

**FACTORS AFFECTING ACCESS TO FINANCE FOR SMALL AND MEDIUM
SCALE ENTERPRISES (SMEs) IN ZAMBIA – A CASE STUDY OF CHILANGA
DISTRICT’S CENTRAL BUSINESS DISTRICT (CBD)**

BY

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requirements of the**

Master of Science in Accounting and Finance

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ABSTRACT

Small and Medium Enterprises (SMES) are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. They contribute substantially to the Gross Domestic (GDP), export earnings and employment creation in many countries and have been widely acknowledged as the springboard for sustainable economic development. While SMEs constitute an important component of the private sector in the developing world (mostly), they report significantly higher obstacles to their operations and growth than large enterprises. Among the many obstacles, the lack of access to appropriate financial services, especially lending services, looms large. The main objective of this study, therefore, was to analyse the factors affecting access to finance by small and medium (SMEs) businesses operating in Zambia, focusing on the Central Business District of Chilanga District as a case study. The study revealed notable constraints from both the demand and supply side of access to finance due to a number of factors like lack of collateral, higher risk of small and medium enterprise business failure, poor debt repayment culture, poor record keeping by small businesses and lack of succession planning among other things. Other factors included high interest rates by financial institutions, lack of understanding of small and medium business needs and lack of trust in the management of small business by financial institutions as small firms were known to divert borrowed funds from the business thereby resulting in high default rates. The demand side factors of access to finance were also affected by volume of required documentation in credit applications, banking policies, regulatory environment and scanty credit information.

KEY WORDS: Enterprise growth, SME challenges, funding, chilanga, financing.

DEDICATION

This dissertation is dedicated to my wife (Doreen) and my children (Kumbutso, Chililo & Temwani) for their love, care, and crucial support without which my research would not have been possible. Indeed, their constant support and encouragement brought me this far. My family's sacrifice meant that their much-needed social needs were at times denied – but for a good cause. To them I dedicate this work

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ACRONYMS AND ABBREVIATIONS

BOZ	Bank of Zambia
DBA	District Business Associations
DBZ	Development Board of Zambia
GDP	Gross Domestic Product
GNP	Gross National Product
ILO	International Labour Organisation
IMF	International Monetary Fund
MMD	Movement for Multiparty Democracy
MOF	Ministry of Finance
MSME	Micro Small Medium Enterprises
OECD	Organisation of Economic Countries for Development
PSDP	Private Sector Development Programme
SAP	Structural Adjustment Programme
SED	Small Enterprise Development
SEDB	Small Enterprise Development Board
SEDO	Small Enterprise Development Organisation
SID	Small Industries Development
SIDO	Small Industries Development Organisation
SME	Small and Medium Enterprise
SPSS	Statistical Package for Social Sciences
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Aid for International Development
ZANACO	Zambia National Commercial Bank
ZCCI	Zambia Chamber of Commerce and Industry
ZCTU	Zambia Congress of Trade Unions

ZDA Zambia Development Agency
ZCSMBA Zambia Chamber of Small and Medium Business Association

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter broadly sets the outline of the whole study. It covers the background to the study, problem statement, its aims and objectives, research questions, assumptions, the significance of the study, limitation and delimitation of methodology and the conceptual framework. The aim of the study was to analyse the factors affecting access to finance for small and medium enterprises (SMEs) in Zambia – A case study of Chilanga District’s CBD.

1.2 Background to the Study

The development of many economies in Africa is being aided by the presence of SMEs as they for instance, create jobs for the people and pay taxes to governments among other many responsibilities (Africa Business, 2013). Development of SMEs may not be possible if there is inadequate funding for the entrepreneurs and this means, there is need for concerted efforts by both private funding agencies and the government to provide an enabling environment for access to funding for SMEs (Bester, 2007). Most of the Sub-Sahara African economies lack access to adequate funding for business start-ups as commercial banks shy away, and yet they are the economic development engines of countries. In order to resolve issues of SME funding, a number of institutions were established between 1969 and 1990 in Zambia. These institutions were designed to provide lending to SMEs. In 1969, the Industrial Finance Company (IFC) was established to provide financing to small businesses. The Zambia National Commercial Bank (ZANACO) and the Development Bank of Zambia (DBZ) were also established to provide among other services, financing to SMEs (Nuwagaba, 2015).

In one of the early studies conducted on financial assistance to small scale industries in Zambia, it was predicted that with the measures put in place by the Government of the Republic of Zambia, the future of SMEs was bright (Kani, 2011:6). However, 8 years later, Kani’s prediction has not been realised which is an indication that the measures put in place by the Zambian government have not borne much fruit. The Zambian government later in 1981 established Small Industries Development Organisation (SIDO), through an Act of Parliament. The Act was meant to stimulate commercial banks into providing financial assistance to SMEs. However, only Barclays Bank Zambia rose to the challenge and provided a scheme known as Zambia Development Loan which had a short life. In June 1981, the Bank of Zambia (BOZ) realised the problems that the SMEs were facing in trying to access finances from financial lending institutions, so it brought all financial institutions to a seminar on the funding of SMEs. The aim was to find ways of softening lending terms to SMEs. The

institutions that were present at the seminar were financial institutions, UN agencies, and government ministries, members of the public and small industrialists (Hamid, 2002:59).

However, despite the seminar, the lending problems persisted and the lending criteria for SMEs remained the same as those of large businesses. This situation has still remained the same up to this present age and is one of the major concerns of smaller firms. The outputs from smaller firms are too small to enable them compete favourably with their large counterparts. In 1991, the Movement for Multiparty Democracy (MMD) government came into office and embraced a strict adherence to Structural Adjustment Program (SAP). The rationale behind this move was to enable the Government access international funding from the international community such as the International Monetary Fund (IMF) and the World Bank. It was envisaged that SAP would achieve higher ratio of economic growth (Bank of Zambia, 2014). The Structural Adjustment Program policy entailed privatisation of State owned enterprises (SOEs), devaluation of the Zambian currency, curtailment of credit supply, increase of interest rates, promotion of investment and export, and retrenchment of workers in parastatal organisations just to mention but a few. SAP, however, did not bring the intended results, but instead brought misery to the majority of Zambians as an estimated 80 percent slid into extreme poverty.

Between 1991 and 2001, almost 200 000 employees were retrenched from the formal sector employment and Zambia Congress of Trade Unions (ZCTU) put the blame squarely on SAP (Coleman, 2010). In 2000, Zambia Chamber of Small and Medium Businesses Association (ZCSMBA) was registered with the registrar of societies to promote the development of small and medium size businesses. It drew its membership from the district business associations (DBA) found in all the then nine provinces of Zambia. The United States Agency for International Development (USAID), the Private Sector Development Program (PSDP), and Friedrich Ebert Stiftung were some of the organisations that offered support to this association (Lusaka Times, 2009). ZCSMBA is also a member of Zambia Chamber of Commerce and Industry (ZCCI), and has a seat on its board and its major activities are to: Promote the development of SMEs, facilitate the participation of SMEs in the economic and industrial development of the country, negotiate with the government on the conducive regulatory and business development environment for SMEs, source funds and other resources for the benefits of SMEs and promote linkages and networking for SMEs.

SMEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Pelham, 2010). The catalytic roles of these micro and cottage businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia and India among other countries. They contribute substantially to the Gross Domestic Production (GDP), export earnings and creation of employment

opportunities of these countries and have been widely acknowledged as the springboard for sustainable economic development (Osotimehin, Jegede, Akinlabi and Olajide, 2012). According to a World Bank (2014) report, the vast majority of firms around the world fall into the category of micro, small or medium-sized enterprises (MSMEs). In terms of enterprises, more than 95 percent fall into this category; but even in terms of employment in low and lower-middle income countries, more than 50 percent of employees work in companies with fewer than 100 employees (Ayyagari, Demirguc-Kunt and Maksimovic, 2011). While SMEs thus constitute an important component of the private sector in the developing world, they report significantly higher obstacles to their operation and growth than large enterprises (Beck et al., 2006).

Among the many obstacles, the lack of access to appropriate financial services, especially lending services, looms large. Like in any other business sector, for SMEs to be successful, finance plays a major role. SMEs need finance to start up, expand, and diversify as well as for meeting their day-to-day working capital requirements. Without finance, no one business enterprise can achieve all its objectives. Both in the developing and developed world, finance is the backbone of SMEs and any other business enterprise (Mckernan and Chen, 2005). Firms that have been found to have less access to external finance tend to be more constrained in their operations and growth (Galindo and Schiantarelli, 2013). Having realised and appreciated the critical role that the SME sector plays in contributing to the social and economic development of the country, in 1981 the government of Zambia recognised the fact that SMEs in the country were operating under extreme financial difficulties. This led to government enacting the Small Industries Development (SID) Act of 1981 with a view of making the sector orderly and more effective (Ministry of Finance [MOF], 2002). In the same year, another organisation in the name of Small Enterprise Development Organisations (SEDO) was formed with the aim of improving on the SID Act of 1981 (Kingombe, 2014).

In support of the SID Act, provisions were made in the Fourth National Development Plan of 1989 to provide infrastructure for operations of SMEs, promote access to credit by SMEs with growth potential and to improve production capacities of SMEs with the view to increase incomes and employment. In 1996, again in recognition of the challenges still facing the SME sector and with the view to enhance the further development of the SME sector, government revised the SID Act and replaced it with the Small Enterprises Development (SED) Act (Zambia Development Agency [ZDA], 2008).

1.3 Statement of the Problem

Growth-oriented SMEs are an important development agent. Their establishment and expansion largely depend on well-articulated business growth strategies and access to

relevant financial services. It is generally recognised that SMEs play a key role in the revitalisation and development of the national economy in many countries and particularly in the context of Zambia. According to a business survey conducted in Zambia in 2010, SMEs considered limited access to finance as a serious constraint to their operations. This concern was particularly high among microenterprises and farm owners. The World Bank estimates as much as 80 percent of Zambia's private sector business comprises of SMEs, employing seventy-six percent of the country's labour force. Yet, these same SMEs have stated that access to affordable financing remains one of their biggest challenges in trying to expand their business (Zambia Business Survey, 2012; Zambia Institute of Policy Analysis and Research, 2013).

1.4 Aim of the Study

The aim of the study was to analyse factors affecting access to finance for SMEs in Zambia – A case study of the Central Business District of Chilanga District in Lusaka.

1.5 Objectives of the study

The specific objectives of the study were:

To investigate the nature and prevalence of financing gap obtaining among SMEs;

To establish the type of financing that is available to SMEs from banks; and

To determine the demand and supply side factors affecting access to finance by SMEs.

1.6 Research Questions

In order to fully investigate the research problem, the study sought to answer the following research questions:

What is the prevalence and nature of the financing gap among SMEs?

What type of financing is available to SMEs from banks?

What are the demand and supply side factors affecting access to finance by SMEs?

1.7 Assumptions of the Study

The research study was based on the following major assumptions:

The business models of SMEs in Chilanga were comprehensive enough to accommodate the propositions of all small businesses in other environments and hence, the findings could easily be generalised to most parts of Zambia;

The financial institutions used in this study are large enough to accommodate happenings in other related institutions and that findings may apply to them as well;

Finally, it was wholesomely assumed that if policy makers considered the recommendations of this study, and if the financial institutions re-considered their role in small business financing, the SMEs would take up their rightful role in leading the economic development of the country.

1.8 Significance of the Study

This study is important and relevant to SMEs and potential entrepreneurs in two ways. Firstly, it highlights major problems, which they are likely to encounter when trying to source for funds from the commercial banks for their business operations and how these can be overcome. Secondly, it will be beneficial to financial lending houses as it will help them understand the dilemma in which the business community finds itself in as it tries to access funds for business operations from them.

1.9 Delimitations of the Study

The research design for this study was a cross sectional survey and the use of survey design was appropriate because it is a useful method in describing characteristics of a population. Though the study targeted all SMEs in Chilanga's Central Business District and commercial banks in Lusaka, the researcher concentrated on three Lusaka banks and 50 SMEs. This study scope revolved around Chilanga District and Lusaka as the geographical scope for SMEs and financial institutions respectively while concentrating on analysing the factors that affect SMEs access to finance.

1.11 Organisation of the study

This study is organised in six chapters as follows:

Chapter One is the introduction containing comments on the background to the problem, problem statement, aims of the study, research objectives and research questions, significance of the study, assumptions, conceptual framework, operational definitions and format of the study.

Chapter Two provides a review of the literature and a theoretical review of the research while giving a critical analysis, evaluation of existing knowledge relevant to the study's research problem.

Chapter Three covers the research methodology and describes the type of data utilised, how they were collected, the weaknesses implied from the data type and collection methods, the implications of these weaknesses on the findings of this study and their possible correction methods.

Chapter Four consists of presentation of findings and analysis. It deals with all the statement of findings and analyses of the data collected.

Chapter Five presents a discussion of the findings as per research objectives by linking the primary and secondary research in an analytical approach.

Chapter Six details the conclusions of the study and makes recommendations to the relevant stakeholders and provides suggestions for further study.

1.12 Chapter Summary

This chapter presented the background to the problem. The chapter further presented the statement of the problem together with the research purpose, objectives, questions and the significance of the study. The conceptual framework which provided focus to the study, together with the study's delimitations and the study's limitations have all been addressed. Finally, the organisation of the entire study has also been outlined. The next chapter provides a review of literature on SMEs and access to finance for the purpose of not only positioning the study in the context of current knowledge, but also identifying gaps in previous studies, hence justifying the need for the study.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

The main purpose of this chapter is to review and discuss theory as well as literature on the subject under study. This literature review forms the framework on which the research is based as it helps to develop a good understanding of and insight into relevant previous research and emerging trends. The chapter commences with a conceptual framework of the study and then takes a critical evaluation of conventional small business financing theories as well as lessons that could be learnt from the existing theories. The review examines the different perspectives (causal descriptions) under which the demand and supply side of commercial credit view SMEs' access to finance.

2.2 Conceptual Framework

Figure 1 below depicts the conceptual framework of this study. It relates to independent variables; collateral requirements, cost of credit, availability of information on finance, business risks and the dependent variable; Access to finance by SMEs in Chilanga District's CBD.

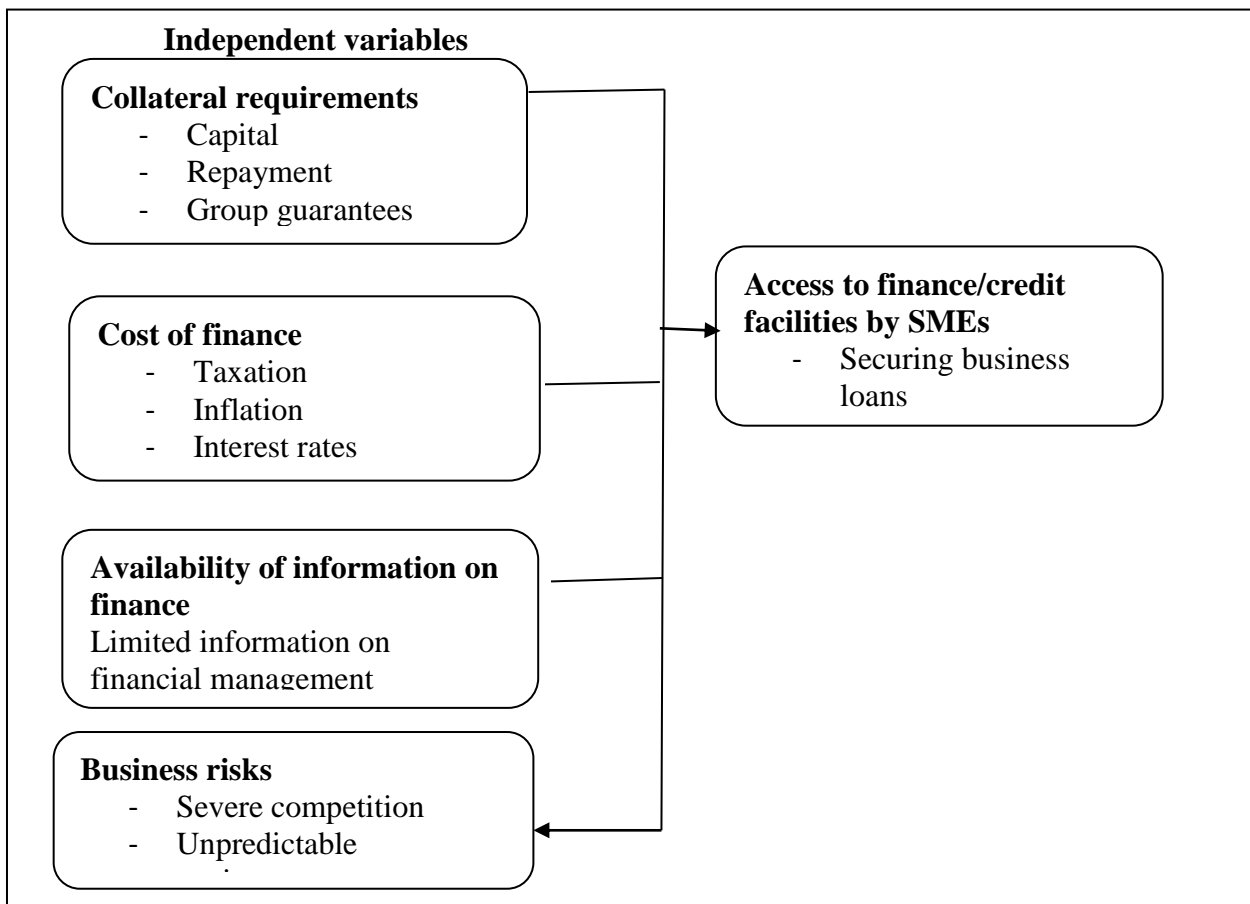


Figure 1: Conceptual Framework

2.2.1 Collateral requirements

Historical development and the associated culture, of the banking system underpin the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk adverse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment (Beaver, 2002). Credit constraints can occur when banks increase collaterals for loans. As a result, low interest borrowers (including SMEs) may be removed from the list of potential customers and banks may skip these customers (Stiglitz and Weiss, 2007).

2.2.2 Cost of credit

The cost of credit accessibility refers to the amount of money the entrepreneurs pay in process of borrowing money from financial institutions. The key indicators of cost in this respect are processing fees, negotiation fees, interest rates, personal insurance, legal fees and travelling expenses that the entrepreneurs meet in the process of acquiring credit. Hallberg (2012) singled out high risks associated in lending SMEs and fixed costs associated in acquiring sound information about the borrower by financial institutions as the major driving force to the high cost of credit. High transaction costs do therefore not only increase the cost of borrowing, but can also restrict access to external finance for some borrower groups.

2.2.3 Availability of information on finance

The access to credit information and the technology in local lending environments determine the extent to which small enterprises obtain sufficient external financing to exploit profitable projects. The extent to which the business environment inhibits the optimal provision of credit determines the size of the funding gap that small enterprises might face (Berger et al., 2004). Access to information is important both from the SMEs perspective and from the perspective of the providers of financial services and products.

2.2.4 Business risks

Risk factor is another aspect that explains the access to credit facilities by SMEs. Total risk (both business and financial risk) may be a dimension across which a financing gap might exist. A firm's business risk (which focuses on a firm's operations), represents the uncertainty of the firm's return on its assets (Correia, Flynn and Wormald, 2008). The difficulties faced by SMEs in accessing credit facilities are attributed to their perceived higher risk profile.

2.2.5 Access to credit facilities

Access to finance helps all firms to grow and prosper. However, lack of access to credit is a major impediment inhibiting the growth of micro enterprises (BOZ, 2014). Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities (Beck, Demirgüç-Kunt, Laeven, and Maksimovic, 2006).

2.3 Theoretical Review

This study situates its arguments on credit rationing theory, market failure theory, information asymmetry theory, pecking order theory and capital constraints theory.

2.3.1 Credit rationing theory

According to Keiding (2013), financial institutions are mostly private entities which are guided by profit maximisation objective. Contrary to this objective, not all individuals who apply for financing are granted access. Thus the market for credits is not balanced through the price mechanism. Individuals may be denied credits even if they are willing to pay arbitrarily high interest rates. De Meza and Webb (2011) states that the credit market is not like the normal market where demand is equivalent to supply as the borrowers who are willing to pay higher interest rates may find it difficult when it comes to repayments. Credit rationing is defined as a situation in which there is an excess demand for commercial loans at the prevailing commercial loan rate as observed by Stiglitz and Weiss (2007) who further identify two types of credit rationing:

Pure credit rationing: Occurs when some individuals get loans while at the same time identical individuals with the same characteristics do not get. The identical individuals are vying at the same credit and non-credit terms;

Redlining: a situation that occurs when an identifiable group of individuals cannot access a given supply of credit at whichever rate of interest unless the credit supply is increased.

The scenario arises due to the fact that the borrower would be unable to repay the loan due to the increased interest rates (Hodgman, 2012). That is the cost of borrowing would turn out to be higher than the return on investment. Due to the cost of the loan the lender may desist from lending to a borrower who demands for credit when the interest rates are higher. With time this view was abandoned when Stiglitz and Weiss (2007) developed a better explanation

where they related credit rationing to the information asymmetry that exists within the actors in the financial markets. According to Stiglitz and Weiss theory, credit rationing arises when the financial institutions realise their expected returns are below their expectations. The non-monotonic relationship between the expected returns and interest rates arises due to the following factors or reasons:

The adverse selection effect; occurs when the interest rate is not able to screen the capable borrowers from the rest. That is the borrowers who are able to evaluate their projects and stay within safer project parameters. The borrowers with safer projects are supposed to drop out of the market when the interest rates rise beyond the expected returns. The financial institution considers the applicants going for higher interest rates more risky.

The adverse incentive (moral hazard) effect; Stiglitz and Weiss (2007) argue that an increase in interest rate shifts the choice of the borrowers towards riskier projects which again puts the financial institutions expected returns at risk or higher probability of bad debts portfolio.

Credit rationing is sometimes done deliberately to cushion the financial institutions on foreseeable risks. In instances that the institutions cannot be able to mitigate risks that may arise due to the free market principles being followed the institutions may decide to ration credit. This is regardless of the higher interest rates that the prospective borrowers are willing to pay. It is an example of market imperfection, or market failure, as the price mechanism fails to bring about equilibrium in the market. The imperfection refers to the absence of equilibrium in spite of willing borrowers. In other words, at the prevailing market interest rate, demand exceeds supply, but lenders are not willing to either loan more funds, or raise the interest rate charged, as they are already maximising profits. Thus creating a link to the information asymmetry, that tends to exist between the lender and the borrower. This theory tends to explain the financing gap that may exist within the finance market.

2.3.2 Market failure theory

The proper role of banks and microfinance institutions as a starting point for the analysis of SMEs financing should be approached in light of establishing their limiting factors. The following theory justifies the reason behind the inefficient supply of finances to SMEs in the market. According to private market efficiency theory as discussed by Mendes (2014), under certain circumstances private markets will allocate goods and services among individuals efficiently in the sense that no waste occurs and that individual tastes are matching with the economy's productive abilities. The hue and cry of SMEs seems to point to failure of SMEs in meeting all the requirements, as the policy of lending in financial institutions stipulates.

Banks and MFIs, most of them being private entities do try and are able to provide efficient outcomes and if the SMEs were providing the right atmosphere, then there would be little or no scope of lack of finances. In many cases, however, conditions for private market efficiency are violated from the demand side through factors like information asymmetry, lack of clear risk management policy among others.

According to Marlow (2015), while discussing market failure theory he put it that under ideal conditions related to competition, information and the absence of externalities, private competitive markets allocate resources efficiently. For financier (debt and equity providers) to play a legitimate role the ideal conditions must be present and efficiency must be the most important criterion for directing resource allocation. "Market failure" occurs, therefore, when financial service providers in the markets do not allocate goods or services efficiently. The existence of market failure provides an efficiency-based rationale for concluding that SMEs are being limited in access to finance.

2.3.3 Information asymmetry theory

This theory was first introduced by Akerlof in 1970. His argument was that in many markets the seller uses some market statistics to measure the value of the goods he is selling. In this scenario of the credit market the buyer sees the average prices of the loans (credit) in the market he is intending to buy while the seller has more intimate knowledge of each specific loan product. According to Akerlof, this puts the seller at a more advantage thus able to sell goods of less than average market quality. In such circumstances the limitation of the information available to the buyer may lead to the seller offering less than average quality of goods in the markets which eventually leads to reduction in size of the market.

Information asymmetry theory assumes that at least one party to a transaction has relevant information whereas the other(s) do not. Some asymmetric information models can also be used in situations where at least one party can enforce, or effectively retaliate for breaches of, certain parts of an agreement whereas the other(s) cannot. Akerlof, Spence and Stiglitz (2001) demonstrated that market may break down completely in the presence of asymmetric information and the three distinct consequences emerging, adverse selection, moral hazard and monitoring cost. Information asymmetry has been found to increase the transaction costs. In a research conducted by Jensen and Thursbay (2012), they found that a licensee of a technology or invention sometimes incurs more cost in a bid to transfer technology from the inventor. This arises due to the fact that the inventor may retain valuable information pertinent to the invention but not contained in the patent or contract document. In the entrepreneurship perspective where there are instances of information asymmetry both the financial institution and the entrepreneur may turn to several methods to bridge this gap. The

entrepreneur according to Leland and Pyle (2007) may decide to invest or to put her personal finance in the business. This is referred to as signalling or a show of commitment on the part of the entrepreneur that the business he or she wants to be funded by the financial institution is a going concern and she is in it for long term. In other instances the financial institution may go for co-financing.

On the other hand the financial institutions have been resorting to offering financial guarantees, information brochures and branding their credit facilities, all this is geared towards reducing the information asymmetry. To further reduce the information gap between the seller and the buyer both parties can resort to evaluating product qualities on their own dimensions. According to Stigler (2011), products have search, experience and credence qualities which customers can use in determining whether to purchase the products. In addition, the sellers can build some indicators surrounding these qualities to guide the customers in their search. Stigler offers an exposition on the three qualities stating that search qualities are those characteristics that can be used to evaluate a product before purchase, experiences are those characteristics that can be used only after purchase and credence is hard to evaluate even after experiencing the product. This third quality needs more than constant promotion and organisational image to maintain within the customer's mind. Through this discourse it can be inferred that Stigler implies that repeat customers are easier to serve and are more preferred than first time buyers. This may be the reason why financial institutions prefer repeat customers.

Financial institutions are called upon to identify credence indicators that are identifiable by their customers to facilitate the evaluation mechanism by interested entrepreneurs searching for finance. Richheld and Sasser (2010) show that the reason why financial institutions prefer repeat customers is due to less cost involved in transacting business with them. The information gap between the institution and the customer has drastically reduced due to the attribute of experience. They continue to impute that firms should develop capabilities and resources within the firm that are contingent on the service qualities they are providing. The three results of the asymmetric information syndrome on the financial or more precisely the credit market are best reflected in the sourcing of external funds by the SMEs. The transaction between the borrowers offers the best example/s to study their practical implications. Most SMEs have to inevitably take recourse to the external source of financing for them to meet their objectives. The borrowed funds come with some conditions, which have to be met by parties to these transactions. Both parties to this financial transaction have to exchange the relevant information between each other. Whether both parties pass on the symmetric information is a moot question. It is proved by several examples in the domestic and the global finance that symmetric information is theoretical whereas the asymmetric information is a reality (World Bank, 2014).

2.3.4 Pecking order theory

According to the Pecking order theory, firms tend to cover their investment needs by drawing on their own (internal) financial sources rather than applying for external finance (Myers, 2014). After the internal available funds, firms can then go for debts and finally external equity. However, if firms' own resources are insufficient in maintaining "reproduction on a simple scale" at minimum, and their access to formal external finance is limited because of the credit rationing behaviour of lenders, they face the problem of under-investment (Gaisina, 2010). This is particularly imperative for growing firms because to finance growth, they must be able to access loans.

2.3.5 Capital constraint model

This model describes the behaviour of financial institutions particularly banks, to restrain advancing loans to borrowers, in this case entrepreneurs, because of the limitation of available financial resources from banks. According to Bester (2007), banks are subject to market and regulator imposed capital requirements. Banks are required to maintain their capital at a certain level set by the central bank of the State or banks' regulator. The liquidity ratio to deposits that Zambian banks are required to maintain is 40%. As a result banks are limited in providing loans to entrepreneurs, because of the nature of their operations and the fact that they are fragmented.

2.4 Empirical review

2.4.1 The Nature and Role of Small and Medium Enterprises

The small and medium size businesses form a large proportion of the economic activity of most non-communist countries of the world. They play a major role in the social and economic development of national economies by creating employment and contributing to Gross National Products (GNP). They also produce goods and services consumed by the majority of the population. According to Mijumbi (2007:245), small size business enterprises are those enterprises with capital ranging from US\$2 500 to US\$100 000 and involve 6 to 50 people. In Zambia, a small enterprise shall be any business enterprise registered with the registrar of companies:

Whose total investment, excluding land and building in the case of manufacturing and processing enterprises, shall be between eighty thousand and two hundred thousand kwacha (K80 000 – K200 000) in plant and machinery;

In the case of trading and service provision enterprises shall be up to One Hundred and Fifty Thousand (K150 000) Kwacha.

Whose annual turnover shall be between one hundred and fifty thousand and two hundred and fifty thousand (K150 000 – K250 000) Kwacha.

Employing between eleven and fifty (11- 50) persons.

The medium size business is the next business size after the small size business. This sector refers to enterprises with more than 51 employees but less than 140. More often than not, this would be located on more than one site, involve communication between more than one managers and has several product lines. It may also be involved in export sales and imports. According to the Zambian definition, a medium enterprise shall be any business enterprise larger than a small enterprise registered with the registrar of companies:

Whose total investment, excluding land and building in the case of manufacturing and processing enterprises, shall be between two hundred thousand and five hundred thousand (K200 000 – K500 000) Kwacha in plant and machinery. In the case of trading and service provision shall be between one hundred and fifty thousand and three hundred thousand (K150 000 and K300 000).

Generally speaking, there is no universally agreed definition of SMEs. The definitions of the micro enterprises, small size enterprise, medium size enterprise or indeed a large enterprise, varies depending on who is defining it, from what angle he is defining the enterprise, and for what purpose he is defining the terms. What seems to be agreed though is that, most of the definitions are made in terms of the available assets of the enterprise, annual turnover of the business and the number of persons employed by the enterprise. According to the International Labour Organisation (ILO), no single definition can capture all the dimensions of ‘small’, or ‘medium’ business size, nor can it expect to reflect the differences between the firms, sectors or countries at different levels of development. Most size definitions are based on measures such as number of employees, balance sheet total or annual turnover. However, none of these measures transcends very well across borders. The SMEs in Zambia are in form of private limited company, partnership, sole proprietor and family owned business. The roles of most SMEs are in retail trading, export, manufacturing, services, real estate, farming and many more (African Business, 2013).

2.5 Prevalence and Nature of Financing Gap for SMEs

The presence and nature of a “finance gap” for small firms has been debated for decades ever since the publishing of the Macmillan Report (Macmillan, 1931). Small firms have been noted as being frequently under-capitalised. That is, the term structure of loans granted to SMEs does not suit their needs. In instances when SMEs are given credit, they are often granted short-term loans and, therefore, they have no option but to depend on short-term as stated by Blanton and Dorman (1994), and informal credits in financing their long-term needs such as acquiring new equipment observes, Riding and Short (2007). According to Stiglitz and Weiss (2007), there is some controversy as to whether it is meaningful to speak of a “financing gap” theoretically. Clearly, there cannot be such a gap if the authorities intervene in the market and maintain interest rates below the equilibrium rate, which would inevitably lead to excess demand for loanable funds. Funding of SMEs is crucial to their success.

Any business enterprise, no matter how well managed they may be, at one point or the other, will require financial assistance. The financial assistance may come from external sources in form of debt or equity. Seglin (2010) cited undercapitalisation of start-up businesses as one of the chief causes of business failure. Banks are the most common sources of finance for SMEs and yet their lending terms are not within the reach of most small businesses. Start-up capital may be sourced from banks as long-term loan, but most commercial banks are not willing to lend for start-ups especially in the developing countries. The banking industry is subject to very strict regulations by government and State agencies. Bank records are subject to regular scrutiny by bank examiners and that the bank is not permitted to commit the depositors’ funds to speculative ventures. Depending on the type of business, working capital and seasonal peak capital may be sourced from banks, with the latter under short-term arrangements.

According to Ronan (2008:81), “the first source of finance available to the business is the owner’s capital.” If the owner is unwilling to put his money into the business, it is most unlikely other financiers will agree to finance the scheme. This is true for start-up businesses but there are other parameters that financial institutions look for especially for on-going businesses. There are other sources of funds for SMEs, such as venture capitalists, life insurance, savings and loan associations, finance companies and credit unions. Each one of these financial institutions has its own lending policies. There are other sources of finance, which most SMEs are often not aware of probably due to lack of information. These are usually non-traditional, such as donors. In the past, some analysts argued that it was not meaningful to speak of a funding gap unless the authorities actually kept interest rates below market clearing levels. It was held that as risks rise, providers of financial resources would sufficiently increase interest rates charged to all borrowers to bring the supply and demand for credit into balance. In modern financial systems surplus funds may pass from “savers” to borrowers through intermediated channels (e.g., banking, securitisation) or may be allocated directly to borrowers (Kirzner, 2009).

At its core the process of financial intermediation is about processing information from one form to another. Thus, this process concedes that banks and other intermediaries could add value via diversification as it entails expanding the investment choices available to savers and the sources of credit for borrowers as asserted by Levin et al. (2007). In examining the financial intermediation process, it is important to note that, because the supply of credit is inexhaustible, there will always be some borrowers whose demand for credit is not satisfied in full or terms they consider inappropriate, observes Hall (2006). Deakins and Philpott (2013) argue that, in the competition for credit, borrowers whose credit risk is relatively easy to assess have the advantage while entities such as SMEs are more likely to have their requests denied. In fact, even in banking markets that are fully competitive and have no major structural distortions, SMEs may well be at a considerable disadvantage in obtaining finance compared with more established companies.

Obviously the possibility that large number of small firms will be excluded from the credit market becomes even higher as market imperfections gain in significance. Argument to this effect are frequently made concerning SMEs, in particular, that there are systematic gaps in the debt market for SMEs (Sharon, 2013). Therefore, financing gap is a term that is typically meant to imply that a sizeable share of otherwise economically relevant SMEs cannot obtain financing from banks, capital markets or otherwise suppliers of finance for their “viable projects.” This is because the flow of credit would be affected by changes in either the demand or the supply of credit. Thus, in defining a financing gap, it is necessary to distinguish between the two issues, observes OECD (2005). Countries with the private credit market, with moderate amount of financial assistance; have apparently succeeded in providing sufficient financial resources to SME sector broadly defined, such that no generalised financing gap can be identified. Combined with a measured amount of public support, competition has spurred financial institutions to devise innovative solutions, which has enabled the financial system to surmount the information and agency problems that characterise SME lending.

This same positive assessment does not necessarily apply in the case of emerging economies and developing countries. In most countries the majority of SMEs appear to be facing a persistent challenge in obtaining credit. There are macro-economic policies that lead to excess for domestic savings, regulatory and structural policies that favour larger enterprises. These have got a tendency to provide incentives for SMEs to remain in the informal economy, and patterns of ownership, governance and supervision that discourage banks from lending to SMEs are contributing factors (Haynes, Ou and Berney, 2009). In financing small businesses, the firm starts by relying on its own resources and when it becomes successful, it relies on retained profits for its operations. As the business is established, it may rely on other sources of finance such as suppliers through trade credits and commercial banks. If the

business is to expand, then it relies on sources such as hire purchase and leasing. Initial growth may, however, be supported by overtrading when the sales of the company expand more quickly than the financial resources. This may result in deteriorating liquidity problems, which can only be remedied by curtailing growth, or seeking long-term finance from financial lending institutions or seeking venture capital (Hall, Hutchinson and Michaelas (2010). Table 1 below tabulates the financial life cycle of the firm which defines the financing gap.

Table 1: Financial life cycle of the firm

Stage	Source of Finance	Potential Problems
Inception	Owners resources	Undercapitalisation
Growth	As above plus:	“overtrading”
	Retained profits	Liquidity crisis
	Trade credit	
	Bank loans	
	Overdrafts	
	Hire purchase	
	Leasing	
Growth 2	As above plus:	Financing gap
	Long term finance from financial institutions	
Growth 3	As above plus:	Loss of control
	New lease market	
Maturity	All sources available	Maintaining ROI
Decline	Withdrawal of finance	Falling ROI
	Firm taken over	

The financial gap may appear in the intermediate stage as the firm outgrows the easily but limited available sources of finance but is not yet in a position to approach the stock market. If the firm survives and continues to grow, then the increase in the long term fixed interest on finance imposes the problem of gearing where the commitment to interest payments may make the firm more vulnerable to fluctuations in profits and changes in interest rates (Africa Business, 2013). The next stage is where the firm by definition is no longer small and has to seek stock market floatation. This provides the firm with access to almost unlimited funds in the form of either equity or debenture. At this stage, the owners face total loss of control of the business in the long term.

2.6 Types of Financing Available to Small and Medium Enterprises

There are several ways of financing a business, depending on its stage of development. For a small business at start-up stage, it is not uncommon for an entrepreneur to source for funds from friends or relatives apart from his own savings. However, working capital may be sourced from various sources such as commercial banks and trade creditors. Financing a business for procurement of equipment may come in form of long term debt from leasing and finance companies or development banks. Finances for seasonal peaks may be sourced from suppliers. From face value, it appears that accessing financing for business may not give an entrepreneur sleepless nights. However, what pertains on the ground is completely a nightmare to many, a small businessman (Nuwagaba, 2015).

2.6.1 Trade credits

A trade credit is an arrangement where suppliers of goods and services do not require immediate payments, but instead offer credit terms for payments due (Dewhurst and Burns, 1990). This method of financing a business may not be as cumbersome as sourcing for finances from commercial banks. However, the extent of trade credit granted depends upon the owner – manager credit rating. According to Meredith (2007), these ratings depend on a variety of factors that include the following:

Industry sector

Role of business within industry

Amount of equity the owner has in a business

Purpose of credit to be granted.

Repayment arrangement

Outlook for industry, both within the economy and the specific region

Past companies credit history

Risk image of a particular industry

Future position

Security available to cover credit

2.5.2 Overdrafts

Overdrafts are by far the easiest way of accessing financing from commercial banks (Brennan, 2016) as they are cheaper than short-term loans. However, overdrafts are more vulnerable to changes in government policies. The government can influence the economy by restricting the amount of money banks can lend (“Monitory Policy Instruments”, 2016). This may be done by raising the regulatory capital of commercial banks by the central bank and thereby freezing some of the deposits the banks have with the central bank. This reduces the amount of money that the banks can lend. Once this happens, overdrafts are recalled and extensions of new overdrafts are curtailed.

2.6.3 Term loans

Term loans are available from most lending institutions. These loans come into three categories (Segal, 2019): The short term-loans, intermediate-term loans and the long-term loans. Short-term loans cover typically 30 to 180 days and may be unsecured. Intermediate loans cover 3 to 5 years and may be difficult to access by a number of SMEs. Segal further states that these three categories are based on the risk involved and that Commercial banks may also include some restrictive clauses to loan agreements such as approval of expenditure by bank when the loan is offered. Long-term loans are out of reach of most SMEs. These long-term loans may be accessed in exceptional cases, but require security in form of real estate or building construction whose collateral value is more than the value of the loan. KPMG and EIM (2000:11) in their Sixth Report Submitted to the Enterprise Director General of the Commission of the European Communities have shown that banks are risk averse. Consequently, they demand very high interest rates for loans and have little experience of lending to SMEs or accessing the projects they present. This factor alone has impacted negatively on the sector since they cannot access financing on such prohibitive terms.

2.6.4 Debt financing

Debt financing is one method of financing a business. Debt itself is money that is borrowed with an obligation to be paid back to the lender and carries with it the obligation for a periodic payment of interest and a lump sum payment of the principal at maturity (Yazdanfa, 2015). There are, however, a number of disadvantages in the use of debt financing to meet the financial needs of a new enterprise and typically a new enterprise will weather a period of several months, even years before profits are realised and interest as well as payments on the principal are required on regular basis (Johnson, 2019). A small and new enterprise may not be in a position to service a large amount of debt. Johnson further states that debt financing also represents a corporate liability, which adversely affects the appearance of financial solvency that any firm is interested in maintaining. On the plus side, interest payments represent a business expense and are, therefore, tax deductible (Nuwagaba, 2015).

There are numerous sources of debt financing such as commercial banks and those tabulated earlier. However, access to debt financing from the financial lending institutions often comes with a string of conditions. These conditions, such as the interest rates, loan repayment periods, collateral and so on may not be conducive to small firm's businessmen and subsequently hinders them from securing the necessary funds for running their businesses.

2.6.5 Equity financing

Equity financing is yet another mode of financing a business. This involves selling off ownership interest in a business to a non-professional investor or venture capitalist. Venture capitalists, who are individuals or corporations, are interested in businesses that are already successful and require extra funds for substantial growth prospects (Meredith, 2007). So this type of financing may only be restricted to those SMEs that are managed only by skilled, competent and experienced entrepreneurs. Most small scale businessmen do not favour this mode of accessing financial support. The reason for this is that most entrepreneurs start businesses which they wish to control wholly, and selling part of the business is perceived as a loss. In any case, the majority of the entrepreneurs seem to lack the competencies demanded by venture capitalists, and as such may not qualify to access finance from this source.

Dewhurst and Burns (2010) have shown that venture capitalists will take 10 to 80 percent of the business ownership depending on the stage of development. Thus the operations of the enterprise become subject to the wishes of all the owners including those 'outsiders' who supply equity capital. Depending on the emotional and financial needs of the owners, equity capital may not be a desirable mode of financing the business, the advantage of equity financing, however, is that there is no requirement to repay the funds so invested in the business. As already referred to above, giving up part of the business may not be well received by many small-scale entrepreneurs.

2.7 Demand and Supply Side Factors affecting SME Access to Finance

A major barrier to rapid development of the small and medium enterprises sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (Idowu, 2010). Figure 2 below shows the main causes of finance gap in SMEs:

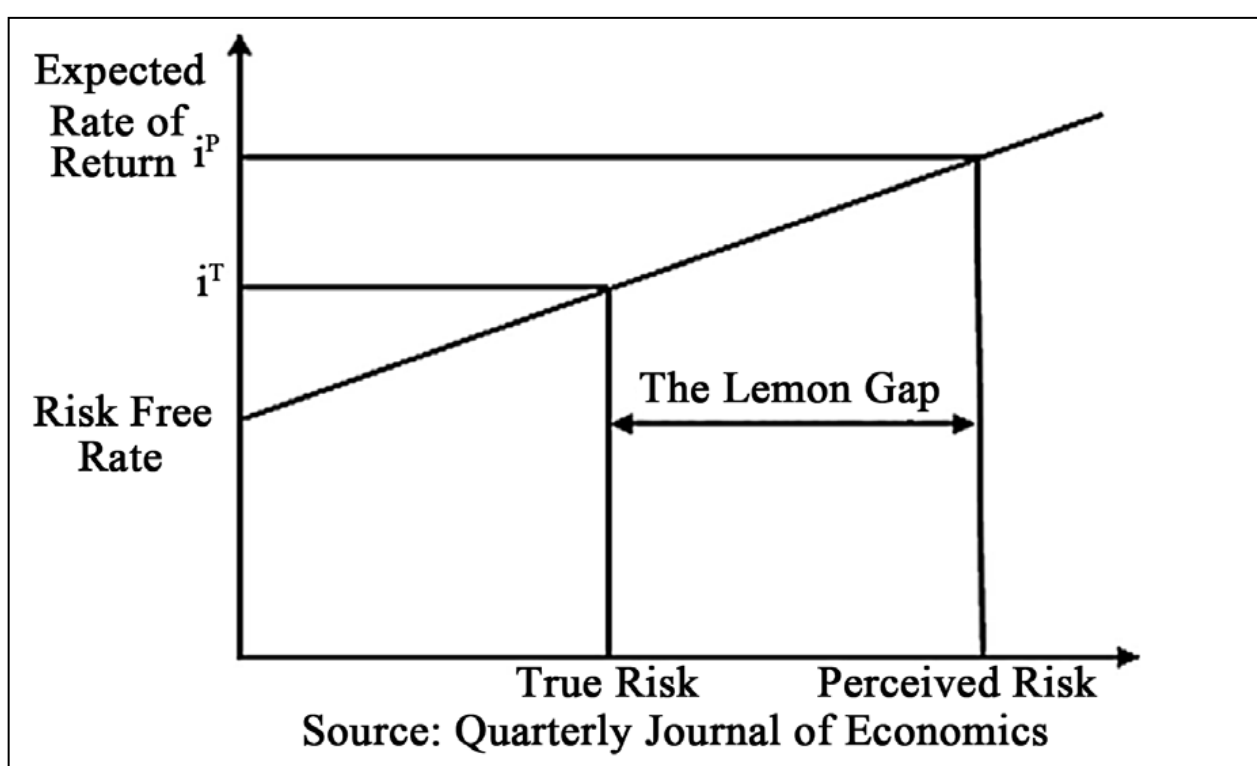


Figure 2: Risk and return faced by SMEs

2.7.1. Perceived high risks

Commercial banks are usually wary of small businesses because of the perception that SMEs are high risk borrowers. This systematic bias against SMEs can be explained by Akerlof's theory "market for lemons" which is illustrated in Figure 2.0 above (Akerlof, 1970). Because small businesses are regarded as high risk, the level of risk associated with the riskiest small business tends to be applied to all businesses. Consequently bad business tends to drive good business out of financial markets as the latter have to raise equity or debt terms than to

exaggerate their risk. The gap between true risk and the perceived risk can be termed as “The lemon gap.” Access failure to finance can arise either in the supply side or the demand side of the equation. The supply side may fail when the appropriate sources of finance are not available at all or they are not available on the terms and conditions that are suitable to SMEs. The demand side may fail when SMEs do not make use of the financing opportunities that exist, because of lack of information, lack of collateral or through poor presentation of their case for funding. In order to overcome the hurdles of accessing finance, both sides of the equation need to be addressed.

Some of the major problems faced by SMEs on the supply side stem from high interest rates, collateral requirement, stiff payment terms demanded by financial lending institutions and high corporate taxes demanded by the government coupled with unfavourable government policies just to name a few. According to Cattani (2012), accessibility to finance by SMEs is still a major problem, particularly in the developing countries. In general, banks refuse to lend to SMEs because they are regarded as a risky and unproductive sector. Holden (2007) argues that access to finance in most Latin American countries is restricted to large, well-established companies who have a long history of borrowing or to owners who have large real estate holdings. This situation is also common to Sub Sahara African countries and the rest of the developing countries.

2.7.2 Lack of collateral

Collateral is security in form of an asset that one pledges in order to access a loan. According to Shave (2013:38), mortgage on property or chattel, floating charge on other assets and personal guarantees will serve as security for a loan. More often than not, SMEs fail to get financial assistance from lending institutions due to lack of collateral. According to KPMG and EIM (2000), lack of collateral has been repeatedly raised as being one of the most difficult hurdles for entrepreneurs to overcome when trying to obtain loans. This problem is exacerbated by the fact that in many countries the SME sector has only existed for just about 10 years and businesses have not had sufficient time to build up a good equity base (Nuwagaba, 2015). Banks are also generally risk averse, demanding anything up to 200 percent collateral for loans and have little experience of lending to SMEs or assessing the risks of the projects that they present. Failure to access finance often impacts negatively on their businesses to an extent that some of them have wound up. Some bankers, however, want small business owners to sign personal guarantees on the loan. Consequently, many small businessmen would rather do without the loan and face the inevitable instead of risking their personal assets.

Bankers on the other hand insist and argue that personal guarantees are a sign that a business owner is serious and willing to back the company with his own money. Bank of Zambia

(2014) argues that it is, however, possible for bankers to lend money profitably to SMEs with good risk assessment without resorting to collateral.

2.7.3 Cost of borrowing

When the economy of a country is not strong, which is a common feature for most developing countries including Zambia, the interest rates on loans are likely to be high. These costs are even higher on legal mortgages than on equitable mortgages and unsecured loans. The rationale behind this is that secured loans take more administrative time and personnel than unsecured loans. The Saprin Report (2011) has shown that high interest rates prevent SMEs from borrowing and many small businesses have gone bankrupt or have been forced to seek credit through non-formal means to survive. The high interest rates prevailing in most countries in the Sub-Saharan Africa demonstrates the weakness of the developing economies. Some of these countries such as Zambia have tried to intervene by reducing the inflation rates so that interest rates can come down but the resultant effect has been marginal. Baumbach (2008) contends that small businesses have serious financial problems in securing funds in small amounts at rates comparable with those paid by large firms. This is a serious anomaly on the part of the national governments and requires immediate correction by them. Enabling policies on interest rates should be deliberately formulated in the developing countries to suite this sector if meaningful economic development is going to be realised.

2.7.4 Volume of required documentation

The volume of paperwork that is required to be filled in by commercial banks when applying for a loan is often a discouraging factor to most small businesses. The problem is further compounded by the entrepreneur's lack of business experience and financial knowledge. The amount of paperwork that is filled in is more than what other financial lending sources demand. In addition to the above, commercial banks would normally demand for financial statements such as cash flow statements, annual budgets, balance sheets and monthly statements just to name a few. All these statements are asked for by banks in an effort to calculate risk. Risk is a critical dimension of any commercial system and this requirement is even more important for SMEs which are perceived not to be creditworthy due to unreliable data and information. The setting up of international banks in the developing countries should, however, help in the transferring of skills for assessing risk. International banks apply latest techniques in risk assessment and management to ensure that lending to SMEs becomes profitable and therefore, sustained in the long run. Setting up specialised units in the banks should minimise the amount of documentation required. Lending should therefore, be viewed by the banks in terms of profits. Failure to lend to SMEs by these institutions is tantamount to losing business opportunities and defeats the very purpose why lending institutions were established (World Bank, 2013).

2.7.5 Banking policies

Small firms in developing countries typically cite lack of access to finance as a critical constraint on their operations. The lack of access is often associated with financial policies and bank practices that make it hard to cover the high costs and risks involved in lending to small firms. Ronan (2008) postulates that the banker will subject the borrowing proposal to a comprehensive scrutiny by looking at the three Cs of lending, namely ‘Character’ in terms of credit rating and honest, ‘Capital’ that the businessperson has in the venture and the ‘Competence’ in terms of skill and experience. However, it may be argued that the three Cs can be increased to five Cs to include ‘Capacity’ and ‘Collateral.’ Many large banks do not consider it as sound banking policy to give loans to small businesses, which they term as vulnerable. The problem of accessing finance by SMEs is further compounded by economies of scale, which virtually prevents small firms from using other sources of capital such as public stock.

2.7.6 Regulatory requirement

Regulation by government although well intentioned cost businesses millions of dollars (Zimmerer and Scarborough, 2008). Many of the regulations such as the corporate tax require the same level of compliance for small firms as large ones. It must be pointed out here that the burden of regulations is much heavier on small firms than on larger ones because they lack the broad financial base and larger volumes of output enjoyed by their larger counterparts. These regulations make it very difficult for small firms to prosper and are a bottleneck to their operations.

2.7.7 Unfavourable sectoral mix

One of the key problems that cause SMEs to fail to secure finances from financial lending institutions in the developing countries is the unfavourable sectoral mix. Most of the SMEs that are active in the traditional sector lack export capabilities and so are relegated to only a few concentrated sectors (Bank of Zambia, 2014).

2.7.8 Lack of credit information

Small firms suffer from a variety of problems in their businesses. One of the problems that they face is lack of credit information. Most of the information that is available on the market does not filter through to the sector. Muyawala and Loeaeea (2007) have shown that

information services available favour large firms and are hardly targeted at small firms. Enough concerted effort has not been put in by the governments and their cooperating partners to make the information available to the sector, especially in the developing countries. It is strongly felt that even the cost of communication is a hindrance to accessing finances in that most businesspersons are unable to take the initiative of scouting around for available credit facilities due to high cost of communication equipment coupled with high tariffs. Simply lowering duty on the imported communication equipment or lowering the tariffs could ease the flow of information for the benefits of the sector.

2.7.9 Lack of managerial knowledge regarding finance and accounting

Most SMEs do not keep proper financial records and accounts and this has often created problems when trying to apply for loans from financial lending institutions such as banks where financial statements are required. Most financial lending institutions require financial statements in order to evaluate the credit worthiness of the applicant and most SMEs are found wanting in this area. It is, therefore, imperative that all major stakeholders should come together to assist the sector through seminars and workshops. According to the United Nations Conference on Trade and Development (UNCTAD, 2000) Press Release No. 2849, it was shown that existing international standards and some national and reporting requirements were intended primarily to meet the accounting and reporting needs of large and listed companies. It is, therefore, clear that SMEs are disadvantaged in this regard, as the accounting standards are unfavourable to them. What is required, therefore, is determination from all the stakeholders and their co-operating partners to ensure that the national accounting and reporting standards are tailored to suit the SMEs sector.

One of the reasons advanced for not keeping proper financial records by SMEs is that transparent reporting would expose them to excessive taxation and hence their reluctance to keep records (KPMG and EIM, 2000). On the other hand, failure to keep proper records could be attributed to lack of knowledge or lack of appreciation of the usefulness of keeping records for control and decision making purposes. It may not be entirely true, therefore, that SMEs fear exposure to excessive taxation. Proper and sound education of the sector would clear this misunderstanding and it is incumbent upon the national governments to ensure that SMEs are educated in this area. Many SMEs fail to prepare proper financial statements due to lack of knowledge of finance and accounting. These SMEs cannot implement their business plans based on long term cost evaluation and/or assessment of the investment effects. Such firms also fail to access finances from financial lending institutions because these financial statements are a prerequisite to obtaining finances (Sharon, 2013).

2.8 Empirical Review

Mwongera (2014) studied the impact of interest charged for access to credit by young women entrepreneurs in Athi River, Machakos County. He used regression analysis to analyse the primary data collected from questionnaires distributed to 214 young women and 18 microfinance institutions in the region. Access to credit was measured by the uptake of loan, number of clients granted loan, microfinance offering credit and effectiveness of credit service. On the other side, interest charged was measured as per amount borrowed, duration of payment, and consideration of business nature and penalty for delay in repayment. The study found a significant positive relationship in the two variables. Further findings found that most of the participants were of the opinion that interest plays greater extent to credit accessibility. The researcher did not try to establish the rate determined by the combination of the interest charged and collateral though it was found to be intertwined.

Using correlation analysis Muratha (2015) examined the factor affecting young entrepreneurs - case of Family Bank Limited. He collected data from 220 respondents through open-ended and close-ended questionnaires which were distributed by a stratified sampling method based on the segments of classification as per the business type. It was found that there was an insignificant positive relationship between the two variables - interest rates charged and credit accessibility. His choice of research design was appropriate for the study since the data collected was both structured and semi structured. Use of stratified sampling was also appropriate since the data needed to be representative of the entire business segment.

Kalya (2013) studied how supply side factors by commercial banks in Kenya related to lending to SMEs. This study used both secondary and primary data from commercial banks and applied the descriptive research design in 44 commercial banks. Secondary data came from the Central Bank of Kenya on the interest charged between 2004 and 2013 as well as from the questionnaires distributed. Regression and correlation analysis was used to analyse this data. The study found that there existed an inverse significant relationship between the bank's lending and interest rate. Gangata and Matavire (2013) studied the challenges facing SMEs with access to finance from financial institution and established that the main reason why most SMEs are turned down on their requests is failing to meet the set lending requirement, most importantly being the provision of collateral security. Kira and He (2012) examined the impact of a firm's characteristics on accessing finance by SMEs in Tanzania. Primary data were collected using 163 questionnaires which were distributed in the coastal zone of Tanzania. Logistic regression and Pearson correlation were used to establish if there was a relationship between variables and to determine whether multi-collinearity problems existed among the independent variables. The availability of collateral security coefficient indicated a significant relationship with access to finance.

Mulandi (2013) studied the factor affecting credit access for Biogas sub sector in Kenya. Primary data were collected from 48 firms by random sampling technique and secondary data was also obtained from the published report on Biogas industry. Among the determinants of

access to credit studied were age, size, capital investment, financial records, and information access and risk preference. Capital investment (security) was measured using an amount that respondents were asked to indicate the worthiness. The results of the study showed that all the aforementioned (independent) variables were statistically significantly positively correlated with the level of access to credit. Kung'u (2011) conducted a survey in Westland town, Kenya to examine factors affecting credit access by SMEs. Data was collected using 115 questionnaires. Participants were randomly selected from six sectors, namely industrial, technology, electrical, shopping, building and travel. This study found that start-up businesses (i.e., those under 3 years) were faced with credit access setbacks due to lack of collateral and information. However, Kung'u did not test the significance or the relationship of these variables. So Kung'u ignored testing hypothesis, in using a purely descriptive approach, though the study would also have tested whether there was a relationship between collateral security and if it was significant or not.

Karanja, Mwangi and Nyakarimi (2014) investigated factors that influenced access to credit among women entrepreneurs in Isiolo town, Kenya. They conducted a census of the six registered financial institutions, 18 management employees and 20 women entrepreneurs where descriptive survey design was adopted. In addition, they used chi square to test the hypothesis and it was found that there was a significant relationship between the collateral requirement and access to credit services. It was also revealed that out of three firms studied, 80% asked for motor vehicles to secure borrower's credit. As Opoku-Mensah and Agbekporu (2015) analysed the determinants of agribusiness in Kumasi (Ghana) in accessing credit, a sample of 151 respondents was questioned. This study classified these determinants as under socio-economics, management and firm characteristics. Results indicated that 55% had never applied for a loan before. Though in contrast to previous studies, most financial institutions did not "strictly demand collateral security." Many institutions focused more on the relationship and nature of transactions in the past in granting credit. Logit model also indicated that for every 1% increase collateral would lead to a probability of 30% increase in access to credit. Findings also revealed a significant relationship between the collateral security and access to credit. The outcomes of this research coincided with Fatoki and Odeyem (2010).

Avortri, Bunyaminu and Wereko (2013) examined factors that affect SMEs in Accra metropolis, Ghana. Stratified sampling technique was adopted in the administration of questionnaires based on consumables, wares and cosmetics, motorcar spare parts, constructional material, stationery and pharmaceuticals. Regression analysis and descriptive statistics were used to establish an interrelationship between the dependent variable and other independent variables. Chi square test was used and revealed that there was a positive linear relationship between the number of financial institutions and ease of access to credit. Further the study pointed that this could be due to competition. As observed by Schoof (2006) an

inadequate number of financial institutions offering credit services to SMEs is a constraint to the development of this sector.

Mwongera (2014) observed that there were many small scale enterprises while the financial institutions with the services customised for them are few. Essayed (2005) noted that requirements of loans in small businesses are different from those of large businesses. There exist very few studies that have tried to find the relationship between the number of lending institutions and access credit and Essayed's study therefore, was aimed at filling this gap by extending the study of the lending institution in Murang'a County and finding their relationship. A study was carried to determine access to credit by smallholder farmers in Kenya in the Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi) by Kiplimo et al. (2015). This study used primary and secondary data where 613 smallholders in both regions were randomly sampled according to the total number of households in each division. They used logistic regression model to determine the factors influencing credit access. Access to credit was measured by actual receipt of credit, financial service from any given source. The result indicated that education level (literacy) in years had significant positive effects on access to credit. This concurred with Hussein's (2007) study. The choice of binary logit model was appropriate since the dependent variable was categorical.

Andoh and Nunoo, (2014) studied whether financial literacy matters in access to credit in four districts of the Great Accra Region of Ghana. They randomly administered questionnaires. Primary data were collected from 556 SMEs. Financial literacy was measured by two ways; (1) adding the answer to question covering knowledge on interest rate, inflation savings and insurance, (2) owners characteristics such as level of education, age, sex of the entrepreneur and number of times the entrepreneur had received financial education. The study applied Ordinary Least Square (OLS) and revealed that gender of the proprietor; level of education and financial education received were significant in explaining literacy. Utilisation of financial services was used to measure credit access. The researcher used 2-stage probit regression and found that there was a positive significant relationship that firms whose owners were financially literate were more likely to utilise financial services for example by taking micro credit.

A study was conducted in Gujranwala District, Pakistan by Hussain (2012) to examine factors influencing demand for credit from formal and informal sources. Cross-sectional data from 313 respondents were analyzed by using multiple regressions. It was found that the level of education (literacy level) had a positive significant relationship with demand for credit from the banks, which lend at low interest rates while literacy level had an insignificant positive relationship with demand for credit from the arties (informal sources). The study

failed in the inclusion of the loan that was only applied and received. Applied loan could be turned down and, therefore, hinder accessibility to credit. As Atieno (2001) observed that there was a difference between the amount applied for and amount received from the credit market. Pandula (2011) examined the case of emerging economies (Sri Lanka). This researcher tested whether the determinants of access to credit were statistically different among those rationed firms and those not rationed using Chi square statistics. Data were collected using questionnaires. Findings revealed that, entrepreneur education and belonging to business association, even merely as a member was associated with access to bank finance. Somewhat surprisingly, all the other determinants identified did not show any association with access to credit.

Muturi and Ogubazghi (2014) examined effects of age and owners/ manager education level of access to loan in the Asmara city (Eritrea). A proportionate systematic sampling was used to collect primary data from 87 respondents. Data were analysed using descriptive and logit regression model. Findings indicated that the education level of the owner/manager was positive and statistically significant. This agrees with Fatoki and Odeyemi, (2010) who discovered that education level is not important in determining SME's access to bank loans contrary to Zarook, Rahman and Khanam (2013) who had observed a significant impact of educational level of applicant on a bank loan. Zarook et al. (2013) and Slavec and Prodan (2012) in their study discovered a significant positive correlation with access to bank loans. This study concurred with Ahmed and Hamid's (2011) study where the top manager's level of education as a measure of the quality of human capital and findings showed that there was a significant positive correlation between education level (literacy level) and the probability of accessing bank finance. There is no standard framework in all this empirical review as variables changed from one study to another.

2.9 Critique of Existing Literature Relevant to the Study

Although most studies indicated that there were problems relating to cost of credit, availability of information on finance, collateral requirements and business risks, there have been few studies that have dealt with all in combination. For instance, Gitari, (2012) found in her study on factors affecting women entrepreneurs' financial performance in Kenya: a case of Ngara Market that lack of information on who is offering what and the cost of obtaining such services limit them and that high inventory costs are some of the major drawbacks for success in women entrepreneurship. She, however, did not study the effect of cost of credit and collateral provision on accessibility of credit facilities. Mira and Ogollah, (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business in Kenya concluded that lack of information accessibility, insufficient skill and knowledge level, lack of collaterals required and socio-cultural roles had a strong and negative influence towards the accessibility of finance. However, they did not

look at the effect of cost of credit on accessibility of credit facilities. This study, therefore, sought to wholesomely assess all the factors that affect access to finance by SMEs in Chilanga District's CBD.

2.10 Research Gaps

A lot of research has been carried out locally and internationally reviewing challenges facing SMEs in accessing credit facilities. Most of these researches concentrated on their study areas based on their own objectives. The literature available does not concern itself on collateral requirements, cost of credit, and availability of information on finance and business risks in one combination. Therefore, the study sought to address the challenges facing SMEs in accessing finance particularly in the new district of Chilanga.

2.11 Chapter Summary

This chapter has discussed literature review based on the given main research objective. The theories highlighted in the theoretical exposition, and indeed the literature and empirical review are just different avenues to the same end in investigating impediments to SMEs' access to credit in Zambia. There are credible theories that have been developed through empirical studies to provide an exposition of the credit market. This chapter highlights the demand and supply side of factors affecting SMEs' access to credit. The next chapter gives an overview of the methodology adopted to gather data and process it into information and analyse findings.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used in the study. It also discusses the research design, population and sample size, data collection methods, research procedures and data analysis and the presentation methods that were used in this research.

3.2 Research Design

Saunders, Lewis and Thornhill (2012) define research design as a general plan of how the research questions can be answered. It is the conceptual structure within which research is conducted. It constitutes a blue print for the collection, measurement and analysis of data.

In order to achieve the objectives of this study, the researcher adopted a pragmatic approach – which does not give much influence to philosophical assumptions for the carrying out of research methods (Teddlie & Tashakkori, 2009). By adopting a pragmatic strategy, the researcher was less restricted in terms of how he could carry out this research.

Using the pragmatic approach, a survey design was then employed. A survey is a method of collecting data in which people are asked to answer a number of questions (usually in the form of a questionnaire). The reliability of a survey's results depends on whether the sample of people from which the information has been collected is free from bias and sufficiently large. This study adopted a descriptive research design to assess factors affecting access to finance by SMEs in the Central Business District of Chilanga District in Lusaka, Zambia. This was augmented by the supply side of credit being financial institutions, which in this case were commercial banks which are the major sources of external finance for SMEs. The research approach that was used was a quantitative method.

3.3 Study Population

A population is the total collection of elements about which inferences are made and refers to all possible cases which are of interest for a study. Mugenda and Mugenda, 2003 describes population as, the entire group of individuals or items under consideration in any field of inquiry and have common attribute. The target population for this study comprised of 157 SMEs operating in Chilanga Central Business District. This was as at April, 2018 according to the Chilanga District Council records.

3.4 Sample Size and Sampling Technique

Sampling is a process of selecting a number of individuals for a study in such a way that the selected individuals represent the large group from which they were selected. A sampling of SMEs was carried out at Chilanga Central Business District to select 50 enterprises that had been in business the past five years using purposive sampling. 3 Financial institutions' respondents were also purposely selected from three different institutions and were represented by a Relationship Manager, Credit Manager and a Branch Manager working in the banks' credit departments, retail and business banking departments who are well vested in credit matters.

Saunders et al (2012) points out that statistician have shown that a sample of thirty or more would result in a sampling distribution for a mean that is very close to the distribution. Mugenda and Mugenda (2003) argue that a sample of at least 30% of the target population is representative. Statuly (2003) as quoted by Saunders et al (2012) argues that a minimum number of 30 respondents is the rule of thumb for statistical inferences.

The SME sample in this study was 32% of the population which is 50 respondents. Based on the above assertions, the sample framework was considered adequate and suitable for the study.

3.5 Research Instrument

A self-administered semi-structured questionnaire was used to collect data from the respondents. The study instrument was used to collect primary data from the representatives of commercial banks and the owners of SMEs, purposively selected for the study. The primary data were collected from the field survey using two versions of the questionnaires (the bank and SME version) tailored to the two different categories of respondents. This formed the basis of data collection in the study and revolved around both the demand and supply side of business finance with mostly close-ended questions.

3.6 Validity and Reliability of Instrument

Validity is the degree to which an instrument measures that which it purports to measure (Fisher, Graham and Compeau, 2008). All the research tools mentioned above were validated for both face and content validity by the researcher and the supervisor. The constant feedback from the supervisor led to the revision of some problem areas in the instruments. Cross section survey of data sources employed by this study further ensured the reliability of findings obtained. Additionally, the researcher, made sure that an appropriate research design and data collection strategies were selected for the problem under investigation.

3.7 Data Collection Procedure

Two types of data were collected for the study, primary and secondary data. Secondary data were obtained from books, journals, ordinary publications and online sources. The primary data collected were mostly quantitative in nature and based on the objectives of the study. Emphasis on the data collected was, however, placed on the factors affecting access to finance by SMEs and the respective difficulties that enterprises faced when trying to access funds from financial institutions for their businesses.

3.8 Data Analysis

In this study, quantitative methods of analysing the data were used. The bulk of the information obtained from the study was coded and analysed to arrive at the conclusion of each point being investigated. In cases where respondents made general comments with explanations on issues under investigation, those comments were used to arrive at the generalisation regarding that issue. However, data obtained from SME questionnaires were compared with that obtained from the financial institutions' questionnaires to arrive at a tangible conclusion on each issue being investigated. The data from the survey were analysed with the use of Statistical Package for Social Sciences (SPSS) after which percentages and graphs were generated.

3.9 Elimination of Bias

Dantzker and Hunter (2012:67-68) define bias as “errors or inaccuracies” in the data collected. When the responses are either misinterpreted or distorted, or when the interviewer unintentionally introduces leading questions or discourages certain types of responses through gestures and facial expressions, the respondents can provide biased data. This happens when respondents do not come out with their true opinions but provide information that they think is what the interviewer expects of them or would like to hear. Biases could also be situational in terms of non participants, trust levels and rapport established, and physical setting of the interview. The researcher ensured that bias was eliminated by not setting leading questions in the questionnaire and by giving respondents time to answer to the test items freely without coercion, and without influencing their responses.

3.10 Ethical Considerations

According to Rwigema and Venter (2012:128), ethics are essentially the study of decision making within a context of moral standards. They examine the values underpinning morally desirable behaviour – the right things to do. Furthermore, Saunders et al. (2012:121) state that

when ethics are discussed in research design, the researcher often thinks about protecting the rights of the respondents. To ensure that ethics were upheld by the researcher in this study, the following were done:

Informed consent: Ensured that participants were given informed consent as per covering letter in Appendix I, further assuring them that this enquiry was for academic purposes only but that findings could be helpful for policy change in future.

Protection from coercion: Ensured that participants was asked to take part in the research without coercion.

Confidentiality and anonymity: Disclosure of names of the participants was not a requirement in the questionnaire. This was done to protect the rights of participation of the respondents.

3.11 Chapter Summary

This chapter gave an outline to the overall approach evident in the research process from the theoretical foundation to the strategies used in the collection and analysis of the data. By having an understanding of the research methodology, informed choices about the research were easily made. A questionnaire was used as the instrument of research. Research objectives and questions were competently answered accordingly. The following chapter presents the research findings and interpretations of the findings in line with the research objectives.

CHAPTER FOUR

RESULTS

4.1 Introduction

The main purpose of this chapter is to present the results of the data analysis and interpretation of the results in line with the tenets of this study. The results have been presented in a manner not to allow diversion from the original objectives using the suitable statistical analysis. Statistics by nature if not carefully utilised could make interpretation difficult and the basic tenets misapplied.

4.2 Background Characteristics of SMEs and Financial Institutions' Respondents

Two sets of questionnaires were used, one for SMEs and the other for bank officials as per appendix ii and iii respectively. The one for financial institutions comprised of 16 questions while that of business enterprises comprised of 18 questions. The study started by investigating the age and gender for SME respondents only and later highest educational attainment, the period of service, their various roles and job titles for both financial institutions and SME respondents in their respective organisations. The findings are as presented in figure 3 below.

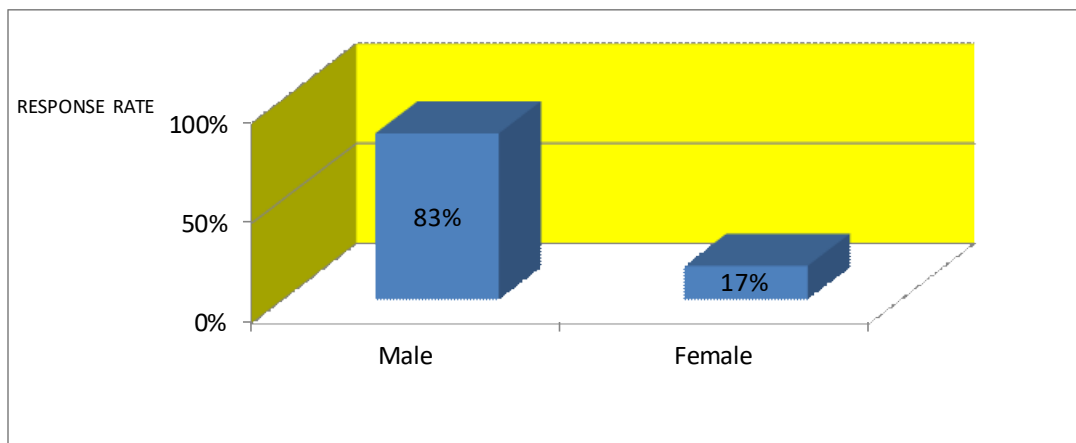


Figure 3 Gender distribution of SME respondents

Of the 50 SME respondents, 83% of the total sample were males while 17% were females (See Figure 3 above). Results indicate that more males were sampled compared to females which implies that there were more males running SME businesses than females. The study

went further to investigate the age of the SME respondents. The results are as illustrated in figure 4 below.

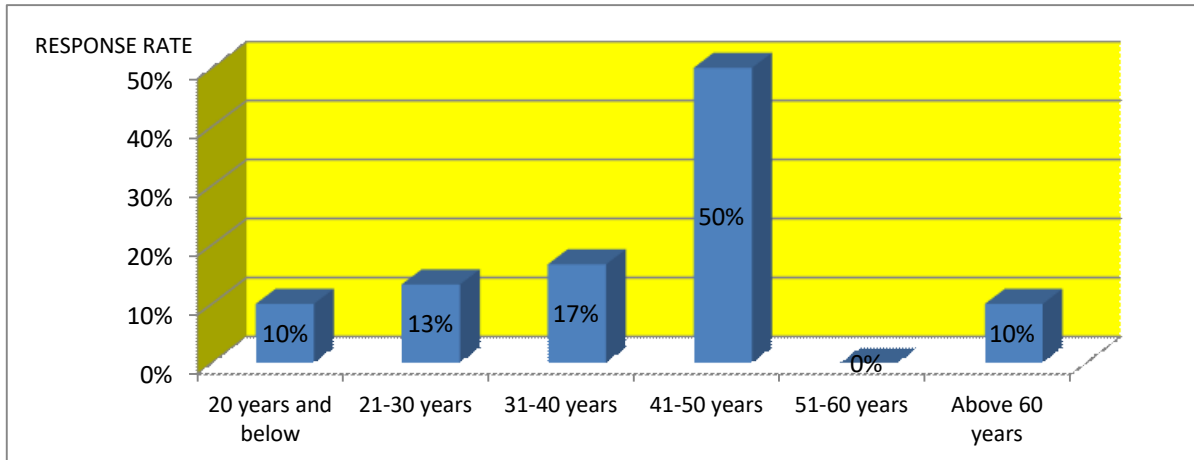


Figure 4 Age Distribution of Respondents

Data collected on age of SME respondents as per Figure 4 above shows that 10% of the respondents were 20 years old and below, 13% in 21-30 age groups, 17 % were in 31-40 age group, 50% were in 41-50 age group, and 10% were 60 years and above. This shows that the productive age group is between 40-49 years in as far as small and medium businesses is concerned in the study area.

The study went on to get an insight into the various educational qualifications of both SME and financial institution respondents and the results are as shown in figure 5 on the next page.

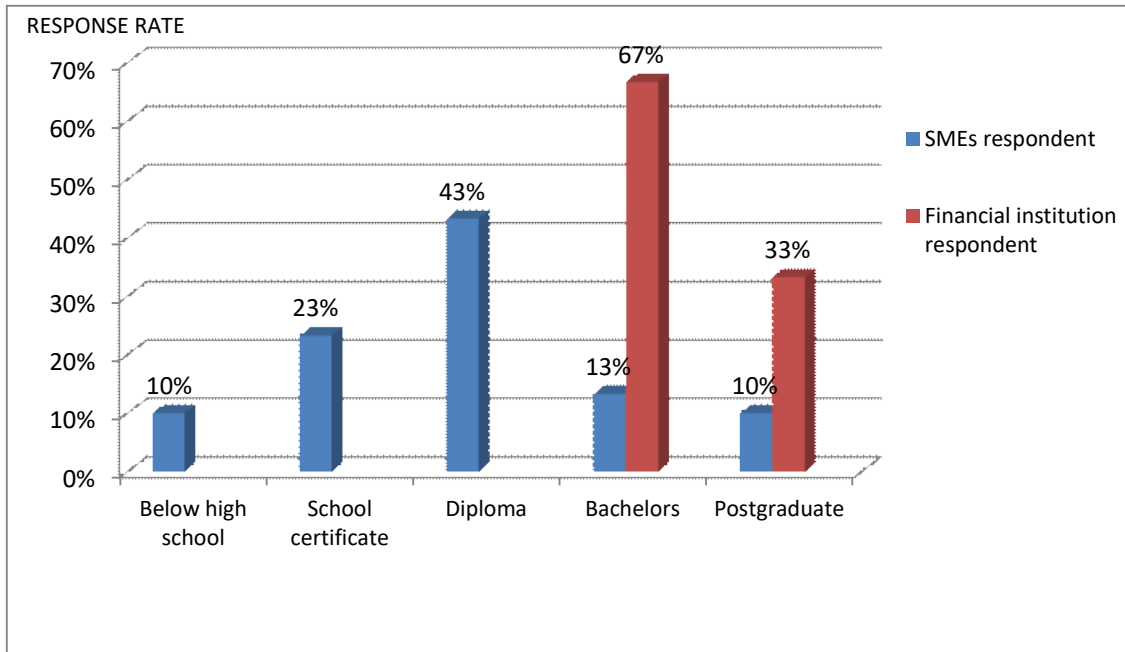


Figure 5 Highest educational qualification attainment of respondents

Figure 5 above shows that 33% of the 3 financial institutions' respondents had a postgraduate degree and 67% had bachelor's degrees. This representation shows a high educational attainment which placed the participating financial institutions' respondents in a good standing to understand the issues that the study sought to unravel. The figure above also shows that 10% of the 50 SME respondents had education below high school, 23% had high school education, 43% had diplomas, 13% had first degrees while 10% had postgraduate degrees. This representation shows a fairly low level of education attainment for SME owners which was evident in the completion of questionnaires as more than half had education lower than bachelors degree.

The research further sought to find out the respondents' job roles to establish their influence in SME lending in their financial institutions and the participating hierarchy in the SME respondents. The results are graphically presented in figure 6 on the next page.

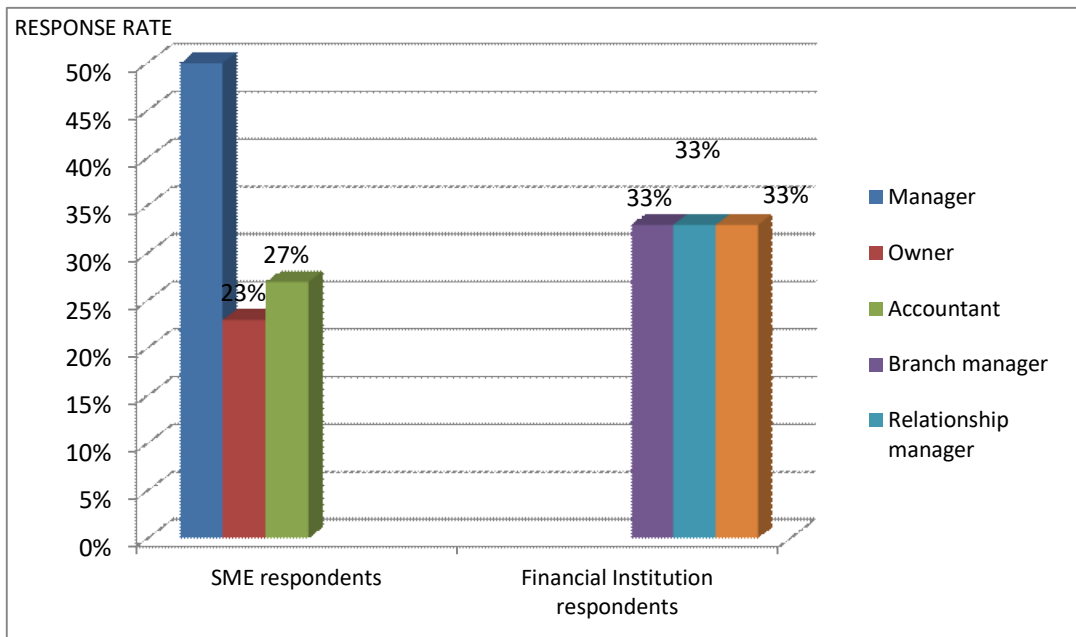


Figure 6 Designation distribution of SME/financial institution respondents

Figure 6 above shows that out of the 50 SME respondents, 50% of them were managers running the enterprises, 23.3% were the actual owners and 27% were accountants running the financial affairs of the businesses. This sampling framework was good as the type of respondents sampled were in a position to provide the needed data as far as SME financing is concerned.

Figure 6 further shows that, 33% of the financial institutions' respondents were in branch management, another 33% in credit management while the remaining 33% were in customer relationship management. This job position distribution was sufficient for the respondents' input to be relied on in this study. The high representation of credit staff was extremely important to the study in its quest to collect significant data on SME lending by the financial institutions.

Further, it was also important to establish the length of service of the financial institutions' respondents and the entrepreneurs to establishment their level of experience in their respective industries. The results are presented in Figure 7 on the next page.

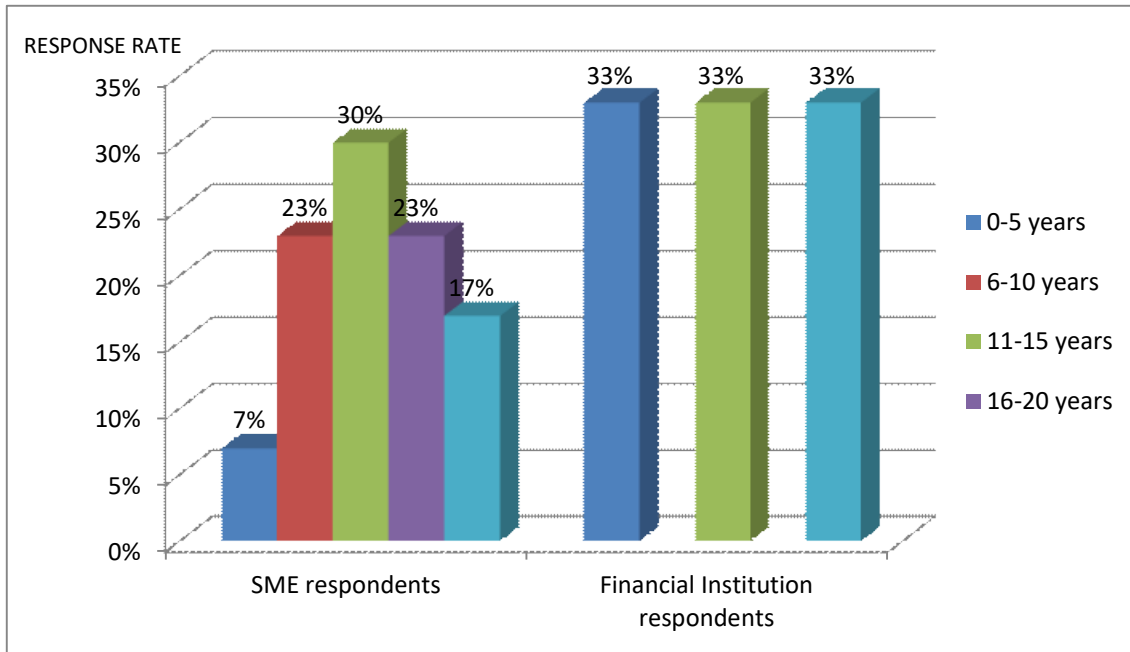


Figure 7 Length of service of SME/financial institution respondents

Figure 7 above shows that 7% of the 50 SME respondents from the business community had worked for 0-5 years, 23% had worked for 6-10 years, 30% had been in business for 11-15 years, and 23% had worked for 16-20 years while 17% have had over 20 years of business experience. The length of service distribution was sufficient to garner enough reliable data from the SMEs. The figure above also shows that 33% of the 3 financial institutions' respondents had worked for 0-5 years, another 33% had worked for 11-15 years and the remaining 33% had worked for over 20 years. The length of service distribution was adequate to enable respondents provide significant data regarding the subject matter.

A further question was posed to the SME respondents as to whether they had raised funds for setting up their business through a financial institution. All the respondents indicated that none of them ever raised start-up capital through the financial institutions. The indication was that all the SME respondents (100%) used owners' funds to start their businesses as commercial banks or any other financial institutions rarely financed start-up businesses. The SME respondents were later asked if at all they ever successfully applied for a loan granted to expand their business. The results indicated that 20% (10) successfully applied for a loan from a financial institution while 80% were unsuccessful. Of the 10 respondents who successfully applied for commercial financing, only 33% of the successful applicants managed to repay their loan in full.

This implies that SMEs have serious debt repayment difficulties which make lenders reluctant to finance the enterprises. This is an indication of a poor credit culture in the country which may partially be blamed on high unsustainable interest rates prevailing in the financial market in Zambia.

4.3 Nature and Role of SMEs in Zambia

The first objective of the study was to evaluate the nature and role of SMEs in Zambia. The study sought to find out the type of business model and the kind of activity that the SMEs under study were involved in. The results indicate that 48% out of the 50 SMEs were private limited companies, 14% were sole proprietorships, 16% were family owned businesses without any form of registration, 24% were partnerships as shown in figure 8 below.

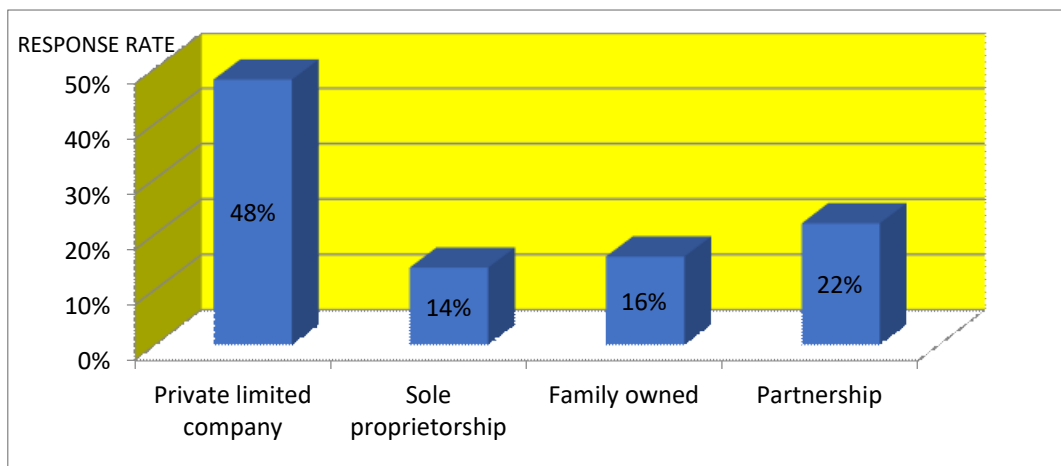


Figure 8 Types of SME ownership structure

The results above show that most Zambian businesses were styled as private partnerships making up almost half of the respondent enterprises sampled.

The study further enquired into the type of activities that the businesses were involved in and the results are as depicted in figure 9 on the next page.

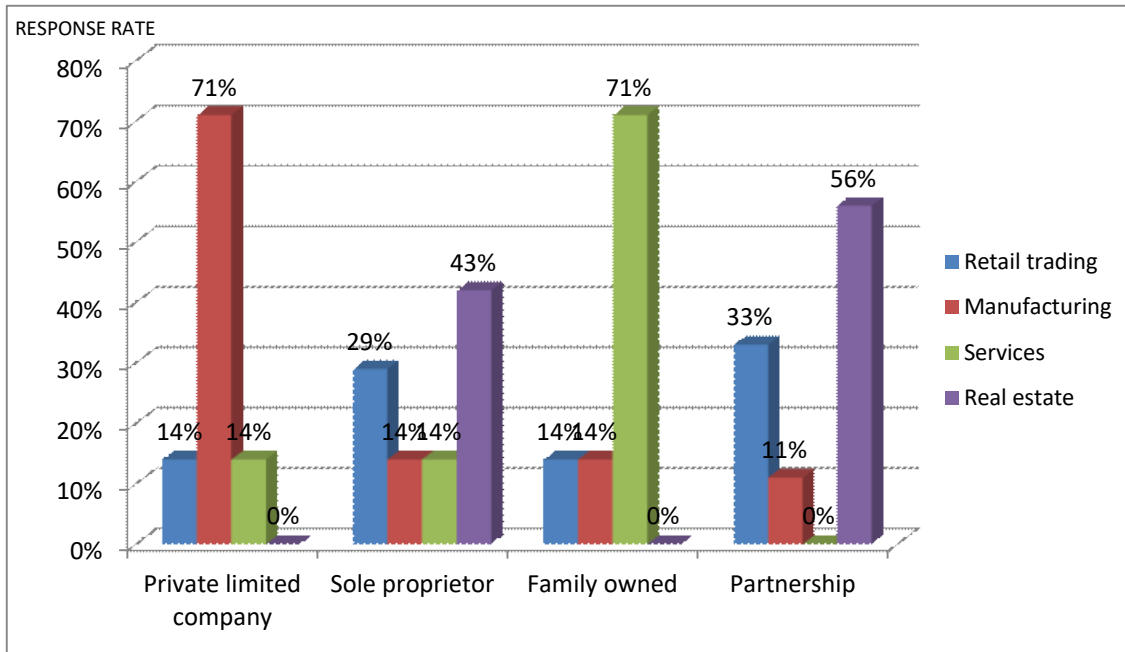


Figure 9 Nature and Role of SMEs in Zambia

The findings in Figure 9 above reveal that, among the private limited companies, 14% were in the retail trade, 71% in manufacturing, another 14% of the SMEs sampled were in four categories; private limited company, sole proprietorship, family owned business and partnership. Of the 12 SME private limited companies, 14% were in retail trading, 71% in manufacturing, and 14% in services. Of the 12 sole proprietorships, 29% were in retail trade, 14% in manufacturing, another 14% in services and the remaining 43% were in real estate. Of the 12 family owned businesses, 14% were in retail trading, another 14% were in manufacturing, and 71% were in services. Out of the 15 partnerships, 33% were in retail trade, 11% were in manufacturing, and lastly 56% were in real estate. The interpretation of the findings above is that almost a quarter of the businesses sampled operated as family businesses without any formal registration spelling the doom for their inability to approach any financial institution for financing. This is an indication of the status of a good number of SMEs in Zambia today especially those operating in townships.

4.4 Prevalence and Nature of Financing Gaps among SMEs

The second objective of the study sought to investigate the prevalence and nature of financing gaps among SMEs. SME respondents were asked if they had any financing gaps in their businesses. Results show that all the SME (100%) respondents indicated that they had various financing gaps in their businesses and needed financial help from financial institutions in order to run smoothly and expand. Figure 10 on the next page illustrates the various financing gaps prevalent in SME business among the respondents.

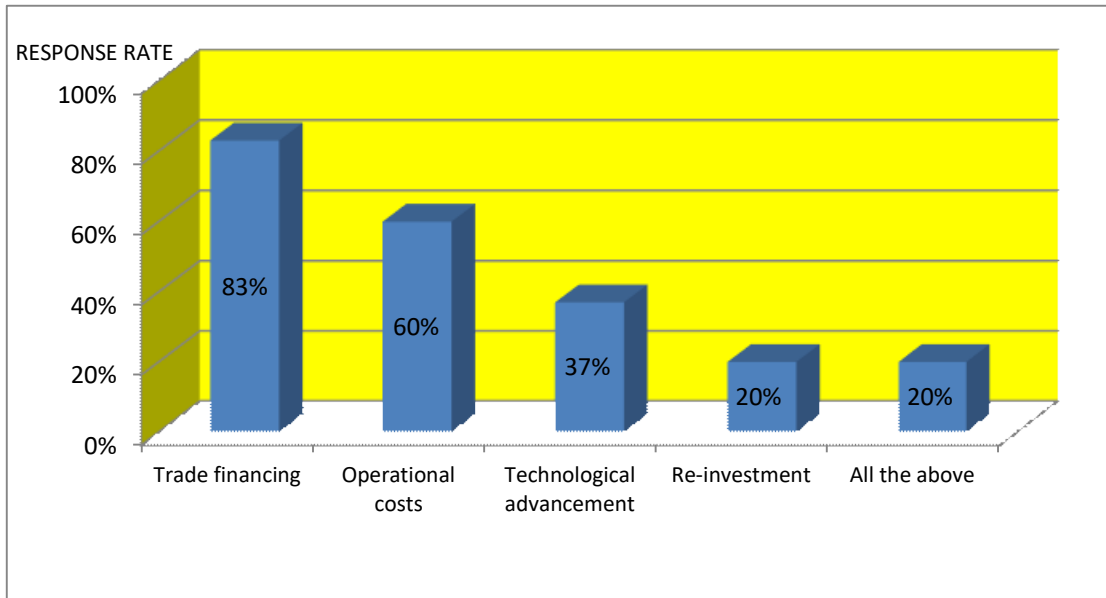


Figure 10 Prevailing financing gaps in SMEs

Figure 10 above shows that 83% of the SME respondents indicated that they had trade finance gap, 60% had operational costs, 37% had technological advancement gap, 20% had re-investment gap while another 20% indicated that all the above finance gaps were prevalent in their businesses. The implication of this finding goes to show that the most trending need for SMEs was trade finance which can keep their businesses alive most importantly to meet big orders.

A further question was asked as to whether at a later stage, other than start-up capital the SMEs ever successfully applied for a loan which was granted to expand their business. The results are that 20% successfully applied for a loan from a financial institution while the remaining 80% were unsuccessful. The successful respondents were asked whether they were able to repay the loan in full and the findings show that of the 10 respondents out of 50 who successfully applied for a bank loan, only 33% of the successful applicants managed to repay the loan in full. The findings show that very few SME loan applicants meet the financial institutions' criteria for commercial credit reflecting the impaired capacity for loan repayments.

The study also sought to find out how most SMEs were faring in terms of accessing bridging finance to start up or grow projects to sustainable levels. The ratings were as given in table 11 on the next page.

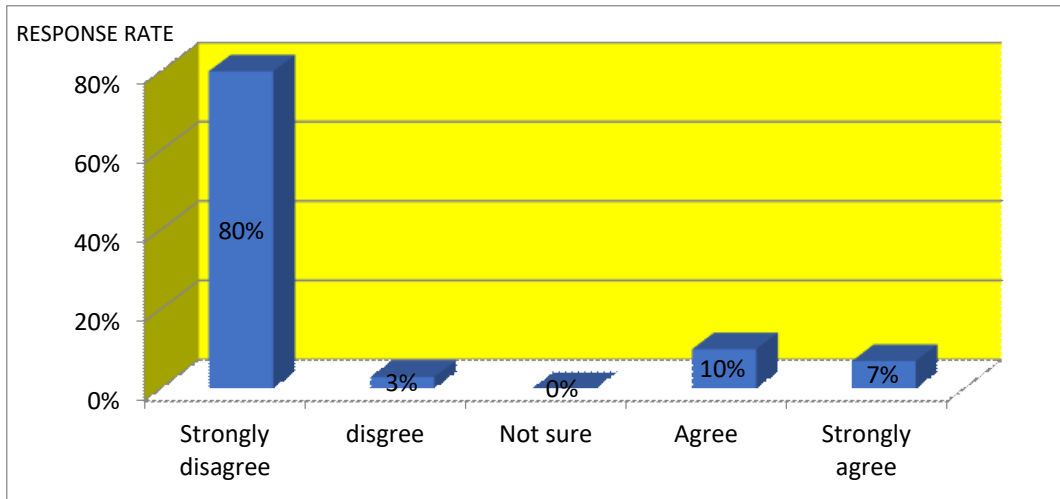


Figure 11 Most SMEs have capital to grow projects to sustainable levels

Table 11 above shows that 80% of SME respondents strongly disagreed that many SMEs lacked capital to start up or grow projects to sustainable levels, 3% disagreed, 10% agreed and 7% strongly agreed. Overall, 83% were in disagreement to the assertion. The findings show that the financing gap in the SME sector was real and needed urgent solution.

4.5 Types of Financing Available to SMEs

The third objective of the study was to establish from the financial institutions the types of financing that were available to SMEs in the sector. A question was posed as to whether the financial institutions' had products tailored for the needs of SMEs. All the three financial institutions' respondents (100%) stated that their organisations had products tailored to the needs of SMEs, and the types of financing available for SMEs were as follows: Overdrafts, term loans, trade financing, bills discounting, advance and performance guarantee and leasing. The distribution of the various products in the three financial institutions was as illustrated in figure 12 on the next page:

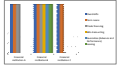


Figure 12 Types of bank financing available for SMEs

Figure 12 above shows that financial institution ‘A’ offered overdrafts, term loans and trade finance only while financial institution ‘B’ offered all the products stated above. Financial institution ‘C’ offered overdrafts and term loans only. These findings indicate that all the various services and products for SME financing were available in the financial sector and the SMEs’ impediments to access finance from financial institutions could be attributed to firm characteristics or supply side risk-averse behaviour of commercial banks and other players on the market.

4.6 Demand and Supply Side Factors Affecting SME Access to Finance

The fourth objective of the study sought to determine the demand and supply side factors affecting SMEs’ access to finance. The findings from the subsequent questions are given in the following sections.

4.6.1 Demand side factors affecting SMEs in accessing finance

This section looks at the findings from the close ended questions that sought to determine the demand side factors affecting SMEs in their quest to access finance from financial institutions. A number of constraints are encountered by SMEs in accessing commercial credit. Lack of understanding of SME needs by banks is one of them. Inadequate understanding by banks of the nature and operations of SMEs hampers their ability to assess

business viability and financing needs of SMEs. Consequently, financial institutions fail to offer appropriate banking products to suit SME needs. Based on the above statement, SME respondents were asked to rate their level of agreement/disagreement and the results are illustrated below in figure 13.

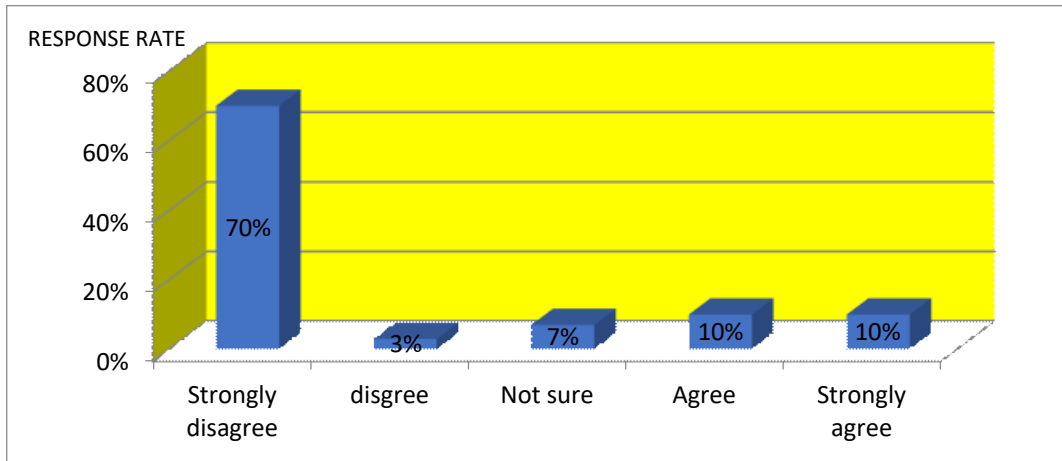


Figure 13 Financial institutions have adequate understanding of SME needs

Figure 13 above shows that 70% of SME respondents strongly disagreed that banks lacked understanding of SME needs and this hampered their ability to assess business viability of SMEs, 3.3% disagreed, 6.7% were not sure, 10% agreed and another 10% strongly agreed. Overall, 73.3% were in disagreement to the assertion.

Respondents were also asked as to whether they thought that financial institutions charge high interest rates associated with the high risk related with SME lending. The findings are as illustrated in figure 14 on the next page. Figure 14 shows that 83.3% of SME respondents strongly disagreed that the high lending rates are sustainable for SMEs, 3.3% were not sure, 6.7% agreed and another 6.7% strongly agreed. Overall, 83.3% were in disagreement to the assertion.

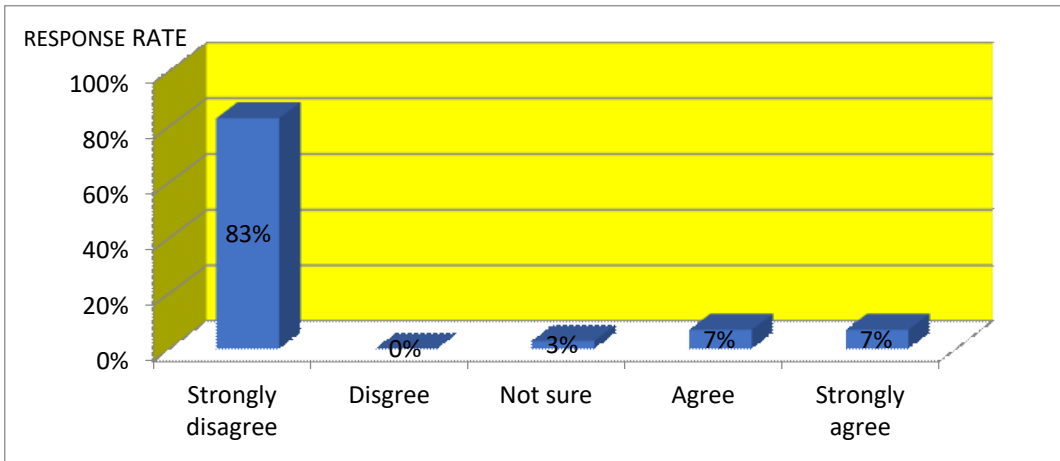


Figure 14 Financial institutions high lending rates have no adverse effect on SMEs

The finding in Figure 14 above shows that due to the high risk associated with SMEs, financial institutions levy a risk premium, resulting in high borrowing costs. The high interest rates levied by financial institutions are also not conducive to the development of SMEs.

A follow up question was posed as to whether the financial institutions insisted on demanding for unreasonable collateral as a result of the high risks involved in dealing with SMEs. The results of the SME respondents are as indicated in figure 15 below.

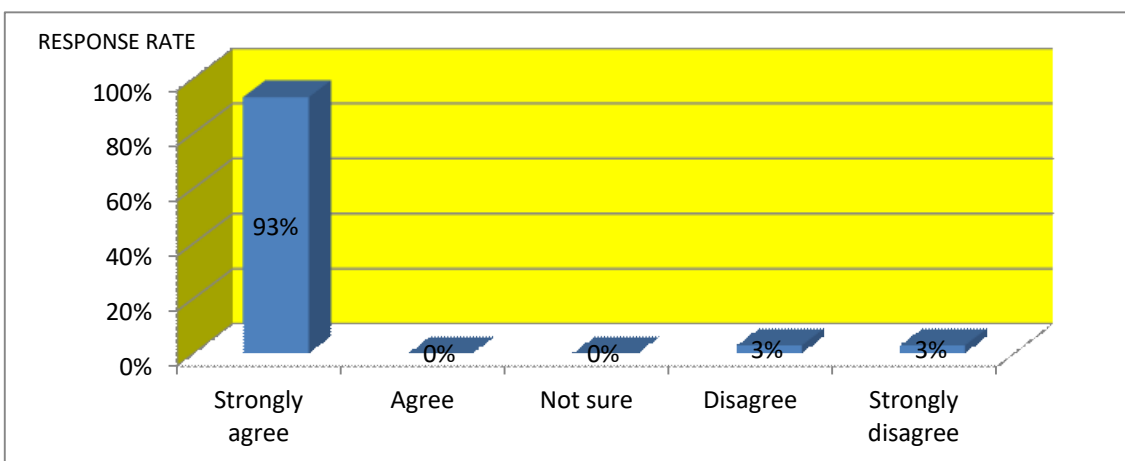


Figure 15 Collateral Requirements by FIs

Figure 15 above shows that 93.3% of SME respondents strongly disagreed that financial institutions demanded collateral which most SMEs could not provide, 3.3% % agreed and

another 3.3% strongly agreed. Overall, 93.3% were in disagreement to the assertion. The findings show that SMEs cannot possibly borrow from financial institutions in the absence of acceptable collateral which in Zambia is usually in form of fixed property.

The SME respondents were asked as to whether many SMEs were left to rely on informal sources of funds such as family, friends, supplier credit and customer advances as the formal financial sector preferred selected customers such as large corporations with collateral, thus crowding out SMEs. The SME ratings were as illustrated in figure 16 below.

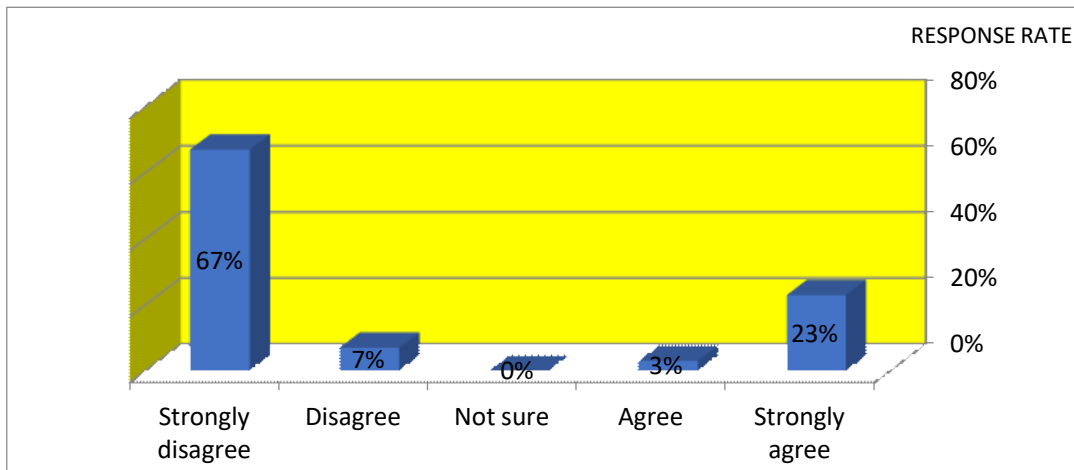


Figure 16 Lack of collateral not the main reason SMEs rely on informal funding

Figure 16 above shows that 67% of SME respondents strongly disagreed that the lack of collateral, which banks required, was not the main reason many SMEs were left to rely on informal sources of funds, 7% disagreed, 3% agreed and 23% strongly agreed. Overall, 74% were in disagreement to the assertion. The above findings show that, even where credit was available mainly through financial institutions, the entrepreneurs may lack freedom of choice because the financial institutions' lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the lender, hence sourcing finance from informal sources.

The SME respondents were further asked as to whether most SMEs had adequate skills and technology to ensure production of standardised quality products and/or services, which limited their chances of survival, particularly in raising enough cash flow to service commercial debt. The ratings of SME respondents are given in figure 17 on the next page..

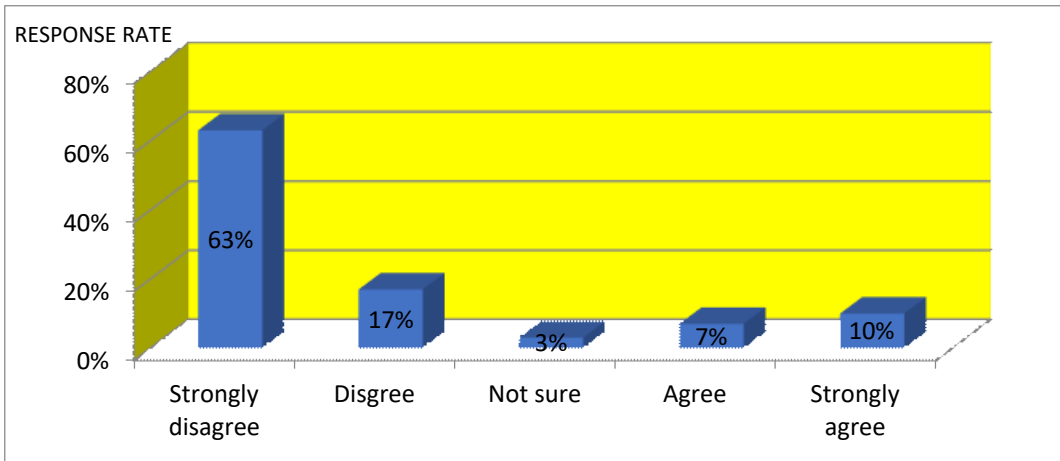


Figure 17 SMEs have adequate skills/technology to ensure standardised production

Figure 17 above shows that 63% of SME respondents strongly disagreed that most SMEs had adequate skills and technology to ensure production of standardised quality products and/or services, 17% disagreed, 3% were not sure, 7% agreed and 10% strongly agreed. Overall, a total of 80% were in disagreement to the assertion. The implication of the findings is that technological advancement which could assist to generate enough cashflow for loan repayment was low among SMEs.

Another question dwelt on finding out whether the SMEs as a sector was characterised by small business enterprises which were not well organised collectively. The absence of vibrant industry associations due to the fragmentations results in inadequate representation on matters affecting the sector. The ratings were as illustrated in figure 18 below.

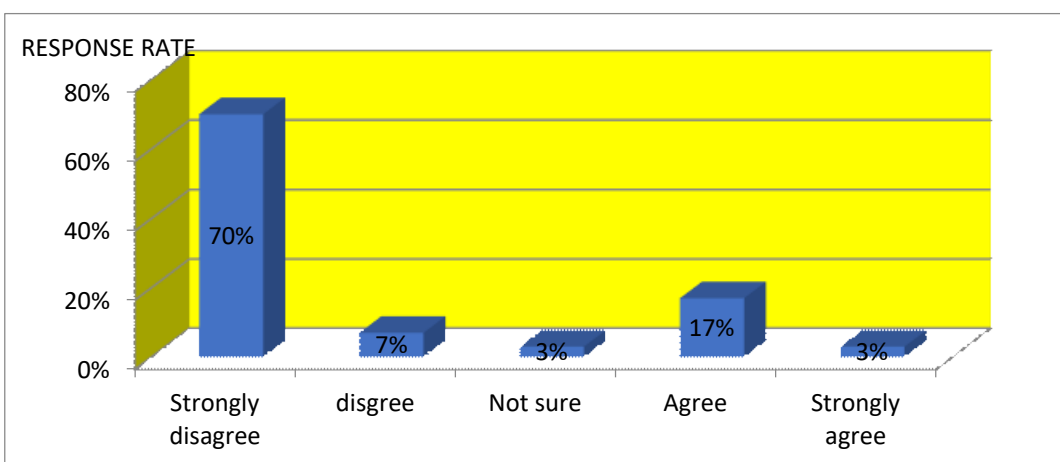


Figure 18 SME Sector is not fragmented and has adequate representation

Figure 18 shows that 70% of SME respondents strongly disagreed that the absence of vibrant industry associations due to the fragmentations resulted in inadequate representation on matters affecting the sector, 7% disagreed, 3% were not sure, 17% agreed and 3% strongly agreed. Overall, a total of 77% were in disagreement to the assertion above. The findings go to show why SMEs are disproportionately more discriminated when accessing formal commercial credit than large firms.

4.6.2 Supply side factors affecting financial institutions in granting finance

The supply side of credit for SMEs, which is the financial sector, is a major determinant in the access to finance by the business community. In this vein, financial respondents were asked to rate the level of agreement/disagreement to a number of questions relating to challenges encountered by financial institutions in their dealings with SMEs.

Failure to keep business and personal finance separate: Considering that many SMEs are owner-or family-operated and as a result, may not keep business and personal finance separate, financial institution respondents were asked to rate this statement on a Likert scale and the results are given in Figure 19 below.

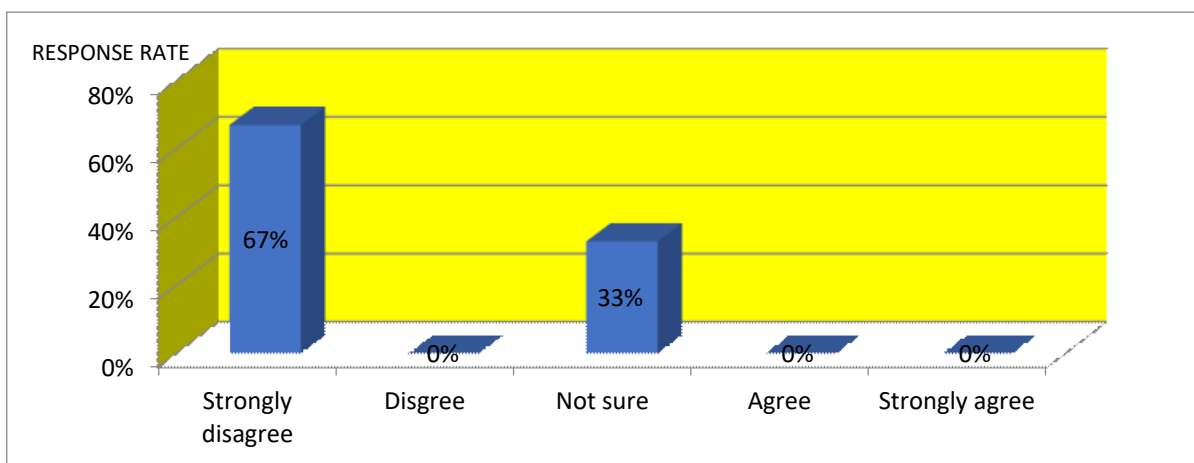


Figure 19 SMEs keep business and personal finance separate

Figure 19 shows that 67% of financial institutions respondents were in strong disagreement while one 33% was not sure. The finding above is a pointer to the poor management performance which is fatal to a business as it leads to non-separation of business and personal matters which compromises the business undertakings.

Poor debt repayment culture: SMEs are perceived to have a poor debt repayment culture. Due to the relatively high incidence of non-performing assets in the SME sector, financial institutions become too cautious to lend to the sector. This being another challenge, financial institutions respondents were asked to rate their level of agreement/disagreement on the above statement. Results are as shown below in figure 20.

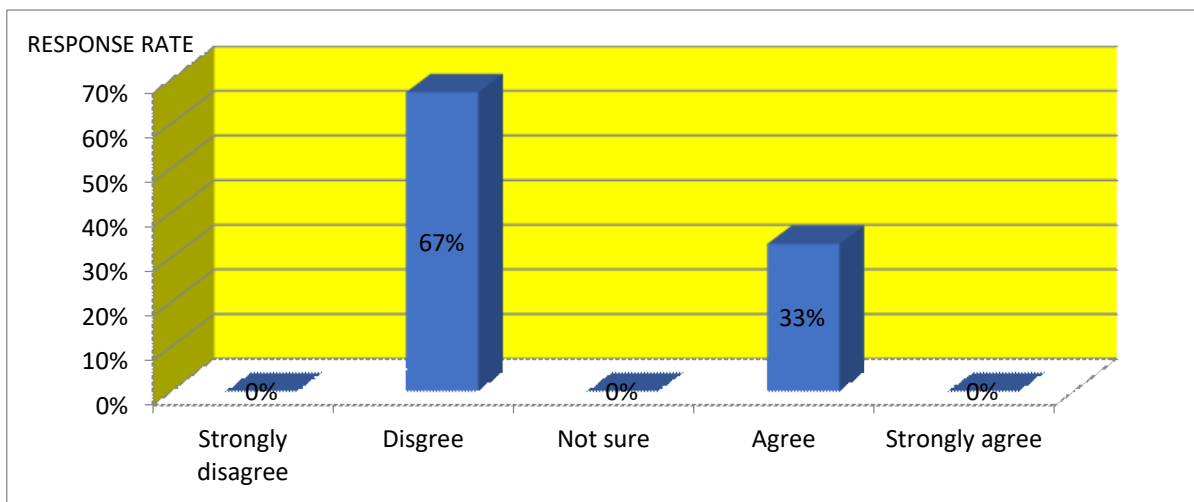


Figure 20 SMEs are not perceived to have a poor debt repayment culture

Figure 20 shows that 67% of the financial institutions’ respondents were in disagreement that the SMEs had a good debt repayment culture, while one 33% agreed. Overall, there were more who were in disagreement to the assertion than those who disagreed. The poor debt culture makes financial institutions to shun lending to the SME sector.

Diversion of funds: SMEs often divert funds from the intended business purpose resulting in high default rates. Financial institution respondents were asked to rate the level of agreement/disagreement on the statement above. Results are as shown in Figure 21 on the next page.

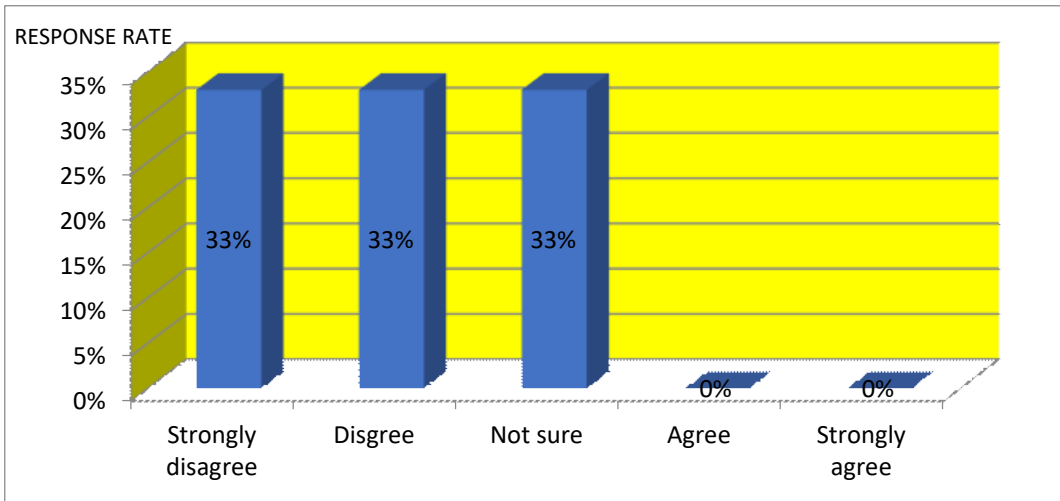


Figure 21 SMEs utilise borrowed funds for the intended business purpose

Figure 21 above shows that one 33% of 3 financial institution respondents strongly disagreed that SMEs often diverted funds from the intended business purpose resulting in high default rates, another 33% disagreed, while 33% were not sure. Overall, a total of 66% were in disagreement to the assertion. The diversion of funds from the intended purpose is a moral hazard that hampers SME development in Zambia.

The study also sought to investigate the banks' risk-averse behaviour towards SMEs by enquiring into the financial institutions' respondents' rating of the following statement: Financial institutions are not reluctant to lend to SMEs which are perceived to be high risk due to high rates of business failure. The results are as presented in Figure 22 below

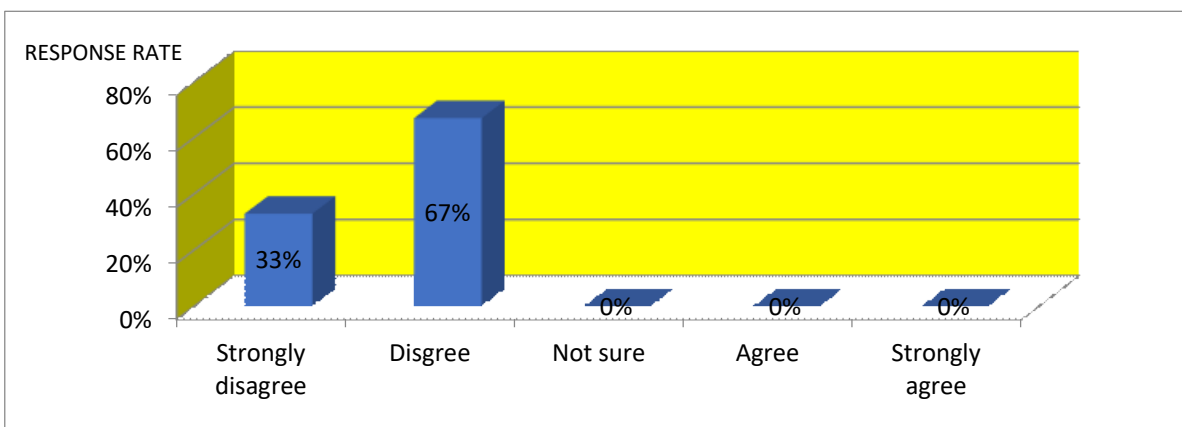


Figure 22 FI's risk-averse behaviour does not prevent lending to SMEs

Figure 22 shows that 33% of financial institutions respondents strongly disagreed that financiers were not reluctant to lend to SMEs which were perceived to be high risk due to high rates of business failure, 67% of respondents were also in disagreement. Overall, all (100%) the respondents were in disagreement to the assertion. This provides the reason why financial institutions favour large corporations in their lending more than the SMEs.

It was also important at this stage to find out the effects that large number of SMEs and the small loan amounts they normally requested had on administration expenses. The following statement was given: The relatively large number of SMEs and the small loan amounts required do not make SME financing cumbersome and expensive to administer. The rating from financial institutions' respondents was as below in figure 23.

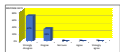


Figure 23 Large number of SME small loan amounts and their effects on funding

Figure 23 above shows that 67% of financial institutions' respondents strongly disagreed that the relatively large number of SMEs and the small loan amounts required did not make SME financing cumbersome and expensive to administer, and a further 33% were also in disagreement. Basically, all (100%) respondents were in disagreement on this aspect.

The following statement was also rated by financial institutions respondents:

Weak managerial capacity - Many SMEs have skilled manpower and managerial capacity.

The results are given in Figure 24 on the next page..

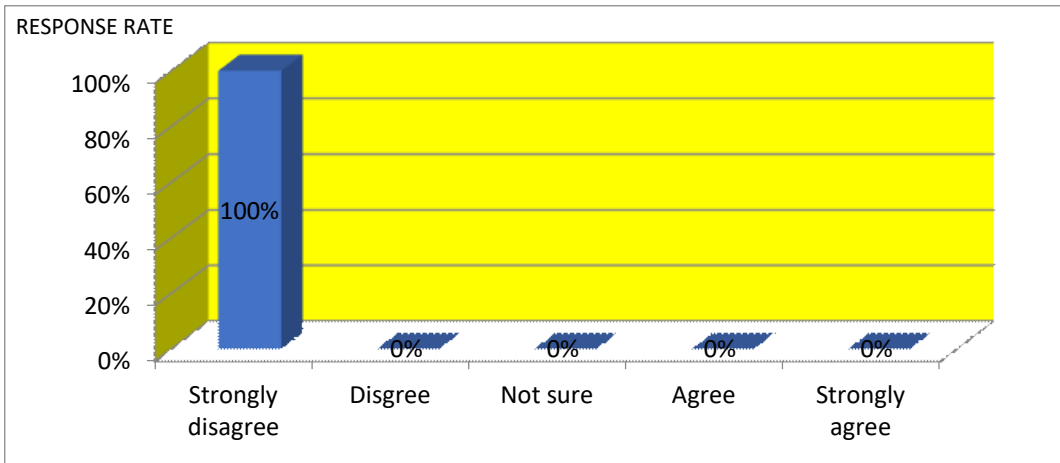


Figure 24 Many SMEs have skilled manpower and managerial capacity

Figure 24 above reports overwhelmingly that all (100%) of the financial institutions' respondents were in strong disagreement to the assertion that many SMEs had adequately skilled manpower and managerial capacity. By implication of this finding, the SMEs management lacked in a number of areas in fulfilling the financial institutions' requirements in credit appraisals hence the overwhelming observation in the responses.

The financial institutions' respondents were asked to rate the corporate governance systems of SMEs and the results are as given in Figure 25 below.

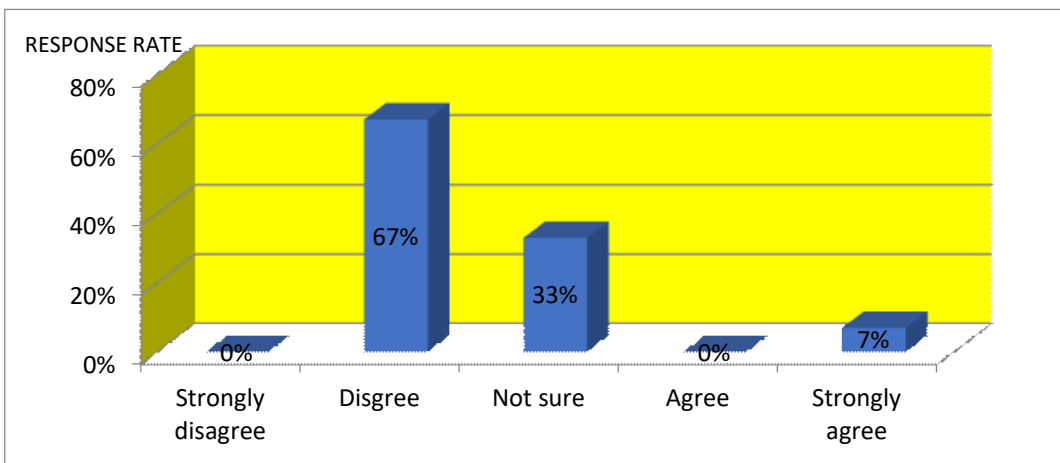


Figure 25 SMEs have strong corporate governance systems in their enterprises

Figure 25 shows that 67% of financial institutions respondents disagreed that, many SMEs had strong corporate governance systems resulting in lack of professionalism, and in addition, that most SMEs had adequate succession planning structures which were required for sustainable business operations, 33% were not sure. It has been noted by lenders according to the findings above that, most SMEs have corporate governance structures that may be fraught with interference from influential members of SMEs and relaxed supervisory systems characterised by poor management culture.

4.7 Chapter Summary

This chapter has discussed results and findings. The first part provided an analysis of demographic data of the respondents, the second section dealt with data on nature and role of SMEs, the third section tackled the prevalence and nature of financing gap for SMEs, the fourth section provided findings on types of financing available for SMEs and the last section discussed the demand and supply side factors affecting access to finance by SMEs. Chapter five which follows presents discussion of findings and analysis of data.

CHAPTER FIVE

DISCUSSION

5.1 Introduction

This chapter consists of discussion of findings and analysis of data of the study. The findings were those important issues about factors affecting SMEs' access to financing that were discovered through the analysis of the field data captured through the questionnaires administered to both the demand and supply side of access to finance.

5.2 Discussion of Results

5.2.1 Prevalence and nature of SME financing gap

The findings revealed that all the SMEs (100%) had various financing gaps in their businesses and needed financial help from financial institutions in order to run smoothly and expand. Small firms have been noted as being frequently under-capitalised. In instances where SMEs are availed credit, they are often granted short-term loans and, therefore, they have no option but to depend on such short-term finance as stated by Blanton and Dorman (2014), and informal credit for financing their long-term business needs. SMEs face numerous obstacles in borrowing funds because they are small, less diversified, and have weaker financial structures. Indications that SMEs are financially constrained are: payment delays on receivables, declining liquidity, and an increase in SME failure rate. Besides the market signals that make some SMEs favourable borrowers, the SME sector still finds it difficult to provide high quality collateral at all times and to ensure transparency with respect to their creditworthiness (Ayadi and Gadi, 2013).

Empirical evidence supporting the importance of access to external finance for business growth and growth of projects to sustainable levels can be found in Brown, Earlem and Lup (2005), who examined firm growth determinants. Conversely, Johnson, McMillan and Woodruff (2000) evaluate institutional reforms and they conclude that lack of access to bank finance prevents business growth.

5.2.2 Types of financing available to SMEs

The findings revealed that all the financial institutions (100%) had products tailored to the needs of SMEs, and the types of financing available for SMEs were as follows: Overdrafts, term loans, trade financing, bills discounting, advance and performance guarantees and

leasing. However, the SMEs' impediments to access finance from financial institutions could be attributed to firm characteristics or supply side risk-averse behaviour of commercial banks and other players on the market. In financing small businesses, the firm starts by relying on its own resources and when it becomes successful, it relies on retained profits for its operations. As the business is established, it may rely on other sources of finance such as suppliers through trade credit and commercial banks. If the business is to expand, then it relies on sources such as hire purchase and leasing. Initial growth may, however, be supported by overtrading when the sales of the company expand more quickly than the financial resources. This may result in deteriorating liquidity problems, which can only be remedied by curtailing growth, or seeking long-term finance from financial lending institutions or seeking venture capital (Africa Business, 2013).

5.2.3 Demand and supply side factors affecting SMEs' access to finance

Small and medium size enterprises face many hindrances in accessing finance from financial lending institutions. According to the study, collateral is the single most impeding factor going by the 93% of SME respondents who affirmed; this was followed by lack of proper financial records. In line with this finding, Aliyu and Bello (2013) state that, the purpose of borrowing determines the type of loan to be granted. If the potential borrowing is a credit risk, or if the amount of funds being applied for exceeds the amount that the lender considers reasonable on unsecured basis, then security is required. Property, life insurance policy and marketable securities are among the forms of collateral provided in other jurisdictions while in Zambia collateral is mostly in the form real estate property. There is a greater risk in expanding business, hence long term loans have to be protected by directly pledging assets. Basically, the inherent structural defects of the SMEs make them high risk borrowers and this is the major contributing factor to their inability to access funds from the formal sources especially commercial banks. Hence, most of these financial institutions, banks for instance, prefer to ask for collateral in lending to SMEs because of the high transaction cost involved in the process of evaluating the financial statement if available and other supporting documents of the SMEs. The aim is to minimise risk of loss of the funds when this requirement is strictly enforced (Adejoh, 2013).

Lack of understanding by financial institutions about the needs of SMEs were cited by 70% of respondents as a hindrance to access to credit while high lending rates were also cited by 83% of respondents as an impediment to their access to finance. Short loan repayment periods were identified as other factors that hinder accessibility to finances by SMEs, in addition to failure to prepare financial statements coupled with low returns. On the other hand, SMEs argue that most financial institutions require financial statements for at least the past three years in addition to security. The types of securities demanded by most financial institutions are cash, treasury bills, government bonds and assets such as immovable

properties to mention but a few. Evidently, most of the SMEs are not able to provide such kind of securities given their size and consequently they are not able to access funds from these institutions.

It is contended that the lending institutions are not realistic in demanding such securities from SMEs although it is appreciated that these institutions are in business to make money. They are in business because of other businesses, which were assisted by other people financially. Financial institutions are interested only in businesses that are already in operation and performing well to the exclusion of start-ups and those that require re-capitalisation. Most of the businesses that are doing well are doing so because of availability of funds. The study has established that currently there is no policy on funding SMEs by financial lending institutions. As an alternative to securities, financial institutions should explore the possibilities of joint ventures with SMEs or provide management support where it is lacking. These institutions may argue that their licences may not allow for such ventures.

High interest rates charged by financial institutions on loans and overdrafts have been identified by 83% of respondents as a second major hindrance to accessing financing by SME businesses. A good proportion of SMEs are unable to access funding from financial business houses due to high interest rates which are currently prohibitive. The study of financial institutions has established that interest rates on loans and overdrafts currently lie between 29% and 40%. These interest rates are for short term loans that last up to 3 years. What is ironic about the interest rates is that they are charged universally to all aspects of businesses irrespective of the size or type of business. The approach of charging interest is not favourable to SMEs, which have smaller economies of scale. Some banks interviewed indicated that they were able to vary the rates depending on the circumstances of the applicant. However, the base rates were still too high for SMEs. A study by Ekpenyong (2007) showed that very little financial support has been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 2015).

Findings also revealed that 67% of financial institution respondents claimed that SME owners did not keep business separate from personal matters which impaired the decision making process. This finding is supported by Mahadea and Youngleson (2013:420) who claim that since many small businesses operate on a basis of sole decision making, one can say that the entrepreneur/manager becomes the most important element in the operation of the business and, therefore, poor management performance is fatal as it can lead to non separation of business and personal matters. Further concerns from the financial institutions in Figure 23

were that it was costly to administer small loans for SMEs as the administration expenses made the transactions expensive hence the premium charges levied without exception. This is reinforced by Pandula (2015) who states that banks find it costly to make and service loans to SME clients. For instance, collection and review of financial and non-financial information to assess loan applications for SME clients is a difficult task and involves significant amount of staff labour. As a result, SME lending erodes the lender's margin.

5.3 Chapter Summary

This chapter presented the discussion of the research findings by linking them with the literature review in order to answer research questions given in chapter one. The next chapter winds up all the arguments and presents conclusions and recommendations from the study. It will also be worthwhile to present possible areas of future study which may have become imperative so as to complement this research. In light of this, the likely possible areas of future study will be highlighted in the following chapter.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter consists of conclusions drawn from the study and proceeds to make recommendation to address challenges that SMEs in Chilanga face in accessing finance.

6.2 Conclusion

This study explored the extent and patterns of formal financing to the SME sector in Zambia and characterised the significance of factors that promote or inhibit provision of finance to SMEs. The findings show that financial institutions have put in place various requirements which are not easily met by the SMEs and both SMEs and financial institutions have some challenges/difficulties that each side faces when dealing with each other. Major challenges faced by SMEs in accessing finance are mainly; lack of banking/credit history to allow them access the funds easily from financial institutions, they have no valuable collateral to act as security for their financing, lack of financial statements required for financing, non registration of businesses and lack of proper books of accounts. High interest rate was among the most important constraints that limit SMEs' capacity to obtain loans. There was also a high level of incidence of owner-manager phenomenon among surveyed SMEs resulting in lack of succession planning which commercial banks strongly encourage. Financial institutions find the SME credit business to be relatively less competitive while at the same time very risky.

Financial institutions tend to provide more products to SMEs that are more inclined to improve transactions or cash flows of enterprises than finance that is required to help them grow and expand their production base. The lack of collateral, lack of capacity to repay loans and lack of credible data remains a daunting constraint for SMEs to access finance. The implication of these results is that there is still a large scope for interventions required from all stakeholders in order to realise better access to formal finance by SMEs. While the demand of collateral and financial statements among financial institutions has been a traditional approach that has hindered their lending to SMEs, banks have over a period of time instituted mechanisms that help them to lend to SMEs without developing any significant relations with them. Overall, the main findings in this study are reasonably consistent with much of the recent literature on factors affecting SMEs access to finance.

6.3 Recommendations

Arising from the findings of this study, the following recommendations are made.

Government should roll out the land titling programme in Chilanga District so that a lot more people, SMEs included, that have traditional land can have certificate of title to their land. This would help unlock the borrowing potential of most SMEs in the district as they would be able to use these certificates of title as collateral when seeking funds to expand and boost their businesses. This would therefore go a very long way in addressing the current challenge of collateral that most SME face in Chilanga when it comes to obtaining finances from banks.

There is need to strengthen the operations and funding of the Citizens Economic Empowerment Commission (CEEC) office in Chilanga. This would enable them provide more financial support to deserving SMEs and monitor their activities to ensure repayments of funds advanced.

In line with the Central Bank's policy of financial literacy and financial inclusion, banks need to be compelled to offer more training to SMEs on the need for them to open accounts so as to increase their possibility of accessing funds from these banks.

There is also need to continuously educate SMEs on how to manage finances and prepare books of accounts. This can be done by the local office of CEEC in line with their mandate of fostering broad-based economic empowerment in Zambia.

6.4 Areas for Further Study

The suggested future research areas are as follows:

A research that can cover entire financial and SME sectors to ascertain the findings of this study.

A more detailed research could also be done to look into different financing strategies adopted by commercial banks in serving the SME sector.

A research could also be done to look into specific commercial banking products that add more value to SME sector and address specific financing needs of the sector.

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APPENDICES

APPENDIX I COVER LETTER

University of Zambia
Graduate School of Business Studies

June 2018

Dear Respondent,

Re: Student Research

I am an MBA student with University of Zambia and currently carrying out a research on:

“Factors Affecting Access to Finance for Small and Medium Enterprises (SMEs) In Zambia – A Case Study of Chilanga District”

You have been chosen to take part in this study by answering the questionnaire attached. This is an academic exercise to enable her partially fulfil a requirement for the award of his degree, therefore, your honest response to the questionnaire will be highly appreciated and considered confidential.

Your views and those of other respondents who are being asked to complete the questionnaire will provide a valuable input in SME development in Zambia.

Yours faithfully,

Francis Zulu

APPENDIX II QUESTIONNAIRE FOR SMEs

This questionnaire assists in data collection for academic purpose. The research intends to give an assessment of factors affecting SMEs in their quest to access finance from financial institutions. All information obtained, will be handled with high level of confidentiality. Do not incorporate identification or names in the questionnaire.

Please answer every question as outlined by ticking in the option that applies. You may also give explanations in the spaces provided as your answers to the open ended questionnaires

Section A: Background Characteristics

1. Name of business (Optional)

.....

2. Gender

(a) Male (b) Female

3. Age

(a) 20 years and below (b) 21-30 years (c) 31-40 years (d) 41-50 years

(e) 51-60 years (f) above 60 years

4. What is your highest qualification attainment?

a) Below High School b) High School c) Diploma d) First Degree

e) Post graduate

5. What is your position in your business?

Manager	<input type="checkbox"/>
Owner	<input type="checkbox"/>
Accountant	<input type="checkbox"/>

6. How long have you been working/running the business?

0 – 5 years	
6 – 10 years	
11 – 15 years	
16 – 20 years	
Over 20 years	

Section B: Prevalence and Nature of Financing Gaps

7. Did you raise funds for setting up your business through a financial institution?

- a) Yes b) No

If your answer to 5 above is “NO” specify.....

.....

8. Did you at any later stage successfully apply for a loan to expand your business?

- a) Yes b) No

.....

9. If Yes to question above, have you been able to repay the loan given to you in full?

- a) Yes b) No

If NO, explain.....

10. Do you have any financing gaps prevailing in your business?

- a) Yes b) No

11. If yes, what type of financing gap is prevalent in your business? (You may tick all that apply)

- a) Trade financing
 b) Operational costs
 c) Technological advancement
 d) Re-investment
 e) All the above

12. Under-capitalisation: Most SMEs lack capital to start up or grow projects to sustainable levels.

- a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

Section C: Nature and Role of SMEs in Zambia

13. Nature of Organisation. (Please tick as appropriate)

(a) Private Limited Company (b) Public Limited Company (c) Partnership Sole

(b) Proprietor (d) Family Owned Business (e) Other (please specify).....

14. Role of business (please circle as appropriate)

(a) Retail trading (b) Export (c) Manufacturing (d) Services

(e) Real Estate (f) Farming (g) Other (specify)

Section D: Factors affecting SMEs in Accessing Finance from financial institutions

15. Banks have adequate understanding of the nature and operations of SMEs and are able to assess business viability and financing needs of SMEs.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

15. High lending rates: Due to the high risk associated with SMEs, banking institutions levy a risk premium, resulting in high borrowing costs. The high interest rates levied by MFIs are also not conducive to the development of SMEs.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

16. SMEs have adequate collateral to provide to Financial Institutions as collateral (Mark one answer only).

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

17. The fact that banks prepare customers such as large corporations with collateral is not the reason SMEs rely on informal sources of funds such as family, friends, supplier credit and customer advances.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

18. SMEs have adequate skills and technology to ensure production of standardised quality products and/or services.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

20. The SME sector has vibrant industry associations which results in adequate representation on matters affecting the sector.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

Thank You for Your Time and Responses

.....
7. If 'Yes' to question 6 above, what types of financing is available for SMEs?

- a) Overdrafts
- b) Term Loans
- c) Trade financing
- d) Bills discounting
- e) Guarantee
- f) Leasing
- g) All of the above

Section C: Factors affecting financial institutions in SME Financing

8. Some small scale entrepreneurs are affected by low **literacy levels**; do you have problems dealing with this category?

- a) Yes
- b) No

9. Most SMEs enterprises are not owner-or family-operated. As a result, they keep business and personal finance separate.

- a) Strongly Agree
- b) Agree
- c) Not Sure
- d) Disagree
- e) Strongly Disagree

10. SMEs are perceived to have a good debt repayment culture and banks are not too cautious to lend to the sector.

- a) Strongly Agree
- b) Agree
- c) Not Sure
- d) Disagree
- e) Strongly Disagree

11. SMEs use borrowed funds for intended purpose and do not divert funds from the intended business purpose to result in high default rates.

- a) Strongly Agree
- b) Agree
- c) Not Sure
- d) Disagree
- e) Strongly Disagree

13. Banks are not reluctant to lend to SMEs on the basis that they are high risk due to high rates of business failure.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

14. The relatively large number of SMEs and the small loan amounts required make SME financing does not make it cumbersome and expensive to administer.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

15. SMEs have adequate skilled manpower and managerial capacity and have ability to manage the operating environment in a sustainable manner.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

16. SMEs have adequate corporate governance systems and succession planning structures which are required for sustainable business operations.

a) Strongly Agree b) Agree c) Not Sure d) Disagree e) Strongly Disagree

Thank You for Your Time and Responses