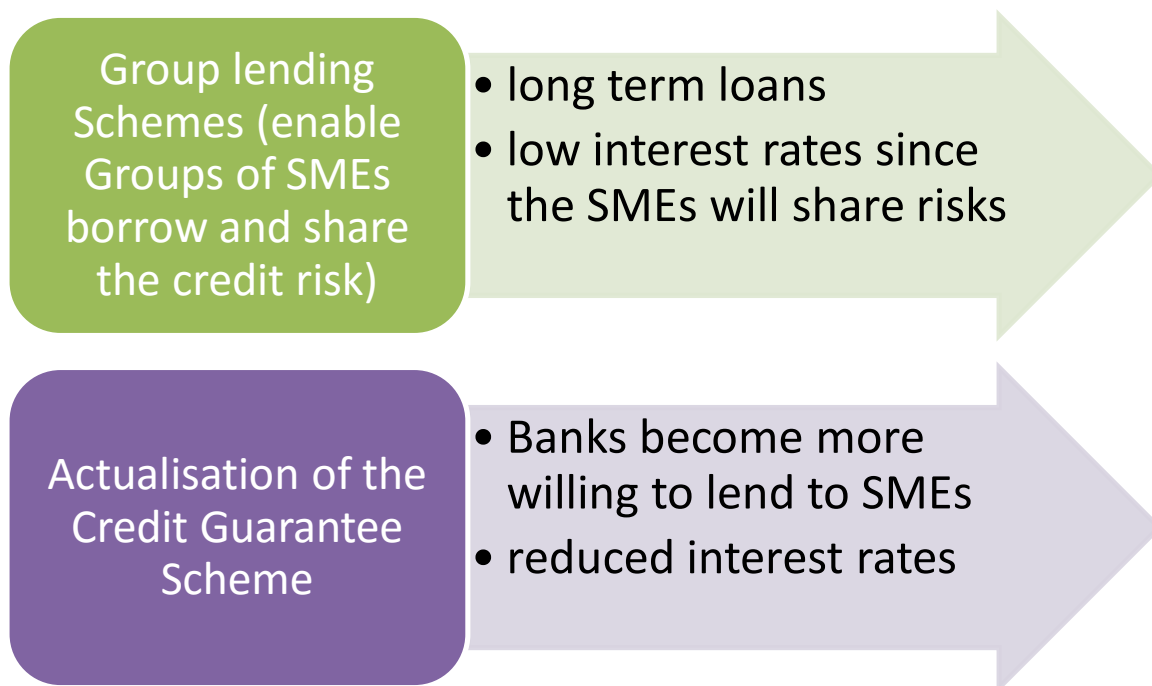


Figure 5.1 Schemes to mitigate Credit Risk.

5.4.2 CEEC Reforms

The findings of the study established that there was need for Government to increase funding to the CEEC in order to allow a significant number of SMEs to access funds in view of the realization that the institution was being under-funded and not able to meet demand from SMEs. Additionally, it was proposed that the CEEC which currently has a bias towards agribusiness, manufacturing, storage and packaging among others, should be extended to other sectors like mining supplies and contracts as well as retail trade. The respondents felt that diversifying access to finance for SMEs through increased funding to Government programmes such as CEEC would enhance economic growth and boost resilience of the financial sector and also support industries that are under served and unserved by the banking sector.

5.4.2 Information infrastructure

The respondents from the banks and officials from organizations dealing with SMEs emphasized the need to improve the information infrastructure for credit risk assessment through collection of loan data and performance track records. The study established that there was need for continued reporting and data sharing between banks and other stakeholders like ZDA, utility companies, ZRA, pension funds and insurance companies because they held the view that firms that fail to meet their financial obligations are likely to default on loan repayments. This would mitigate the information asymmetrical problem that exists between lenders and SME owners. This is in line with what the OECD (2016) advocates, as highlighted in the literature review, where an effective credit information system helps to reduce information asymmetries between lenders and borrowers by giving potential lenders access to the credit history of a borrower. This is also in tandem with Theory of Change on Information Infrastructure as discussed previously.

The study also established that the respondents held the view that since the central bank collects lending data mainly for supervisory purposes, the information infrastructure should collect a broader range of information including data from utilities or telecommunication companies as that could be helpful for first-time borrowers who did not have established credit history with a bank or other financial institutions. Further, the respondents suggested that there should be

effective on-going information sharing among banks regarding information obtained on deposit clients of respective banks in order to address the information asymmetries. This affirms what is being advocated by various scholars and organizations like World Bank and OECD and Zambia can learn from the best practices being adopted by many countries that are affiliated with the OECD with the aim of improving the SME sector.

5.4.3 Strengthened Legal Framework

The SME respondents and officials from organizations in the SME sector suggested that Government should strengthen the use of movable assets by establishing central collateral registers which highlight easy processes of valuation and disposal and also avoid borrowers using the same asset in multiple loan requests. This proposal corresponded with recommendations by the OECD (2018) and USAID (2019) as well as the Theories of Change on collateral requirements (USAID 2019).

On the other hand, the respondents proposed the use of more legislative measures to support SME financing and growth as opposed to mere policies because law provides for prosecution of offenders which policies cannot provide for. The contention against policies was that affected entities like banks and other players in the market were not compelled to adopt or implement the policies, a situation which rendered most policies a mere academic exercise. On the contrary, the proposal was that banks could be compelled through the law to allocate a percentage of their funds to SME financing, which would improve their commitment to monitoring and ensuring that SMEs succeeded.

Additionally, there was a proposal to restrict participation of banks in Treasury Bills investments. It was suggested that Banks should be the last call to invest in T. Bills and that pool and pension funds and high net worth individuals should be given priority while banks should only be called upon if other parties failed. This should influence banks to allocate resources to SME financing. This was in view of the realization that banks in Zambia invested heavily in Treasury Bills as opposed to SME lending since SMEs are regarded as risky.

The other proposal on legal framework was to revise the certification processes and have a one stop registration model that would encourage SMEs to legalize their businesses and have access to SME financing as they would have the necessary documentation. Below is a summary of the proposals on legal framework:

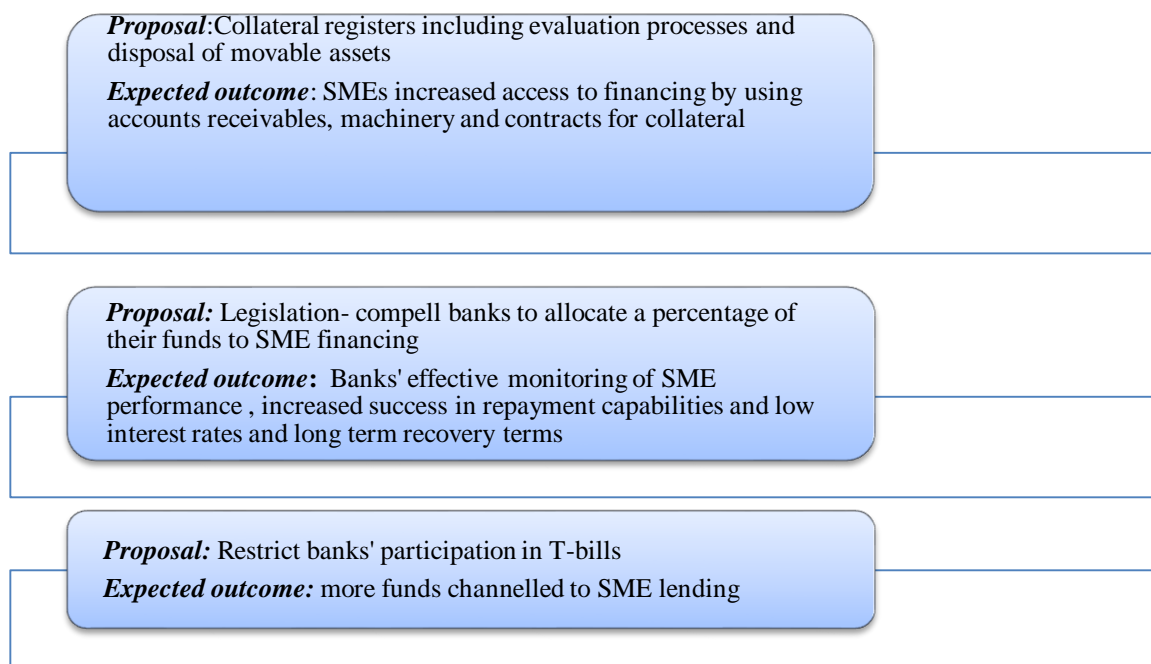


Figure 5.2 Strengthened Legal Frameworks

5.4.4 Incentives for Banks that effectively support SMEs

The SME respondents and officials from institutions dealing with SMEs suggested that Government should give rewards like tax incentives and reductions of reserve ratios to banks that support SMEs. The respondents held the view that rewarding banks would motivate them to genuinely support SMEs in view of the realization that banks do not genuinely support the SME sector. This is in line with international best practices as advocated by international organizations like OECD and World Bank (OECD 2015). This has also been recommended by many other scholars as indicated in the literature review.

5.4.5 Other Factors that Promote SME Growth

The research also confirmed findings of Sitharam& Hoque (2016) that SME management skills and competences were important determinants of survival, growth and loan repayment capability of SMEs. The study admits that SME growth was not only dependent on finance but SME business management skills, competencies, access to markets, innovation, technological and technical skills. The study also observed that these skills enable SMEs to recognize and explore opportunities, plan and execute projects, efficiently use resources, recognize and manage risks which impact profitability and increase loan repayment capacities. The

participants indicated that these factors if well employed contribute to SME growth and promote social change, community development and increase employment opportunities among others. The following is an illustration of how the proposals would function: -

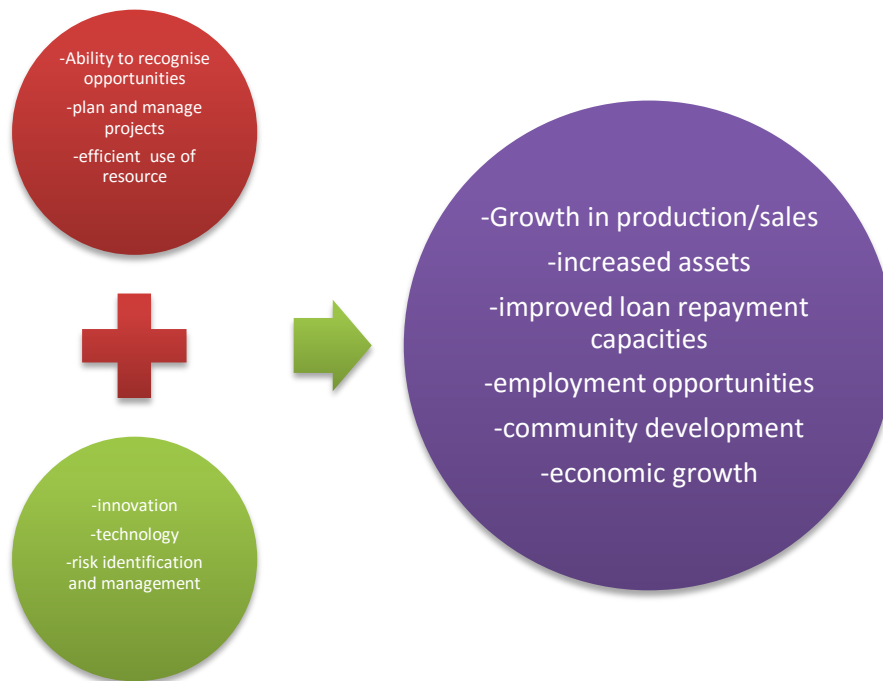


Figure 5.4 SME Management Skills and SME Growth

5.5 Summary of the Chapter

From the above discussion of findings, all the three research questions were answered and that was in line with the Research Objectives, Reviewed Literature and Theoretical Framework. The findings show that SME owners are still having challenges in debt financing which is the most common form of business financing, like collateral requirements, high interest rates and rigid procedures of providing audited financial statements. The high interest rates reduce profitability which makes it difficult for SMEs to survive, sustain and grow and subsequently contribute to national economic growth.

The proposals submitted by the study like formation of CGS and SME group lending to lessen the default risk, information infrastructure to mitigate information asymmetries and CEEC reforms are all in line with the Theories of Change (USAID 2019) aimed at addressing constraints in SME lending.

In addition, the proposal to increase legislation to facilitate enhanced access to funding and ultimately promote growth is practiced in other countries among them South Africa (Devex, 2020), Western Balkans and Turkey (OECD et al 2019.) Likewise, Zambia can emulate best practices from other governments that have put deliberate measures in place to offer financial support and investment incentives.

CHAPTER 6

Conclusion and Recommendations

6.1 Conclusion

The Study on ‘Addressing Challenges Faced by SMEs in accessing Financing in Zambia’, sought to establish difficulties faced by SMEs in accessing business financing from financial institutions for start-up capital or financing operating costs, acquisition of new technology and machinery among others, and eventually come up with remedies to address the challenges with a view to promoting SME growth and contribution to the national economy. This study was guided by the following specific research objectives

- i. To examine the role of SMEs in the national economy;
- ii. To establish SME perceptions of the challenges they face in accessing financing;
- iii. To ascertain attempts made by SMEs to access finance for their enterprises and
- iv. To establish measures for addressing challenges faced in accessing finance by SMEs.

The study used a mixed method research design which fulfilled the concept of triangulation. The study employed interviews and questionnaires to collect primary data from participants. To analyze the data, the study employed content analysis techniques for qualitative data and descriptive statistics in IBM SPSS version 28 to analyze quantitative data.

Based on the responses received through the questionnaires circulated to SMEs and interviews with experts dealing with SMEs, the study acknowledges that SMEs play an important role in any nation’s economy and that sustainability of the world’s economy is focused on the SME’s ability to create wealth for the owners and employment opportunities for the larger population thereby alleviating poverty. This corroborates the reviewed literature and meets objective no.1 which was to establish the role of SMEs in the national economy.

Meanwhile, the study also confirms that SMEs in Zambia like most SMEs in other countries are faced with major challenges in accessing business finance. The challenges revealed by the study include high interest rates and short repayment periods on bank loans and continued rigid

requirements for SMEs to provide immovable collateral and other information needed by banks like audited financial statements.

On the other hand, the research also confirms that accessing loans under CEEC had remained difficult due to perceived bias to agriculture and manufacturing sectors among others and does not cover mining, mining contracts and supplying which are the most common SME businesses in Kitwe. This gave rise to the need for reforms to address this constraint as well as need for increased funding to the commission so as to enable many more SMEs to have access. This met objective no. 2 of the study.

Objective no. 3 which was to ascertain attempts made by SMEs to access finance for their enterprises was also achieved in the study. As highlighted, most surveyed SMEs had made attempts to apply for debt financing as it remains the most common source of business growth and sustainability. This was evidenced in the test of hypotheses which showed that there is a relationship between access to finance and SME performance and thus survival, sustainability and growth as well as acquisition of new technology.

Further, surveyed SMEs held the view that Government can set up measures like effective legal framework, run support schemes and increase funding to CEEC which would increase access to SME business finance. Support schemes can take many different forms: low interest rate and long-term loan products to a group of SMEs which could share risks, Credit Guarantees and other instruments. This corresponded with objective no. 4 and the Theories of Change as discussed in the Theoretical Framework.

Finally, it can be said that although banks remain the major source of credit for SMEs, the harsh conditions attached to loans make it difficult for SMEs to survive and grow. This is why stakeholders like Government, banks, nongovernmental organizations and SMEs need to take intensive efforts to implement measures that could address these challenges. Additionally, it is worth noting that the need to improve access to SME financing has gained momentum across the world and has become a policy priority for many economies as a way of complementing conventional bank finance. According to the G20/OECD High-level Principles for SME Finance (G20/OECD, 2015), economies need to develop more comprehensive options for SME financing to support sustainable economic growth and enhance the flexibility of the financial sector.

6.2 Recommendations

Based on the research findings and in conformity with guidance by the OECD (2018), World Bank (2021) and USAID (2019), the study makes recommendations to enhance access to debt financing in the SME sector. The recommendations are also in line with the main objective of the study which was to examine challenges that SMEs face in accessing finance in Kitwe District with a view to recommending solutions taken from the participants' point of view. The recommendations also speak to Research question number 4 which sought to establish how SME access to finance could be enhanced through functional pragmatism. The recommendations are also in line with the Theories of Change.

6.2.1 Formulation of Schemes to Enhance Access to Financing

1. Government in conjunction with other stakeholders should formulate schemes to offer long term loans to groups of SMEs at lower rates while members of the SME group share credit risks since banks have high interest rates because of high risks involved in SME lending. However, the interest rates reduce profitability which threatens survival of SMEs. To minimize the default risk, the recipient group should have an effective monitoring mechanism to ensure success amongst its members in order to strengthen loan repayment capabilities.
2. It is recommended that Government with other corporate entities and nongovernmental organizations should create and actualize Credit Guarantee Schemes to absorb a portion of the loss to lenders as a way of credit risk mitigation which can reduce cost of credit. However, such a scheme should set up effective monitoring and evaluation systems to ensure that SMEs do not abuse the scheme. The scheme should effectively serve the purpose of mitigating inevitable credit risk and make banks more willing to create long term loans for SMEs at lower rates;

6.2.2 Policy Reforms

1. Government should consider formulating deliberate policies aimed at giving rewards like tax incentives and reductions of reserve ratios to banks that successfully support SME financing through provision of technical support and effective monitoring, since the study revealed lack of genuine interest by banks to support SME financing due to “high rates of default;

2. In addition, it is recommended that Government comes up with a procedure to restrict participation of banks in treasury bills investment in view of observations that banks prefer investing in treasury bills to SME financing. This would make banks become more willing to lend to SMEs and subsequently promote flexibility in the conditions attached to loan products for SMEs.
3. Government should also come up with a deliberate policy to give incentives to banks that promote usage of alternative assets like contracts, cash receivables and equipment/machinery in view of rigid requirement of immovable collateral by most banks
4. There should be reforms in the CEEC funding programme to include retail traders, mining contractors and suppliers as opposed to the restricted lending to particular sectors like agriculture, manufacturing and creation of value chains etc. In addition, there should be consistent and increased funding to CEEC to allow more SMEs to access financing.

6.2.3 Enhancement of Information Infrastructure

It is recommended that stakeholders, i.e. banks, Government, utility and telecommunication companies and the Bank of Zambia network to improve the information infrastructure for credit risk assessment. Collection of loan data and performance track records, reporting and data sharing should be continuous in order to address information asymmetries which affect lending decisions by most banks.

6.3 Limitations of the study

1. Integration of Quantitative and Qualitative methods was difficult because it is a complex process and comparison of results from different analysis techniques requires expertise, sufficient resources and great effort.
2. Mixed method research also consumed much more resources like time and money
3. Inadequate knowledge on SPSS analysis prior to formulation of the Questionnaires which resulted in some questions not being appropriately phrased to solicit useful information in the analysis techniques under SPSS.

4. The sample size of 70 participants for a mixed method was too small to make general inferences to a larger population. A smaller sample size reduces the power of the study and increases the margin of error.

6.4 Future Research Directions

Future research should focus on using larger sample sizes because they give more accurate average values, identify outliers that could skew the data in a smaller sample and provide a smaller margin of error. A larger sample size also gives the ability to draw conclusions with reasonable confidence.

It is recommended that future studies should focus on taking industrial or categorical approach in studying challenges and finding solutions to SME business financing, as that would help policy makers especially with the introduction of the Ministry of Small and Medium Enterprises by the United Party for National Development (UPND) Government to take remedies that could be more effective since they would be applicable to a particular industry or category of SMEs as opposed to the broad approach which was taken by this study.

Additionally, future studies should also further examine other variables like entrepreneurial and management skills to determine their impact on SMEs success and subsequent loan repayment capabilities in SME debt financing.

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APPENDIX 1: QUESTIONNAIRE- SME'S

Dear Sir/Madam

I J. Bwembya, student at the University of Zambia (UNZA) pursuing Masters of Business Administration –Finance, undertaking a study on **Addressing Challenges Faced in accessing Small and Medium Enterprises (SMEs) Financing in Zambia: A Pragmatic Approach**, kindly request you to fill the questionnaire and return the same. I appreciate your support in terms of investing time to respond to this questionnaire.

1. Name of Enterprise -----
2. Name of your bank/s -----
3. What best describes the ownership of your enterprise? Kindly indicate answer below
 - a. Sole proprietorship
 - b. Private limited company
 - c. Partnership
 - e. Co-operative
4. Which industry closely describes your business?
 - a. Manufacturing
 - b. Service
 - c. Trade
 - d. Mining/Supply and Construction
 - e. Agribusiness
5. Do you have a business plan?
 - a. Yes
 - b. No
6. How long have you been in this business?
 - a. 1-3 years
 - b. 3-5 years
 - c. more than 5 years
7. What category of employees does your firm have?
 - a. 1-10 employees
 - b. 10 – 20 employees
 - c. more than 20 employees
8. What was your source of income at the beginning of your business?
 - a. personal savings
 - b. bank loans
 - Government loan
 - c. family/friends
9. Are you aware of the availability of the following source of finance for SME's (Kindly indicate Yes or No where applicable)
 - 1) Commercial bank

- 2) State Financial Corporations
- 3) Government sponsored programmes
- 4) Non-Banking financial Institutions
- 5) Micro Finance Institutions

10. What is your preferred source of business finance? (write answer below)

- (a) Personal Savings (b) Bank loan (c) Family/Friends (d) Government

11. How do you get informed about the business support available? (state the applicable answer below)

- (a) Personal business contacts (b) Via membership of trade association (c) Government pronouncement (d) Mass media communication

12. For what do you prefer business finance? (State the applicable answer below)

- 6) Growth (b) Establishment (c) New product development (d) Reaching new market (e) Working capital

13. Have you ever applied for a loan from banks before?

- (a) yes (b) no

14. Was the loan application approved?

- (a) yes (b) no

15. What form of collateral were you asked to provide to obtain the loan?

- (a) Fixed assets (b) movable assets

16. What documents were requested as part of application process? (State the applicable)

- 1) Formal application for financing 2) Business certificate of registration 3) Business financial statements 4) Business Plan 6) Projected cash flow 7) Others (Please Specify)

.....

17. Did you utilize the loan for the purpose for which it was provided?

- (a) yes (b) no

34. Are you repaying/repaid the loan?

- (a) yes (b) no

18. If No, state the reason

- 1) 1)Business loss 2) Diversion of loan 3) Government scheme will compensate Bank 4) Discouraged by others 5) Others (please specify)

.....

19. If yes, how do/did you repay the loan?

- 1) Business income generated 2) Selling/pledging the assets 3) personal finance 4) Loan from other financial institutions 5) Others (please specify)

.....

20. What reasons were given by the bank for not approving the loan request? (Tick where applicable)

- 1) The application did not meet the criteria
- 2) Poor credit history
- 3) The application was not correctly completed
- 4) The management team was too inexperienced
- 5) The enterprise could not provide enough guarantees
- 6) Others (Please specify)

21. What was the impact of non-acceptance of you request? (Write the number that applies)

- 1) Serious finance difficulties
- 2) Had to put plans on hold
- 3 No impact

22. Could you please describe the problems in accessing the bank loan? Tick where applicable

- 1) Lack of empathy from bank officials
- 2) Untimely sanctioning of loan
- 3) Cumbersome procedure
- 4) Collateral requirement
- 5) Harsh conditions (high interest rates and short-term repayment

23. Does availability of adequate bank finance have influence on the following activities of SME's, please indicate Yes or No

- 1) Level of production.....
- 2) Operational performance.....
- 3) Introduction of new technology.....
- 4) Acquisition of new machinery

24. Has the enterprise requested financing under Citizen Economic Empowerment Commission (CEEC)? Yes No

If No, Why? (TICK ALL THAT APPLY)

- 1) Not aware of the programme
- 2) This programme was not available
- 3) Did not meet the acceptance criteria
- 4) Procedure to obtain this financing was too complicated
- 5) Did not opt financing under this programme
- 6) Others (please specify)

25. Would you like to make any suggestion for banks/government to make bank's loan easy for Entrepreneurs?

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THANK YOU

Signature

APPENDIX 2: INTERVIEW GUIDE FOR EXPERTS DEALING WITH SMES:

GOVT AND ASSOCIATION

- 1) What is the role of SMEs in an economy like Zambia?
- 2) To what extent have the SMEs been contributing to enhancement of the economy?
- 3) What challenges do SMEs face in accessing finance?
- 4) What measures have been put in place to address the challenges in the last 10 years?
- 5) What are the outcomes of the intervention measures?
- 6) What are some of the issues that still need intervention?
- 7) How will the unresolved issues be addressed?
- 8) How often do you engage SME owners and banks/CEEC with a view to resolving challenges in accessing finance?
- 9) How do obstacles in accessing finance impact the growth of SME sector?
- 10) What is the impact of availability of bank finance on SME performance in relation to
 - a) Level of production
 - b) Operational performance
 - c) Introduction of new technology
 - d) acquisition of new machinery?
- 11) How has CEEC mitigated the challenges of acquiring SME financing since its inception?
12. Please make suggestions for banks/government to make accessibility to loans easy for Entrepreneurs?

APPENDIX 3: QUESTIONNAIRE- BANK

Dear Sir/Madam

I J. Bwembya, student at the University of Zambia (UNZA) pursuing Masters of Business Administration –Finance, undertaking a study on **Addressing Challenges Faced in accessing Small and Medium Enterprises (SMEs) Financing in Zambia: A Pragmatic Approach**, kindly request you to fill the questionnaire and return the same. Your support in terms of investing time to respond to this questionnaire would be a great contribution to accomplish the study.

1. Name of Bank and Branch

.....

2. Designation

3. How long have you been in this bank?

4. Have you undertaken any training and learning exposure to deal with SME’s? please indicate yes or no

5. Does the bank have a specific focus dealing with SME’s? indicate yes or no

6. Please indicate whether your bank has a separate department that attends to small and medium enterprises separately (indicate yes or no)

7. How do you identify potential SME clients? (RANK THEM)

1) Existing deposit clients

2) Clients in need of credit

3) Clients located near branches

4) Clients attached to staff

5) Client’s data base

6) Others (please specify)

8. Is there any interference in the selection of beneficiaries? Indicate yes or no

If yes, from whom?

1) Political/Local bodies

2) Superior officers

3) Others (specify).....

9. How does the bank communicate about SME schemes it is offering to entrepreneurs?

1) Wall/Posters/Brochures/Signboard

2) T.V/Radio/newspaper

3) Circulars

4) Internet

5) Others (Please specify)

10. Does the bank consider the following while processing loan applications of SME clients? (Tick all that apply)

1) Caste

2) Income Level

3) Education level

4) Family Background

5) Type of industry

11. How financial products and services offered to this sector are designed? (TICK THAT APPLY)

1) Designed at head office

2) Designed at branch level

3) Designed based on specific need of clients

4) Standardized products and services as per guidelines

5) Changes according to the demand for products & services

12. Would you suggest any measures the bank could take to increase collateral free loans?

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13. While taking decisions to lend to SME's which of the following factors are considered by the

Bank (RANK THEM)

- 1) Forecasted balance sheet and P/L account
 - 2) Projection of income and cost in the cash Flow forecast
 - 3) Good track record
 - 4) Timing of the cash flow
 - 5) Abilities and experience of entrepreneurs
 - 6) Qualities of information submitted to the bank
 - 7) Feasibility of the business
 - 8) Collateral security provided
 - 9) Ability to repay the loan
 - 10) Owner's equity stake
 - 11) Business plan
 - 12) Others (Please specify)
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14. Could you please express your views on the following, indicate yes or no

- 1) Loan processing procedure is lengthy & complicated
- 2) Majority of the loan requests made are not qualified for further processing
- 3) Loan request processing is done within the time stated in the bank policy
- 4) Papers and documentation of SME advances are inflexible
- 5) Loan proposals recommended by branches are regularly over-ridden by head office

15. Do you use the following source of credit information? Indicate Yes or No

- 1) Interview of loan applicant
- 2) Bank records (Existing Clients)
- 3) Inspection of applicant's place of business
- 4) Credit checking with suppliers
- 5) Inter banking checking
- 6) Credit bureau.....

16. How is the credit risk management function organized in your bank? (Tick that apply)

- i. Largely automated
- ii. Done by credit risk analyst
- iii. Done at head office
-

iv. Done at branch level

v. Others (Please specify)

17. If SME' clients take loan from the bank, are they able to pay back?

Yes No

If no what are the reasons?

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18. Do you have a dedicated SME loan recovery unit?

Yes No

19. What are the actions taken when loans are under default?

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20. Do you require collateral?

YES Not always

21. What types of assets are commonly used as collateral for SME lending?.....

.....
.....

22. Loan proposal may be rejected by the bank due to the following reasons, please tick on the applicable

- 1) Unrealistic business plans
- 2) Inadequate management skills
- 3) Poor information sharing
- 4) Lack of transparency in SME business
- 5) Lack of good track records
- 6) Bank lack understanding of SME need
- 7) Lack of acceptable collateral

23. Which of the following requirements are important for SMEs to successfully obtain finance.

- 1) Ability to provide collateral
- 2) Number of years they have been in business
- 3) Good track record of loan repayments
- 4) Strong Entrepreneurial characteristics
- 5) Good business plan
- 6) Cash flow sufficient to repay the loan
- 7) Complete information on the application form
- 8) Satisfactory reputation & trust worthiness
- 9) Sufficient amount of owner equity contribution
- 10) Others (Please specify)

24. Do SMEs provide reliable information on their operations?

YES NO

25. What are the difficulties involved in the SME loan market ... (Tick all that apply)

- 1) Assessment credit worthiness
- 2) High number of defaulters
- 3) To follow the guidelines strictly
- 4) Lack of infrastructure facilities
- 5) Political pressure.....
- 6) Other (Please specify)

28. What policies is your bank planning to adopt to enhance SME borrowing in future?

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29. Would you offer some suggestions to SME clients& regulatory authorities, to make bank loan easy for SME's

Regulatory Authorities

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SME Clients

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THANK YOU

Signature