



**EFFECTS OF EMERGENT FINANCIAL LENDING INSTITUTION ON
THE ECONOMY: THE CASE OF SMALL AND MEDIUM
ENTERPRISES IN KASAMA DISTRICT OF NORTHERN PROVINCE
OF ZAMBIA.**

BY

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**SUBMITTED TO THE UNIVERSITY OF ZAMBIA IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
DEGREE OF MASTERS IN BUSINESS ADMINISTRATION**

(MBA)

LUSAKA. ZAMBIA

YEAR: 2021

TABLE OF CONTENT

Title	page
Table of content	(i)
Release form	(vi)
Certificate of approval	(vii)
Dedication	(viii)
Abbreviations	(ix)
About the researcher	(x)
Acknowledgement	(xi)
List of tables	(xii)
List figures.....	(xiii)
Abstract	(xiv)

Chapter one: overview of the study

1.1 introduction	1
1.2 background	1
1.3 statement of problem	3
1.4 Purpose of the study	4
1.5 Objective of the study	5
1.6 Research question	5
1.7 Significance of the study	5
1.8 Scope of the study	6
1.9 Conceptual framework	6
1.10 Operational definition	7

1.11 Ethical consideration	8
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Chapter two: Literature Review

2.1 introduction	9
2.2 Historical overview of financial lending institution	9
2.3 small and medium enterprises	9
2.3.1 micro enterprises	10
2.3.2 small enterprises	10
2.3.3 medium enterprises	10
2.4 Global perspective SMEs access to finance	10
2.4.1 important of SMEs in social-economic development	11
2.4.2 access to finance related to general issues	12
2.5 Africa perspective on SMEs access to finance	14
2.5.1 small and medium-size enterprises finance in Africa	16
2.5.2 reasons for limited SME finance access	18
2.5.3 factors affecting SMEs	21
2.6 Zambia Perspective on SMEs access to finance	22
2.6.1 business environment	25
2.6.2 finance services	25
2.6.3 importance of small and medium enterprises	27
2.6.4 role of small and medium enterprises in addressing sustainable development challenges	28
2.6.5 challenges facing SMEs in Zambia	29

2.6.6 debt financing31

2.7 Research gaps and contribution to the knowledge base31

Chapter three: Research methodology

3.1 introduction33

3.2 research design33

3.3 source of data33

3.4 Study area or site34

3.5 target population34

3.5.1 financial lending institution population34

3.5.2 SMEs population35

3.6 sample design34

3.6.1 SMEs sample34

3.6.2 financial lending institution sample35

3.7 Sampling techniques36

3.8 Data collection instruments36

3.9 Data collection procedure and time line36

3.9.1 interview guide.....36

3.9.2 questionnaire37

3.10 Data analysis instrument and procedure37

3.11 ethical considerations38

3.10 Conclusion38

Chapter four: Data presentation and discussion

4.1 Introduction	39
4.2 particular and composition of lending institution	39
4.3 reasons for increased lending institution	41
4.4 particular of institution managers	42
4.5 particular and composition of entrepreneurs	23
4.6 reasons for starting business	45
4.7 type of business ventured into	46
4.8 legal forms of business	49
4.9 Business Registration	49
4.10 Major source of initial capital	50
4.11 Major source of working capital	52
4.12 financial assistant to small and medium enterprises(SMEs) by lending institutions	54
4.13 interest rates by financial lending institutions	57
4.13 funding hindrances	59
4.13.1 Lack of collateral	61
4.13.2 high interest rate	62
4.13.3 failure to prepare financial statement	62
4.13.4 short repayment period	63
4.14 lending institution supporting SMEs	63
4.15 security required by financial institution	65
4.16 comment	66

4.17 lending policy to small and medium enterprises.....67

4.18 effects of failure to access finances68

Chapter five: Conclusion and Recommendation

5.1 Introduction69

5.2 conclusion69

5.2.1 lack of collateral71

5.2.2 high interest rates71

5.2.3 lack of adequate financial statements71

5.2.4 repayment period72

5.2.5 lack of adequate information72

5.3 recommendation73

5.3.1 major findings73

5.3.2 suggested recommendations73

5.3.3 Government74

5.3.4 Financial lending institutions74

5.3.5 Zambia Chamber of Small and Medium Business Association75

5.3.6 Small and Medium Enterprises.....75

References

Appendices:

Appendix i: Research Instrument – Questionnaire to Financial Lending Institution

Appendix



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RELEASE FORM

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TITTLE OF PROJECT: Effects of Emergent Financial Lending Institution on the economy: the case of Small and Medium Enterprises in Kasama District of Northern Province of Zambia.

PROGRAMME FOR WHICH PROJECT WAS PRESENTED: Masters of Business Administration (MBA)

YEAR GRANTED: 2021

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APPROVAL FORM

The undersigned certify that they have read and recommended to the University of Zambia and Zimbabwe Open University for acceptance; a project entitled “Effects of Emergent Financial Lending Institution on the economy: the case of Small and Medium Enterprises in Northern Province of Zambia” submitted by Kapapi Peter Jameson in partial fulfilment of the requirement for the Masters of Business Administration (MBA).

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.....

EXTERNAL EXAMINER

DATE.....

DEDICATION

This project is dedicated

To my parents;

My mother, Rhoda Jameson Kapapi you are the best mother as your encouragement has taught me how to stand as a man throughout all these years and you have been the best teacher that I ever had.

My father, Jameson Peter Kapapi, I had few years with you during your life on earth but still more you laid a solid foundation of my character and zeal for me on education as you were an example where education is concern and above all taught me about standing as a man in life.

My wife, Purity Nanyangwe, you are the best woman in my life as your encouragement and confidence in me is unmatched.

Acknowledgements

I would like to express my appreciation to a number of individuals who provided valuable assistance to me during the time of preparing this dissertation. Firstly, I would like to thank the almighty God for the guidance and protection that has been provided to me who also made it possible for me during my studies.

My profound gratitude goes to my supervisor Dr. Frank Munthali for his guidance, skills and valuable insight during my entire course of study as your support and time that you spared for me during your busy schedule was unmatched. I would also like to thank the coordinator in the institute of postgraduate studies Mr. Donald Fulai in particular for the continued guidance and material support during the whole study.

To my kind and loving wife and friend, Purity, for her continuing source of help and encouragement, her support and understanding and her endurance day and night, her continuous reminder on speeding up the work always gave me the confidence to work very hard.

A profound appreciation, love and gratitude goes to my wise and loving mother Rhoda Jameson Kapapi, your encouragement during my whole process from research proposal to dissertation was overwhelming, mum by far you are the best teacher I have ever had, thank you mum for you reminded me to always pray and for the countless prayers you offered to me night and day while I spent my sleepless night on the computer.

Undertaking this research could have been very difficult without the support and encouragement of my family and friends as your contribution was beyond reproach. I therefore express my sincere gratitude to the following individual for their contributions towards the successful completion of this dissertation; Mr. Ndumingo, Mr. Mwila mighty and Mr. Chiponde Mabvuto.

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I did my secondary education from period of 1998 to 2002 were I attained my secondary school certificate this was one my achievement during my secondary education, as for tertiary education I have attained quite a number of achievement this included acquisition of necessary knowledge during my tertiary education while during my working career for almost 11 years working as a secondary school teacher I have imparted knowledge in to the learners were I have seen some of them becoming responsible citizens while others joining the same ministry and currently working together, this is my career achievement as I have were to point, thus becoming as one of my major achievement.

Abbreviation

ACCA – Association of Chartered and Certified Accountant

B.O.Z. – Bank of Zambia

COMESA – Common Market for Eastern and Southern Africa

ECOWAS – Economic Community of West African State

G.R.Z – Government of the Republic of Zambia

GDP – Gross Domestic Product

GNP – Gross National Product

ILO – International Labour Organization

IMF - International Monetary Fund

MBA – Master of Business Administration

SMES – Small and Medium Enterprises

SSA – Sub Sahara Africa

TAZARA – Tanzania Zambia Railways

UN – United Nation

WB – Word Bank

ZABS – Zambia Bureau of Standards

ZACSMBA – Zambia Chamber of Small and Medium Association

Zanaco – Zambia National Commercial Bank

ZDA – Zambia Development Agency

ZRA – Zambia Revenue Authority

SEDB – Small Enterprises Development Board

ZOU – Zimbabwe Open University

CSO – Central Statistics Office

MoF – Ministry of Finance

UNIDO – United Nation Industrial Development Organization

LIST OF TABLES

4.1 particular and composition of lending institution	39
4.2 Reason for increased lending institution.....	41
4.3 particulars of institution managers	42
4.4 particulars and composition of entrepreneurs	44
4.5 Cause of business startup	45
4.6 type of business ventured into	46
4.7 legal form of business	48
4.8 business registration	49
4.9 major source of initial capital	51
4.10 source of working capital	53
4.11 financial assistant from lending institution	56
4.12 banking institution interest rate	58
4.13 non-banking institution interest rates	58
4.14 funding hindrance	60
4.15 lending institutions supporting SMEs	64

LIST OF FIGURES

4.1 particular and composition of lending institution	40
4.2 particulars of institution managers	43
4.4 Cause of business startup	46
4.5 type of business ventured into	47
4.6 legal form of business	49
4.7 business registration	50
4.8 major source of initial capital	53
4.9 source of working capital	54
4.12 funding hindrance	57
4.13 lending institutions supporting SMEs	61

Abstract

Small and medium enterprises is an engine for the country's economic development of any healthy nation. These businesses play a pivotal role through creation of employment the most and major of a country population and also through contribution to the country Gross National Product.

The study was conducted in Kasama district of northern province to ascertain the effects emergent financial lending institution on the economy a case of SMEs. And sought to establish the extent to which SMEs are benefiting from these lending institutions.

During data collection the targeted population were lending institution both banking and non-banking lending institution as well as SMEs, during data collection questionnaires and interview were used to lending institutions and SMEs respectively after which quantitative data was analyzed using Excel.

The result obtained shows that most of Small and medium enterprise are un able to get financial assistant from these financial lending institutions despite an overwhelming increase in the number of the in the district and some of the attribute to failure to access such finances are as a result of failure by most SMEs to provide equivalent collateral and high interest rates among others.

The study has established that most SMEs fails to meet the requirements for accessing finance, hence there is need to put in place regularities by the regulating bodies that will lessen the requirement in accessing finances as this has distanced most SMEs accessing finances thereby reducing the economic activities to improve through SMEs.

It is therefore sought to recommend that future researcher should dwell much on the need and way in which SMEs can be financed owing that when there is an increase in lending institution there should also be an increase support for SMEs.

CHAPTER ONE

INTRODUCTION

1.1 OVERVIEW

This study was aimed at investigating the effects of emergent financial lending institution on the economy. The main objective of this study was to determine the effects of emergent financial lending institution on the economy, a case of SME's in Northern Province of Zambia, while the study specific objective was ascertain the cause of the increase in the number of financial lending institutions in Zambia, to investigate how these lending institution were contributing to the country's economy through SMEs in Northern Province and to investigate the challenges being faced by financial lending institution as they provide their financial services to SMEs in Northern Province.

1.2 BACKGROUND

Zambia, which until two decades ago was one of the most prosperous countries in sub-Saharan Africa, now ranks as one of the least developed countries in the world. It has a total population of approximately 17 million people, CSO (2016). According to the 2010 Census, 64 per cent of the population is below the age of sixteen. The average population density ranges from 64 persons per square kilometer in the capital, Lusaka to 5 persons in the North Western Province. Overall, the population density in Zambia is relatively low with the national average at 13.1 persons per square kilometer, CSO, (2009).

The poor performance of Zambia's economy over the past thirty years as evidenced by the declining per capita GDP that is now only a fraction of the level it was at independence, has had a significant impact on the level of poverty in the country. Poverty has increased not only in income terms but in all major non-income dimensions as well, MOF, (2012). An estimated 86 per cent of the population is living in poverty, of which approximately 72 per cent is living on less than a dollar a day. World Bank, (2013).

Zambia a vibrant, competitive and efficient country in terms of financial sector that reaches the majority of the economy's population is a cornerstone of sustained high levels of economic growth, it works through various channels that includes mobilization and pooling of resources, increased allocative efficiency of savings, expansion and diversification of opportunities, risk sharing and effective payment systems. Financial lending institution has of recent increased rapidly to an extent that every street of a town in each province there is a lending institution providing different monetary help to individual and companies attached with different repayment options. Functioning of financial system is instrumental in reducing external financial barriers and thus enables entrepreneurial activity and firm expansion more to do with the current number of financial lending institutions that are prevailing on the Zambian market, national financial sector development (2017).

Financial system in Africa previously was shallow as the windows for financial lending institution were closed as lending of money was only limited for the elite as only few individual and companies were able to access finances which eventually resulted in a limited number of lending institution but of recent time the economy has been free an institution involved in money lending enjoy free market were the enjoy the entry and exit of the market as there are no such barriers to entry and barriers to exit amounting to the fact that they enjoy the free existence were they are able to exercise their lending potential and able to provide their best competitive rate that will attract more potential customers.

The range of institutions was previously narrow and was dominated by commercial banks, limited access to basic financial services, including credit availability continued to pose a major obstacle to entrepreneurial activity and welfare movement. It is worth noting that some progress has been made in recent times as regard to financial systems, as products have been broadened due to increase number of lending institution resulting in deeper and more efficient financial system which are critical for growth prospect.

All loan related transactions were manned by few commercial banks which were rigid in their provision of their financial services to the ordinary citizens as it required for

the surrendering of all forms of collateral for one to access any loan, which resulted as a hectic process for an ordinary individual, traditional banks were rigidity with high interest rate which were triple the amount one would request for.

Financial lending institution are regulated and supervised by the Bank of Zambia, the history dates back to the period when Zambia's financial service industry was undergoing liberalization in 1992/93 Maimbo and Mavrotas, (2003), prior to 1992 lima Bank, Zambia cooperative federation financial service, credit union, national saving and credit bank were the first micro financial lending institutions kingombe, (2004).

The modern microfinance industry is re-emerging from the background with at least 33 lending institutions with branches in every province, MFIs providing microfinance services according to the Bank of Zambia website (2020).

Economies needed to emphasize the development of SMEs as they provide employment and generation of income, Bid Network, (2008), finance is the life blood of any business and so SMEs cannot be set up if there is lack of finances which the financial institution and government can provide at a cost or no cost. It is vital to understand that 70% of SMEs fail because of poor capital funding I the first two years finweek, (2008), economies like china have been able to grow at a fast pace because of the growth in SMEs and this trend developing economies like Zambia should emulate I xue,(2011), the stability and growth of SMEs is vital but it can only materialize if the public sector gives support to these SMEs.

1.3 STATEMENT OF PROBLEM

Financial lending institutions are meant to provide finances not only to established and already developed businesses but also to Small and Medium Enterprises, the increase in the number of lending institutions should be a plus to emerging businesses, as Small and Medium size businesses contribute to the economic and social development of a country like Zambia at large, and yet these businesses they lack adequate support from both government and financial lending institutions, it is a well-known fact that the sector creates employment, utilizes low and readily available inputs and produces goods and services consumed by low-income groups.

SMEs play a major role in economic development in every country, developed or developing, studies indicate that in both advanced economies and developing countries SMEs contribute to the average 60% of the total formal employment in various sectors, Ayyaagari et.al, (2007), a crucial element in the development of SMEs sector is access to finance, particularly to banking and non-banking financing, according to World Bank, lack of access to finance is the major obstacle in doing business.

Although Small and Medium size businesses require financial support from these lending institutions, the lending terms prescribed by financial lending institutions are not favorable despite the fact that there has been an increase in the number of these institutions providing similar services.

Despite the government of Zambia establishing the Small Enterprises Development Board (SEDB) by an act of parliament. SEDB Act 29, (1996), small business sector still complains of lack of support from the government and financial lending institutions, and also owing to the fact that financial lending institutions have of recent increased the case still remains the same were SMEs still are unable to obtain adequate funding from these lending institutions.

Despite also the Bank of Zambia revising the regulation Act which supervise and monitor the operation of lending institution, the questions are still unanswered as to why these lending institutions sideline the provision of finances to most of emerging business but rather imposes high and stiff requirements which are to be met by these small businesses who intends to acquire a loan from any of these lending institutions.

The study was aimed at investigating the effects of emergent financial lending institution on the economy-the case of SMEs in northern province of Zambia. Previous studies have been conducted on effects of emergent financial lending institution on the economy. The problem at hand was, what economic effect have these emergent financial lending institutions have on SMEs located in Northern province of Zambia.

1.4. PURPOSE/AIM OF THE STUDY.

The general purpose of the study was to investigate the effect of emergent financial lending institution and how they have contributed to the growth of Small and Medium Enterprises in Kasama district of northern province.

1.4.0 OBJECTIVES OF THE STUDY

1.4.1 MAIN OBJECTIVE

The main objective of this study was to determine the effects of emergent financial lending institution on the economy, a case study of SME's in Kasama District of Northern Province of Zambia,

1.4.2 SPECIFIC OBJECTIVES

- 1) to ascertain the cause of the increase in the number of financial lending institutions in Kasama District of Northern Province.
- 2) to investigate how these lending institutions are contributing to the country's economy through SMEs financing in Kasama District of northern Province.
- 3) to investigate the challenges being faced by SMEs as they receive financing from financial lending institution in Kasama District

1.5 RESEARCH QUESTIONS.

This research paper was therefore be a trial to answer the following research questions:

- 1) What has led to the increase in number of financial lending institutions in Zambia?
- 2) How are these financial lending institutions contributing to the country's economy through SMEs financing located in Kasama District?
- 3) What are the challenges being faced by SMEs as they receive financing form financial lending institution in Kasama district?

1.6 SIGNIFICANCE OF THE STUDY

This study will contribute to the existing benefit that some of the SME's are befitting through the available loan services being provided by some good number of the financial lending institution, through determining the best ideal ways in which emergent financial lending institution can provide to the basic Small and Medium Enterprises by allowing them in accessing financial services upon providing their business plans and avoiding the much hectic procedures in accessing finances as what was being provided by traditional Banks which required a lot of formalities in accessing credits.

The study is also important and relevant to SMEs and potential entrepreneurs in two ways it highlight the major problems, which are likely to be encountered when trying to source for finances by SMEs from financial lending institutions for their business operations and how these problems can be overcome, it is also beneficial to financial lending institution, as this will help them understand the situation in which they are in were they conduct their operations as these lending institutions finds itself in as the community tries to access funds for their business operations from them.

The study will help lending institution understand and eventually finds a way in which the can provide such services to these new and emerging businesses, thus giving their contribution to their economic development of the nation, it is also hoped that the government through various established organization such as the citizens economic and empowerment commission finds its way out by rolling out their financial assistant even

to those businesses that have failed to develop through undertaking different training and eventually empowering them.

The study may also have implications as financial lending institution will be aware of what they have been lacking in terms of providing the adequate financial services to all SME's who bring up their viable project proposals as they access their credits, as the study might also review the gaps between financial lending institution and SME's roles of ensuring that they are the drive to the better ness to the country GDP's.

1.7. SCOPE OF THE STUDY

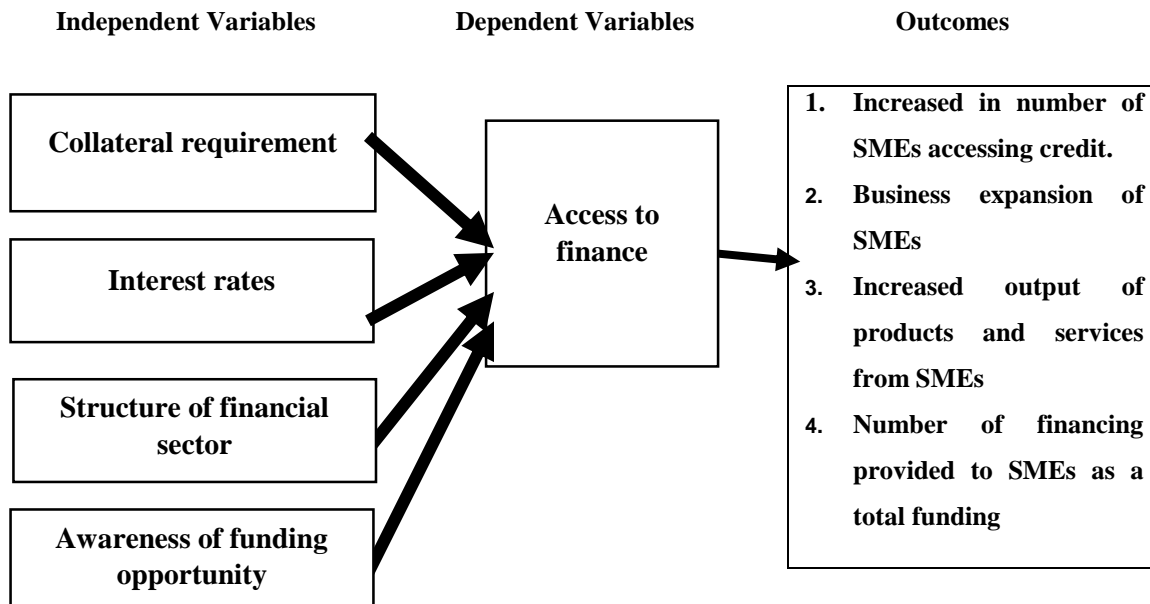
This study was limited to investigate the effects of emergent financial lending institution on the economy to be precise the small and medium enterprises based in Kasama District of Northern province of Zambia. It specifically looked at what benefits is being derived by SME's from the emergent financial lending institution in accessing credit, the study also evaluated the criterion these lending institution are using in providing to SME's.

1.8. CONCEPTUAL FRAMEWORK

A conceptual framework proposed in this study is outlined in figure, the purpose of the framework was to analyses how SMEs access finances through the emergent financial lending institution, thus through the available criterion for lending institution being provided to SMEs, in this particular study, including this one, variables can play different roles.

Two key roles are *independent variables* and *dependent variables*. Usually the outcomes are dependent variables, and it is the outcome variables, the ones the Researcher will try to predict. Variation in the dependent variable is what we are trying to explain. For example, the figure below explains the independent variable such as collateral requirement as for SMEs to ace finance from any lending institution there must be presentation of the available collateral to support the loan, also is interest rates this is one of the independent variables hence despite the number of lending institution coming on board the interest rate stands as cardinal in any loan application therefore it is an independent variable.

Conceptual Framework indicating Relation between Independent Variables and Dependent Variables of current study.



1.9 OPERATION DEFINITION

Lending institutions: A lending institution is an organization such as a bank credit union or finance company that makes loans, it may or may not also be a depository institution.

SME's: Small and Medium Enterprises are businesses that maintain revenues or assets.

GDP: Gross Domestic Product is a monetary measure of the market value of all financial goods and services produced in a specific time period.

Economy: This is the system by which a country's money and goods are produced and used or a country production.

Financial literacy: it is the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices.

Financial inclusion: is a delivery of financial services to the poor at affordable costs.

Microfinance: this is the category of financial services targeting individuals and small businesses who lacks access to conventional banking and related services.

1.10 ETHICAL CONSIDERATIONS

Before data was collection for the main study, this research proposal was submitted to the University of Zambia Ethical Committee for review were clearance was obtained. All explanations about the purpose of the study were made to participants and informed consent was obtained from those who agreed to participate in the study and all findings were shared to them for their reaction. Therefore, all necessary ethical guidelines were considered in this research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter looks at historical overview of financial lending institution, emergent financial lending institution and SMEs accessing financial assistance from these institutions. It also examines global perspective, Africa perspective of accessing of funds and Zambia Perspective in accessing finances the chapter by the role financial lending institution as a source of finance for small and medium enterprises

2.2 HISTORICAL OVERVIEW OF FINANCIAL LENDING INSTITUTION

In Zambia and in many other developing countries in the world, small and medium enterprises are perceived to be economic drivers as they reliably create employment providing opportunities for low income poor people, thereby increasing financial inclusion, the SME sector is estimated to account for 97% of all business in Zambia. Although 9 out of 10 are said to operate in the informal sector. Inevitably both formal and informal SMEs in Zambia contribute to the GDP by creating opportunities for future growth and an innovative diversified economy. Of the 8.1million adults in Zambia, 1.2 million operate a business accounting a good portion of their income, in this growth pathway SMEs still face challenges some of which includes unanticipated financial mismatches between their income and expenses, and lack of accessing adequate finances despite the growing number of financial lending institution.

2.3 SMALL AND MEDIUM SIZE BUSINESS ENTERPRISES

The small and medium enterprises 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 the 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.

2.3.1 MICRO ENTERPRISES

Micro enterprises are the smallest units in the industry, GRZ (2008) defines a micro enterprise as any business enterprises registered with the registrar of companies, whose total investment excluding land and building shall be up to eighty thousand-kwacha (K80,000), whose annual turnover shall be up to one hundred and fifty thousand (K150,000) who shall also employ up to ten (10) persons.

2.3.2 SMALL ENTERPRISES

According to the micro, small and medium enterprises development policy (2008), a small enterprise shall be any business enterprise registered with the registrar of companies; whose total investment excluding building, in the case of manufacturing and processing enterprises, shall be between eighty thousand and two hundred thousand kwacha (K80,000 – K200,000), whose annual turnover shall be between one hundred and fifty and three hundred thousand (K150,000 – K300,000) and employing between (11-50) persons.

2.3.3 MEDIUM ENTERPRISES

A medium enterprise shall be any business enterprise larger than a small enterprise registered with registrar of companies; whose total investment, excluding building shall be between two hundred thousand and five hundred thousand, in case of manufacturing (K201,000 – K500,000) and in case of trading and service, shall be between one hundred and fifty thousand and three hundred thousand (K150,000 – K300,000) Kwacha, whose annual turnover shall be between three hundred thousand and eight hundred thousand (K300,000 – K800,000) Kwacha and employs fifty one and one hundred (51 -100) persons .

2.4 GLOBAL PERSPECTIVE ON SMES ACCESS TO FINANCES

Associate of chartered and certified accountant (2012) In a journal “*access to finance for SMEs*” highlights that although banks and other financial lending institution remains the most significant source of external finance for small firms, banks finance is only available to those business that can offer collateral or a strong record of generating profit, this leaves out a sizeable proportion of SME population.

According to World Bank (2016) on small and medium enterprises improving access to finance, reveals that SMEs play a major role in most economies, particularly in developing countries, as SMEs account for the majority businesses worldwide and are important contributor to job creation and global economic development.

2.4.1 IMPORTANT OF SMEs IN SOCIAL-ECONOMIC DEVELOPMENT

SMEs are considered to have a crucial role in an economy and are key source of economic growth, dynamism and flexibility and an adapt quickly to changing market demand and supply situation, they are also deemed to generate employment, help diversifying economic activity and make a significant contribution to export and trade, SMEs enhance competition and entrepreneurship and therefore have external benefits on economy-wide efficiency, innovation and aggregate productivity growth’, World Bank, (2014).

Supporting SMEs through financing will help countries to exploit the social benefits from greater competition and entrepreneurship. SMEs are more productive than large firms but financial market and other institutional failures impedes SMEs development, thus pending financial and institutional improvement, broadening access to financial service to SMEs can boost employment more than large firms because SMEs are more labor intensive, from this prospective, subsidizing SMEs may represent poverty alleviation tools in developing countries.

While there is significant number of academic literatures on SMEs financing, there are also some skeptical views questioning the efficacy of SMEs financing, some

research authors stress the advantages of large firms and challenges the assumptions underlying the SMEs financing view, specifically large firms may exploit economies of scale and more easily undertake the fixed cost associated with research and development. World Bank, (2016)

2.4.2 ACCESS TO FINANCE RELATED TO GENERAL ISSUE

The access to finance is a subject of significance research interest to academics and an issue of great importance to policy makers for both developed and developing economies for many years. There are number of factors that have contributed to the first, there is some empirical evidence that expansion of access to reduces prevailing poverty in developing countries, the interest to also comes from the fact that argument about the channels through which financial development may lead to growth often includes access to related stories.

Identifying problems related to small enterprise financing is a much-debated issue. Different literatures give deeper insight into the problems of the small enterprises and the activities of the financial institutions (FIs) in coping with the problems. Some studies EBRD (2004), Hossain (1998) and PECC (2003) revealed that access to credit is one of the major obstacles for SEs mainly due to the poorly developed banking sectors in many of the developing economies.

Thus, this financing problem affects the potentiality for future growth through hindering their normal business operations. In their study Beck et al (2005) found that lack of access to external finance is a key obstacle to firm growth, especially for SEs. Using firm-level survey data Schiffer and Weder (2010); Demirguç-Kunt et al, (2005); and Beck et al, (2006) have shown that not only access to finance and the cost of credit are greater obstacles for SMEs than large firms, but also these factors are constraining for their performance more than those of the large firms.

Small entrepreneurs face several difficulties in obtaining finance from the formal sector. Haque and Mahmud (2003) reveal that, high interest rate, collateral

requirement and lack of skills and attitude of bankers are among the most significant problems for small entrepreneurs in availing of finance from the formal financial institutions. Quader and Abdullah (2008) ranked high lending rate and collateral requirement as the most significant financing problem for the SEs. On the other hand, financial institutions also encounter several problems while financing small enterprises.

A RAM Consultancy Services (2005) report revealed that collateral requirements, weak credit skills and practices, cumbersome loan processing and documentation were the major supply side problems in most of the Asian countries specifically in the Asian countries for financing SEs. In addition, Beck et al (2010) revealed that banks in developing countries are less exposed to SEs, tend to provide a smaller share of investment loans, and charge higher fees and interest rates to SEs relative to banks in developed countries.

Availability of required working capital at appropriate time is another significant problem for most of the small businesses. Hossain (1998) revealed that SEs encounter great difficulties while raising fixed and working capital because of the reluctance of banks to provide loans to SEs.

Demirgüç-kunt et al (1998); Beck et al (2005), and Beck et al (2006) showed that around the world informality and low-quality balance sheets, lack of quality information and lack of adequate guarantees stand out as small enterprises related factors that banks perceive as impediment in serving this sector. Torre and others (2008) showed that, informality and low-quality balance sheets in Argentina, lack of quality information in Chile, and lack of adequate guarantees in both countries are the SE-specific problems for which banks are reluctant to serve them. Correspondingly, Stephanou and Rodriguez (2012) pointed out some problems related with the SEs as informality, unavailability and unreliability of financial statements, low managerial capacity of owners, their family-owned nature and credit worthiness. RAM Consultant (2005) depicts that lack of information about the SEs to the lending institutions is also a great problem to ensure access to finance. OECD (2006) study pointed out several problems on both the sides of small enterprises and financial institutions as the

difficulties that SEs encounter when trying to access to financing. These are: incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, lack of information on both the bank's and the SE's side. In the same paper, the study also focused on the problems relating to the attitude of the banks particularly for the startups and very young firms that lack a substantial amount of collateral or small firms having possibilities of high returns with a high risk of loss. Along with the finance related problems, there are some non-financial problems like managerial capacity, willingness to pay, lack of motivation to grow, lack of using money efficiently etc. are associated with the small businesses.

There are many other barriers exists in this sector in different forms related to legal and administrative framework. Bakht, Z, (1998) and Ahmad, Salahuddin et al. (1998) revealed that the policy environment within which SMEs in Bangladesh operate imposes legal, regulatory and administrative constraints. Sometimes the entrepreneurs need to procure various papers and documents to be eligible for loan and therefore they need the support from the different regulators and administrators. But in many cases, they face difficulties to obtain these papers due to the cumbersome process and high time requirement.

2.5 AFRICA PERSPECTIVE ON ACCESS TO FINANCES BY SMES

Beck and Cull (2014) in their article "*SME finance in Africa*", revealed that Africa's financial systems are small, shallow and costly, with limited out-reach, this is not just aggregate financial development indicators but also in firm and household data gauging the use of formal financial service.

A study by World Bank (2012) in Ghana on access to finance for small and medium enterprises in Africa reveals that the private sector is the key engine of job creation accounting for 90 percent of all jobs in developing world, Small and medium enterprises (SMEs) account for the vast majority. SMEs cite access to finance as a biggest obstacle in Africa, access to finance is identified by over 20 percent of SMEs to be the biggest constraints as traditional banks find it difficult to meet the needs for SMEs.

Quartey et.al (2017) in an article “*financing the growth of SMEs in Africa: what are the constraints to SME financing within ECOWAS*”. Stresses that the need to finance the development and growth of SMEs in sub-Sahara Africa (SSA) economies has been of concern to many policy makers.

Tadesse (2009) in his article “*a perspective on SMEs financing in Africa*”, highlight that financial sector of most African economies is characterized by very low level of financial intermediation and weak capital market effectively supply the financial resources and other products needed by the private sector, in particular the SMEs sector, which generally lacks the scale, collateral and relationship for formal financing.

The first important area, already referred to above, is the lending techniques by banks in combination with the ownership structure of banking systems. While we did not find any significant relationship between foreign bank penetration and access to credit within Africa, a more granular view is needed. While the share of foreign-owned banks has further increased over the past 20 years, the composition of the foreign bank population has changed significantly, with a higher share of banks from other emerging markets, including Africa (Beck et al., 2011). These banks can bring expertise from similar markets with them, while having the advantage of less organizational and hierarchical distance to their parent banks Mian, (2006).

There are also specific transaction- and asset-based lending techniques that can be useful for catering to smaller and informationally more opaque companies. Leasing can be a prominent instrument for SME financing, especially for Africa. First, collateral requirements have been well documented as one of the main impediments that prevent African SMEs from accessing traditional forms of financing needed to acquire machinery and equipment. Leasing is asset backed and its applications are often assessed based on the project’s capacity to service lease payments. Accordingly, businesses and entrepreneurs that are denied traditional banking and commercial credit due to their lack of credit history and inability to provide sufficient guarantees can find a new financing alternative in the leasing market. This can also bring more businesses

into the formal sector. Second, unlike bank credit, leasing directly provides the asset instead of financial resources needed to acquire it, which reduces the possibility to divert funds from their intended purposes. Leasing contracts involve less paperwork and more relaxed credit requirements as well, which leads to shorter waiting periods than for bank loans. Similarly, factoring the discounting of sales receivables is attractive for small suppliers of large credit-worthy buyers, as it does not rely on information about the “borrower,” but rather on the obligor Klapper, (2006).

Under a factoring contract, the factor purchases the seller’s accounts receivable, with or without recourse, and assumes the responsibility to collect repayments. Originally limited to domestic contracts, international factoring has become popular as it eases the credit and collection burden created by international sales for exporters. Like leasing companies, factoring companies can only function with a legal framework governing these transactions, but they rely to a lesser extent on the contractual framework of a country, so that they can help push a financial system towards the frontier of SME lending, even if this frontier is low.

A second important area is financial innovation, which includes new players and new products. While financial innovation has obtained a bad reputation in many developed financial systems, Africa critically depends on innovative activity by existing and new financial institutions. Transaction-based lending to SMEs can be seen as one such innovation. Other innovations include psychometric assessments as a viable low-cost, automated screening tool to identify high-potential entrepreneurs and evaluate risk and future potential, which have proven very successful in initial pilots in South Africa and other countries. Complementing credit

2.5.1 Small- And Medium-Sized Enterprise Finance in Africa

services with other “extension-type” services, such as business development or entrepreneurial training, can also be helpful. In general, taking a page from the microfinance lending manual might prove helpful in approaching smaller firms, which face not only financing but an array of other business constraints. It is important to note

that financial innovation does not arise by itself, but is a consequence of a competitive financial system with regulation that is not overly burdensome. It requires an open and flexible regulatory and supervisory approach that balances the need for financial innovation with the need to watch for fragility emerging in new forms. Such an approach has to consider the unexpectedness of innovation, in terms of needs, technical possibilities and origin.

Africa's financial systems are heavily bank-based, in line with its level of economic and financial development and the small size of most financial systems on the continent. However, new providers, techniques and products might as well come from outside the banking system and bring competitive pressures on incumbent banks. Leasing and factoring two financing techniques mentioned above can be offered by banks, but also by specialized non-bank financial institutions. Further, one important constraint on bank finance is the lack of equity in enterprises.

High leverage can prevent enterprises from pursuing more debt, so lack of equity rather than lack of debt is the binding constraint. On a more general level, equity can be a potentially beneficial financing source for enterprises in their early years and for enterprises with a high-risk profile. On the other hand, there are few, if any, instruments and vehicles for equity finance available in most African countries. Increasingly, there are some equity funds across Africa that specialize in SMEs. Business Partners International (BPI) Kenya SME Fund is a private, fixed-life fund established in 2006, which invests in equity, quasi-equity and debt of Kenyan SMEs and has been very successful, ultimately attracting external financing from donors and private sources.

There are several Aureos Capital Funds, focusing on East, West and Southern Africa, respectively, set up with support from donors. A fourth important topic concerns a more granular analysis of SMEs. It is important to distinguish between segments within this group of enterprises that have different financing needs and profiles. A large share of enterprises in Africa consists of informal microenterprises whose establishment is often the result of a lack of alternative economic opportunities. Since these enterprises are not able to produce formal financial accounts or formal guarantees, it is hard to see this

segment of the enterprise population becoming bankable over the medium to long term, at least not for credit services. They seem a natural target group for microcredit institutions and rely more heavily than other enterprises on informal finance providers.

A second segment is medium-sized enterprises, often well established and often export-oriented companies. In most cases they have access to bank finance, but struggle to get access to equity finance, including through financial markets. Finally, there are small formal enterprises, some of which might have high growth potential. These firms—often also referred to as the missing middle are usually too big for microfinance institutions, but not formal or established enough for banks. It is this last segment that seems to be especially affected by shallow financial markets. Another important distinction, partly overlapping with the size distinction is that between subsistence or lifestyle entrepreneurs and transformational entrepreneurs.

Many of the subsistence or lifestyle enterprises are set up out of lack of alternative employment options for the owner in the formal sector. They rely almost exclusively on the owner, maybe with support from family members and/or friends. Very different from these subsistence entrepreneurs are transformational entrepreneurs, who are often leading larger enterprises that create jobs. Microfinance clients are only rarely of the transformational kind. For long-term effects on aggregate growth and job creation, a stronger focus of policymakers and donors on transformational enterprises is therefore needed.

The distinction between subsistence and transformational entrepreneurs is also important when assessing the impact of policy reforms. Bruhn (2013), for example, finds that easing the process of business registration in Mexico led to an increase of business registration among entrepreneurial types, but a decrease among wage-earner type entrepreneurs who were more likely to become wage earners after the reform.⁶ Similarly, Aterido, Hallward-Driemeier and Pages (2009) show that the distinction between small and microenterprises can be a very important one. Using enterprise survey data across 90 countries, they show that small firms with more than 10

employees are negatively affected by an adverse business environment to a larger extent than microenterprises with fewer than 10 employees.

2.5.2 REASONS FOR LIMITED SME FINANCIAL ACCESS

Scholars such as Green (2003) argue that the problem of access to finance faced by SMEs in developing countries is a direct result of the underdeveloped nature of the financial system and lack of liquidity among other things.

The problem is worse in rural areas where branches of financial institutions provide limited range of services and may not have authority to grant loans. This disproportionately disadvantages SMEs in rural areas. Green (2003) proposes the following reasons why financial institutions engage in credit rationing for SMEs: The high administrative costs of small-scale lending come from the fact that SMEs typically need small loans compared to large firms, this is according to Green (2003). These administrative costs involved in loan processing are however not differentiated according to the size of the loan, for both large and small loans they are similar. This makes the micro loans unattractive and less efficient on the cost benefit scale.

The situation is further intensified by the fact that most SMEs are generally established in remote areas which increase the cost loan assessment as in most cases client visits have to be conducted during assessment of applications and monitoring of loan performance. On the problem of information asymmetry, Green (2003) posits that for an efficient allocation of resources by market forces, every participant should have adequate information. However, this may not be the case with financial markets as borrowers have more information about their need and their ability to repay than the lenders. Lenders therefore take advantage to gain adequate risk profiles by trying to seek for more information about the borrowers well as the project or business that the borrower seeks funding for. The challenge with information asymmetry is worse in SMEs than in bigger firms due to lower information standards and lack of capacity among SMEs to process and maintain required information. According to Brierly (2001).

The risk-reward relationship is the only way that financial institution will be keen and willing to provide credit to SMEs. Green (2003) postulates that, banks perceive SMEs as high-risk clients and are reluctant to offer credit to them. SMEs are typically small in size and are vulnerable to market fluctuations which results in high mortality rates. SMEs lack track record of profitability and do not have a good financial background to support their projections. Compounding their creditworthiness is the lack of proper accounting systems as well as deficiencies in administrative and organizational structures.

SMEs tend to have weaker accounting and management reporting than large firms for two reasons. The first reason is that the fixed cost element in preparing accounts, management reports, etc., are a greater proportion of revenues for small firms, so they are likely to produce less information than larger firms. The second reason is that SMEs are often controlled by 14 family or a small group of insiders La Porta, (1999), many of whom may be directly involved in managing the firm. These insiders may be satisfied with less information and are in a better position to understand and interpret the limited information that is available. Hence, SMEs find the information requirements of accessing external finance more burdensome than larger firms. SMEs may also have a greater incentive to avoid recordkeeping, which would expose them to additional taxation or government regulation, which also tend to be more burdensome on SMEs. Lack of collateral is another challenge faced by SMEs in finding access to credit. Financial institutions are likely to approve credit for enterprises that are capable of securing the loans with some form of collateral.

Banks and other financial institutions therefore base their lending decisions on the value and quality of collateral provided by the borrower due to asymmetric information related challenges. Collateral gives financial institutions comfort to finance the project as it is a sign that the borrower's confidence in his project's prospects by pledging his assets. Start-up firms usually have difficulties in accessing credit despite having profitable and bankable projects due to lack of collateral. Green, (2003) Few SMEs, especially in the early stages of growth, possess significant unencumbered assets on their balance sheet that can be used as loan collateral. As a result, banks often require

SME owners to pledge personal assets as collateral or provide personal loan guarantees. This exposes the business owner to additional liability for business failure, which discourages SMEs from borrowing. Even where firms do possess assets that could be used as collateral, firms bear the cost of registering collateral, so inefficient and costly collateral registration processes deter SMEs from registering assets, which could provide the basis for borrowing from banks. Many SMEs end their life in insolvency, so the efficiency and transactions costs of the insolvency regime in distributing the remaining capital to creditors and shareholders are also important factors for their owners to consider.

An efficient insolvency regime enables SME owners to terminate their liability of an unsuccessful enterprise to creditors and shareholders. This limits the risk and costs of launching an enterprise - without such limits, launching an enterprise can be a once-in-a-lifetime gamble, which discourages entrepreneurs from borrowing and risking insolvency in the event that they cannot repay. Malhotra et al. (2007) argue that through innovative lending approaches the credit demand supply gap for SMEs can be successfully bridged. Holtman et al (2000) propose that the lending methodologies to be employed should include a loan breakdown that focuses on cash flow rather than collateral. Regular borrowers should be entitled to larger credit limit. Other studies like Park et al. (2008) reveal that financial institutions have developed tool to discriminate between high and low risk borrowers. Such tools include credit scoring and other sophisticated techniques which can reduce the risk of lending to SMEs.

2.5.3 FACTORS AFFECTING SMESs

The factors that impeded the success of SMEs or ultimately led to its demise. There are also five factors that influence success of Jordanian SMEs which include technical procedures and technology, firm structure, financial structure, marketing, productivity and human resource structure, these were identified by Al-Mahrouq (2010). Rose, Kumar & Yen (2006) found personal initiative, education, working experience, managerial and technical skills, and parents' involvement in business to be critical

determinants of success. This was revealed in another study on success factors by these founding Malaysian entrepreneurs. To determine enterprise success, their study used venture growth and correlation analysis to experiment the importance of the relationship between venture growth and selected success variables. The results of this study were triangulated using semi-structured interviews with founding entrepreneurs.

In Bangladesh, Philip (2010), performed the same study and reported to have found a major relationship between SMEs success and a way of doing business, knowledge of management, product and services, and external atmosphere. In Africa, several studies on SMEs have questioned why business fail. For instance, Bowen et al (2009) carried out an exploratory study that aimed at identifying challenges of micro and small businesses in Kenya. The study revealed that micro and small enterprises come across various challenges including increased competition in the market place, lack of confidence, lack of financial management skills, not enough working capital, and lack of innovation. Same as this study in Uganda, Tushabomwe-Kazooba (2006) confirmed that political, social, and economic factors as well as poor management all resulted to small businesses failing. Briggs (2009).

Temtime & Pansiri (2004) and Olawale & Garwe (2010) delivered the same outcome in Uganda, Botswana and South Africa respectively. Another study that was performed in five African countries, Frese et al (2000) reported finding proof that connected enterprise success to entrepreneurial orientation, personal initiative, strategy, and 19 formalization status. Apparently, the focal point of most African studies on SMEs is on the causes of why small businesses fail rather than reporting about successful enterprises, an inspection that could be attributed to the high rate of SME failure in many African Countries There are inadequate studies on SMEs in Swaziland and where available, they are generally not enough in scale and open to doubt due to lack of data as SMEs do not keep proper records thereby affecting validity of studies. This is according to Joubert and Akinnusi (2003). However, non-financial measures, due to their idiosyncratic nature together with challenges of putting figures to them, have most important flaw of delinking enterprise success from other sectors of the economy. On the other hand, using financial measures is directly constrained by lack of proper record

keeping, fear of disclosure occasioned by respondents' mistrust of researchers, and where such disclosure occurs, the threat of social desirability bias looms large (Sejjaaka, 2011). Apart from the challenges, a number of studies in Africa have recommended the use age of firm, sales, number of employees, level of formalism and succession planning see, for example, Owusu, (1998); Sejjaaka, (2011); Witt, (2004) as logical measures of SME success. There is however, no generally stipulated meaning of success. Business success has been defined in several ways Foley and Green (1989). The two significant facets of success are: 1) financial versus other success, 2) short-versus long-term success. Various types of success include survival, profit, return on investment, sales growth, customer satisfaction etc. Apart from the differences, people generally seem to have a similar idea of the phenomenon that is what sort of business is successful Jasra, et al. (2011). This study shall define success in terms of profitability, liquidity, age of firm and mortality Owusu-Ansah, (1998); Sejjaaka, (2011); Witt, (2004).

2.6 THE ZAMBIA PERSPECTIVE OF SMES IN ACCESSING FINANCES

Financial lending institutions play a critical role in ensuring that the economic activities are improved this by providing the much-needed financial services to different sectors of the economy including small and medium enterprises as well as individual who wishes to access such finance.

As this study sought to triangulate the impact of mushrooming financial lending institution on the Zambian economy; a case of small and medium enterprises (SMEs), economies needed to emphasize the development of SMEs as they provide employment and generation of incomes in an economy.

Nuwagaba (2014) in his article "*Micro financing of small and medium enterprises (SMEs) in Zambia*" stress that micro finance has for long time been seen as a powerful weapon for sustainable social economic development of economies, the granting of micro loans at fair and affordable terms will alleviate financial constraints of the poor household have been recognized by the private sector and public sector, researchers and other.

Small, Medium Enterprises (SMEs) play a major role in economic development in every country, developed or developing. Studies indicate that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector Ayyagari et al, (2007). For African economies, the contribution of the SMEs sector to job opportunities is even more important. Considering the contribution of the informal sector, MSMEs account for about three-quarters of total employment in manufacturing Ayyagari et al, (2007). A crucial element in the development of the SMEs sector is access to finance, particularly to bank financing, given the relative importance of the banking sector in serving this segment. According to World Bank, lack of access to finance is a major obstacle in doing business. A number of studies have shown that financing is a greater obstacle for MSMEs than it is for large firms, particularly in the developing world, and that access to finance adversely affects the growth of the SMEs sector more than that of large companies Ayyagari et al, (2007).

Chisumpa et.al (2020) In their journal “*Factors that influences tax compliance by SMEs in Zambia: a case study of Ndola central business Centre*”. highlights that Tax is a significant mode through which government raise domestic revenue.

Musonda & Phiri (2017) In their journal “*The impact of small and medium scale enterprises in achieving sustainable development goals in Zambia*”. stresses that development of sub-Sahara economies depends on the investment in developing SMEs and this can be made possible with committed funding from both traditional banks and micro finance institution.

Liyanda, (2017) In his article “*Access to finance: SMEs perception of financial service provider*”. stressed that in Zambia and in many developing countries in the world, SMEs are perceived to be economic drivers as they are reliably creating employment providing opportunities for low income poor people, thereby increasing financial inclusion.

International labour organization (ILO) (2014) in the article “*Enhancing Zambia SMEs competitiveness and access to finance*” highlight that growth oriented small and medium enterprises (SMEs) are an important development agent, their establishment and expansion largely depends on well-articulated business growth strategies and access to relevant financial service.

The Economic Importance of SMEs It is often argued that governments should promote SMEs because of their greater economic benefits compared to large firms-in terms of job creation, efficiency, and growth. In most developing countries, microenterprises and small-scale enterprises account for the majority of firms and a large share of employment. In Ecuador, for example, firms with fewer than 50 employees accounted for 99 percent of firms and 55 percent of employment in 1980; in Bangladesh, enterprises with fewer than 100 workers accounted for 99 percent of enterprises and 58 percent of employment in 1986. IFC Discussion Paper No40, (2000)

The relative importance of small producers varies significantly across countries and, within a given country, across stages of development over time. Comparative studies of manufacturing show a common pattern in the transformation of the size distribution of firms as industrialization proceeds in low-income countries, the vast majority of firms are micro- or small-scale, existing alongside a few large-scale enterprises. In middle-income countries, medium-scale enterprises begin to account for a relatively larger share of production and employment. In most countries, the trend toward larger firm size continues as per-capita income increases. The exceptions to this rule are found mainly in Asia. In Taiwan, China for example, the size distribution of firms has remained relatively constant over the past thirty years, even as the structure of production changed from labour-intensive manufacturing to high-tech computer industries. On average, however, some economists believed that small scale enterprises play a declining role as countries develop despite the recent shift in emphasis from large multinational firms to SMEs as witnessed in USA and Europe mainly due to the financial crises and economic downturns. IFC Discussion Paper No40, (2000)

2.6.1 BUSINESS ENVIRONMENT

The performance of all firms-small as well as large-is affected by the business environment in which they operate. A stable macroeconomic, an open trade and investment regime, and a competitive financial sector establish the fundamental conditions for a vibrant private sector. A well-developed physical infrastructure transportation, warehousing and port facility, communications networks-expands markets and facilitates transactions throughout the productive sector. Social infrastructure investments in education and health care build the capabilities of the productive sector workforce. Nevertheless, there are certain aspects of the business environment that are of particular relevance to SME competitiveness: those that affect market access, the cost of acquiring information, transactional efficiency and risk, and the fixed costs of doing business. In most countries, these SMEs-specific aspects of the business environment would include; expensive and time-consuming regulatory requirements such as licensing and registration; official and unofficial levies that discourage small enterprises from growing and becoming formal; the legal framework for commercial transactions and the resolution of disputes, that can affect transactions with unknown firms; laws governing the protection of business and intellectual property, and the use of property as collateral; tax structures that distort incentives and discriminate against small firms; Government procurement procedures that discourage successful bidding by SMEs; and labour market rigidities that make hiring and firing workers difficult and expensive, and limit the flexibility and mobility of the labour force.

2.6.2 FINANCIAL SERVICES

SMEs often complain that their growth and competitiveness are constrained by a lack of access to financing and the high cost of credit. Recent events in Latin America and East Asia lend credibility to the argument that SMEs are more likely than larger firms to be denied new loans during a financial crisis. In most developing countries, because competition in the banking sector is limited, banks have not been under pressure to develop their lending to smaller clients. In addition, SME access to the formal financial sector is constrained by the high risks and transactions costs-real or perceived-

associated with commercial lending to that segment of the market. Lenders are faced with a lack of reliable information on borrowers, difficulties in enforcing contracts (the result of inadequate legal frameworks and inefficient court systems), and the lack of appropriate instruments.

Financing of small and medium enterprises is crucial to the 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. BOZ (2015) has sited undercapitalization of startup business as one of the chief causes of business failure, financial lending institutions are the common source of finances for small and medium enterprises and yet their lending terms are now within reach of smallest businesses.

Startup capital may be sourced from lending institutions as long term loan, but most lending institutions are not willing to lend for start-up especially in the developing country Zambia exceptional, the banking and non-banking industry is subject to very strict regulations by government and state agencies, banks are subject to regular scrutiny by banks examiner and the bank is not permitted to commit the depositor, funds to speculative venture, so to non-banking institution as they are also examined. Depending on the type of business, working capital and seasoned peak capital may be sourced from these lending institutions., with the letter under short term arrangement.

According to Ronan(1998) the first source of finance available to the business is the owners capital, if the owner is unwilling to put his money into business, it is most unlikely other financiers will agree the scheme, this is true for start-up businesses but there are other parameter that ficial lending institution look especially for on-going business, there are other source of funds for SMEs, such as venture capitalist, life insurance and loan association, finance companies and credit unions, each one of these financial lending institution has its own lending policies. There is other source of finance, which most SMEs not aware of probably due to lack of information, the sources are usually non-traditional, such as donors.

2.6.3 IMPORTANCE OF SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises (SMEs) are a tested tool in improving economic development of a country. Economies like Pakistan have done well because of SMEs totaling to more than 3.2 million and are a source of employment for more than 78 percent of the population and their contribution to GDP is 30 percent, Hussain et al (2012). For the case of Nepal, 98 percent of the enterprises are SMEs contributing significantly to country's GDP, in Bangladesh, SMEs employ up to 82 percent of the population and generally Asia is developing quite steadily due to the contribution of SMEs, Hussain et al, (2012).

Countries continue to realize the pace of development will largely be dependent of the development of SMEs; however, they continue to face a lot of funding challenges and in some cases, governments have not done enough to address the challenge leading to some SMEs not surviving in the market Asian SME summit, (2009); Economic Survey of Pakistan, (2008- 2009). Quite a number of studies by different scholars have revealed that shortage of financing of SMEs in developing countries is a major obstacle in the success of SMEs and thus a potential for the SMEs in economic development have not been fully realized and what this mean is that credit flow is a problem to over 98 percent SMEs Ayyagari et al., (2006); Beck et al., (2006); Tambunan, (2008); Zia, (2008).

African Blocs should strive hard to ensure that development of SMEs in Africa becomes a top agenda item for all its gatherings and to ensure that all the problems faced by SMEs are addressed as this is a sure way to accelerate economic development thus proving employment for the people, increase revenue generation, increased effective demand among other advantages for the states and the people. Additionally, SMEs have played a big role in the social and economic transformation of the country since its transition from a command economy to a market economy and they contribute about 60 percent to the gross national product, Echengreen and Tong, (2005); Pyke et al., (2000).

In the Tanzanian consideration, an SME is viewed as one that employs at least 4 persons and with a capital of TZ Shillings 5 million and the majority of the SMEs fall in the

informal sector. It is however possible that you find some SMEs with capital of between 200- 800 million employing above 49 employees Hamisi, (2011). From such examples, Zambia as a country would look for ways of improving the SMEs market since it is evident from these studies, that they are can be a good source of jobs creation, taxes for the government among other benefits. According to UNIDO (2006), there is a strong relationship between existence of SMEs and contribution to a country's GDP and in the case of Zambia they contribute about 13% percent and this would have been better if the SMEs are operating efficiently and a full friendly business environment Calcopietro and Massawe, (1999).

2.6.4 ROLE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN ADDRESSING SUSTAINABLE DEVELOPMENT CHALLENGES

Small and Medium Enterprises (SMEs) play crucial roles in employment creation and income generations. All over the world and Zambia in particular it is easy to establish SME's since their requirements in terms of capital and managements are not as demanding as it is in the case for large enterprises Zambia Economic Bulletin (2009). Small and Medium Enterprises both urban and rural have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be archived. They are potential sources of employment and income in many developing countries. It is estimated that Small and Medium Enterprises (SMEs) employ 22% of the adult population in developing countries Daniels & Ngwira, (1993), Fisseha, (1991), Gallagher & Robson, (1993). Due to flexible nature, SMEs are able to withstand adverse economic conditions.

They are more labour intensive than larger firms and therefore, have lower capital cost associated with job creation Anheir & Seibel, (1987), Liedholm & Mead (1987). Therefore, SMEs perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensives, they are more likely to succeed in smaller urban and rural areas, where they can contribute to the more even distribution

of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional and labour intensity, the argument goes, small scale production can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of resources, thus facilitating long term economic growth, Atieno (2001)

2.6.5 CHALLENGES FACING SME'S IN ZAMBIA

According to Sanjay S, (2005). The major obstacles all to business expansion faced Small and Medium Enterprises (SMEs) all over the world were the competitive environment, regulations and availability of a skilled workforce, the cost of finance, international expansion, lack of knowledge about markets, bureaucracy, political and social instability. Despite the immense opportunities for developing Micro, Small and Medium Enterprises, almost all have remained informal or semi-formal, serving the low-income segment of the population for which there is very stiff business competition. Their access to formal market and incidence of upward mobility is quite limited. There are many reasons for this state of affairs. This include limited awareness and capacity of operators, limited access to financial and other support services and absence of enabling business environment in terms of legal and regulatory frameworks, Zambia Economic Bulletin (2009).

The Zambian SME development policy (2008) explains that, SMES face unique problems including heavy cost of compliance resulting from their size. Insufficient working premises and limited access to finance. Business training, marketing, technology development and information. Institutions and Associations supporting SMEs are weak, fragmented partly due to lack of clear guidance and policy for the development of the sector. in Zambia Microfinance refers to the practice of providing financial services, such as micro-credit, micro-savings or micro-insurance to poor people, to help them to accumulate larger sums of money, thus expanding their choices and reducing their risks and poverty rate. Institutions providing these services are referred to as micro-finance institutions (MFIs). Linkages with MFIs are the main avenue through which the SMEs access financial services. Services to the SMEs

include the provision of savings and loans through groups, cheque clearance services, client training on business management and insurance services.

SMEs interact with the MFIs mainly through loans operations that are provided mostly through groups. The groups, the main channel through which loans are extended, are formed according to the specifications of each respective MFI. In most cases, groups need to accumulate certain level of savings before they are eligible for MFI loans. The savings mobilized by the group is the security for loans taken by members. Aliano (2009) Zambia overtime has seen an increase in the number of registered micro finance institutions since the 1990s. As of 2015, there are over 40 MFIs licensed by the Bank of Zambia, the majority of them, estimated to be about 30 are only providing salary based loans. This means the majority are not providing pure micro finance services meant to reach financially underprivileged communities to help them improve their social and economic livelihoods. Only 10 do provide pure micro finance services that targets SMEs.

Christian enterprise trust of Zambia (CETZAM) was set up with funding from the British Government through the Department for International Development (DFID). Following microfinance regulations that came into force in 2008, CETZAM restructured its ownership structure with the result that 14 Zambians became shareholders of the institution. The company is a public limited company (Plc) and it transformed into a deposit taking microfinance institution in the year 2001 (BOZ, 2015). Christian enterprise trust of Zambia (CETZAM) provides credit and savings services and products i.e. Credit or loans in form of; Group loans which are categorized as follows; Trust bank group loans trust bank loans given as small loans targeting people with little or no asset base.

Solidarity group loans which are dissected into two types i.e. there are those who graduate from trust bank loans to solidarity group loans and those who join solidarity groups directly. The institution also provides Individual loans which are usually targeted to graduates from lower ranks. However, there are also those who join directly as individual clients as they have assets that would qualify for collateral to be able to

access the credit facility. Individual loan clients over time are segregated further with some being categorized as small and medium enterprise (SME) loan clients and such businesses may be required by the Christian enterprise trust of Zambia (CETZAM) to produce management accounts before they can access loan funding for their businesses. The company provides a lot of micro finance loans and as at June 2015, CETZAM's latest portfolio data was as follows: Microfinance loans amounting USD 1,918,414.965 representing a total of 6,847 loans, and SME loans of USD 161,417.3499 representing a total of 26 loans. This is just 8.4141 percent. This is a small portion of micro loans meant for the SMEs sector. The sector may not easily grow if the micro finance institutions do not increase the amounts lent to SMEs and then MFIs can intensify their collection efforts to ensure other borrowers benefit from the loan schemes.

Bank Finance for SMEs Bank lending (debt) is one of the key aspects of business finance. The banking and finance industry provide a range of products and services to all types of businesses from the smallest micro to the largest corporate. The common finance option across all business is bank overdrafts (for working capital needs) and term loans (for capital expenditure needs). In addition, there are a number of specialist finance products such as invoice discounting, factoring, trade finance, wholesaler finance and group finance. Banks (Commercial banks) provides funds to allow businesses to purchase inventory, and collect those funds back with interest when the goods are sold. For centuries, the banking industry dealt only with businesses, not consumers. Commercial lending today is a very intense activity, with banks carefully analyzing the financial condition of their business clients to determine the level of risk in each loan transaction. Banking services have expanded to include services directed at individuals, and risk in these much smaller transactions is pooled.

2.6.7 DEBT FINANCING

Debt financing option is the acquisition of capital from a particular lender to run a business and repay it back within a specified period of time with interest in the events of SMEs retaining earning are inadequate, Hussain et al, (2006). Debt financing options

are aimed at improving the business earnings, first to recoveries costs, then benefits the proprietor.

2.7 RESEARCH GAPS AND STUDY CONTRIBUTION TO THE KNOWLEDGE BASE

Although there has been many studies on the impact of access to finance by many small and medium enterprises (SMEs) and how their economic contribution is fared, it of the view that the methodologies used in the studies reviewed in the literature review is more of empirical approach on how the SMEs access their finances as well as how they survive despite the prevailing challenge other the critical part of how efficient are financial lending institution are in terms of provision of quick and readily available finances to emerging SMEs and to what extent do these SMEs approaches institution. the study methodology on access to finance by SMEs in Zambia have been based on the surface level rather than considering the emerging number of increasing financial lending institution and how beneficial has it been in regards to SMEs accessing such finances, with an overwhelming increase in lending institution. in this research I sought to investigate the subject matter in a detailed way on the impact of mushrooming financial lending institution as regards to SMEs which has not been done by any researcher before and this shall contribute towards the knowledge and data base in the emerging business on Zambia economic sector.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter outlines the research design used in studying the effect of emergent financial lending institution a case study of Small and Medium Enterprises (SMEs) in Kasama District, in trying to access finances owing to the fact that a good number of these institution have come on board, it also outlines source of data and the methods used to analyze the collected data.

3.2 RESEARCH DESIGN

The research design adopted for this study is descriptive, the type of and source of data were determined by the objectives of the research, the data and information collected has been used to identify the effect of emergent financial lending institution on SMEs and to the extent to which these lending institution are providing financial services to SMEs, This study was aimed at examining the effects of emergence financial lending institution on SMEs, role in economic development a case of small and medium enterprises in Kasama district. The purpose of the study is therefore to investigate the effects of emergent financial lending institution and how they have helped Small and Medium Enterprises through facilitating loans to these businesses and further identify the challenges faced by SMEs in accessing finances from these institutions in Kasama District of Northern Province. The study also intends to make recommendations to relevant authorities on how best the emergent financial lending institution can be a plus in funding of Small businesses with loans in Kasama District.

3.3 SOURCES OF DATA

Two types of Data were collected from the study, primary and secondary data, the primary data was obtained through administration of structured questionnaires to lending institution that is both banking and non-banking lending institutions while SMEs were administered with the interview schedule as this interview schedule was used based on the fact that some SMEs did not possess good education background to respond personally in Kasama District. See appendices i and ii for the questionnaire and interview schedule respectively.

The SMEs involved in the study were those that are registered with Patent and Commission Registration Authority as well as those registered with Zambia Chamber of Small and Medium size Association with thin Kasama District.

Secondary data was obtained from books, journals, publications and the internet from various websites on the subject being studied.

3.4 STUDY AREA OR SITE

The study was conducted in selected areas of northern province and to be specific the study was conducted in Kasama district of northern province whose target areas was central town, chambishi market, TAZARA and Nseluka area these were the specific areas where there is a big number of difference business activities being undertaken by SME.

3.5 TARGET POPULATION

The first target population comprises banking and non-banking financial lending institution providing financial services to SMEs based in Kasama District. The second target population comprises of Small and Medium Enterprises that are registered with PACRA and are active and fully registered businesses as of 1st January, 2021 based on the data obtained from the patent and commission registration authority, the specified target population from Kasama District of northern province.

3.5.1 FINANCIAL LENDING INSTITUTION POPULATION

The population for financial lending institution under study comprises of both banking and non-banking lending institution in Kasama. There was a total of 15 lending institution of which 5 were banking institution and 10 were non-banking lending institution, these were the target population for lending institution.

3.5.2 SME POPULATION

The SMEs population comprises of all that are registered with the registrar businesses and the businesses as at the time when the study was being conducted they were operating and fully registered in Kasama district.

The area that was picked for the study had a total of population of 40 active SMEs, the four area were chosen on assumption that the small and medium business climate was similar to that prevailing in other areas of the district, the area was the study was taken were TAZARA, central town, chambishi market and nseluka area of Kasama district of northern province.

3.6 SAMPLE DESIGN

Two samples were taken, one for the small and medium enterprises and the other for financial lending institution since the number of lending institution was not that many as it was relatively small

3.6.1 SME SAMPLE

The sample design that was employed in the research was simple random sampling were SMEs were selected entirely by chance and each business selected had an equal opportunity or probability of being selected, among the four area selected of chambishi, TAZARA and central town was obtained and divided proportionally among the four areas. TAZARA has a population of 12 SMEs, chambishi had 9, central town had 14 and nseluka had 5, bringing the total number of SMEs to 40. These were those SMEs that are fully compliant and registered with patent and companies' registration (PACRA).

3.6.2 FINANCIAL LENDING INSTITUTION SAMPLE

There were 5 banking institution (commercial Banks) in the district under study and 10 non-banking financial lending institution bringing the total of 15(fifteen) sample and all of them were included in the study.

3.7 SAMPLING TECHNIQUES

The sample selection was based on stratified sampling where lending institution and SMEs were being selected in such a way that comprise a diversified activity and in proportion to the population classification in terms of their status. The nature of the research topic required lending financial lending institutions staffs that have requisite knowledge about the effect of emergent number of institution and the economy and also for SMEs having economic know how in regards to credit loans. Purposive sampling was used to interview 15 lead managers through questionnaires distributed in the selected lending institution on impact of mushrooming financial lending institution and SMEs were economic perception is concerns.

3.8 DATA COLLECTION INSTRUMENTS

The quality of the research depended to a large extent on the quality of the data collected tool. The researcher orally Interview participants to get different perspective from SMEs this was used owing to the fact that some SMEs could have the time to respond hence data was collected their and then and administrative questionnaires was used to lending institution which generated proper data regarding the respondent and also event aspects.

3.9 DATA COLLECTION PROCEDURE AND TIME LINE

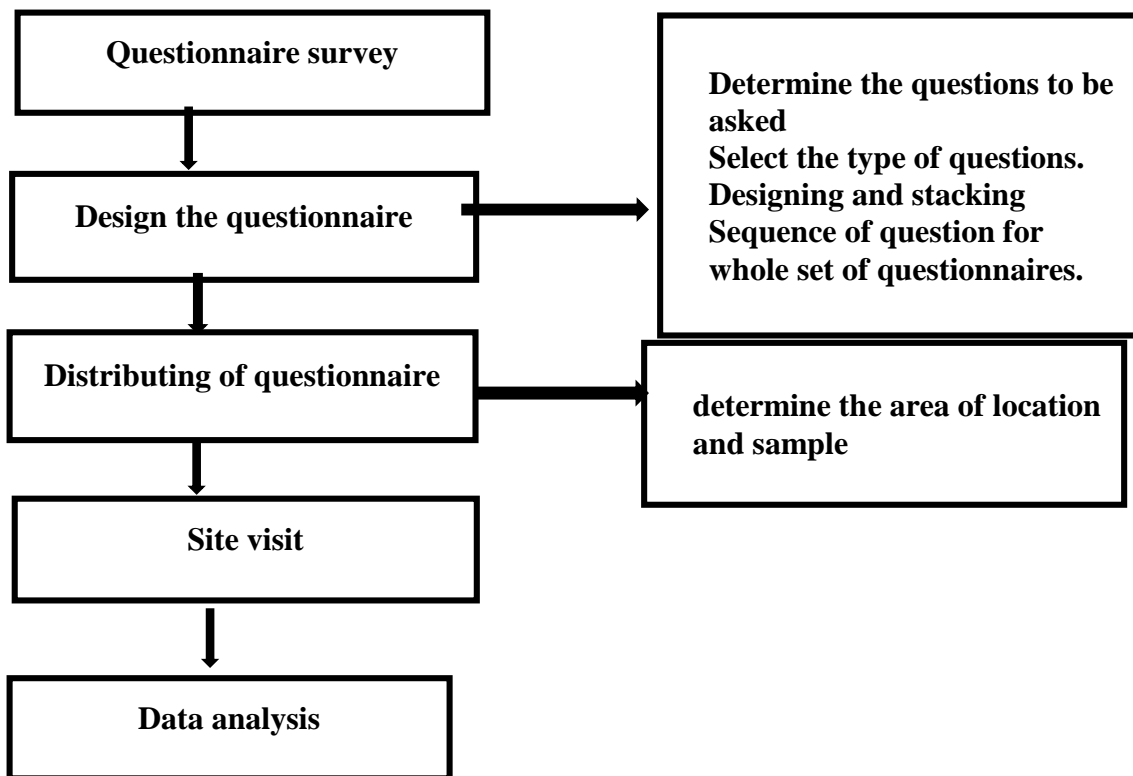
The study used two basic data collection methods namely: interviews and structured questionnaires.

3.9.1 INTERVIEWS

Qualitative research interview is seen as a construction site for knowledge, an interchange of views between two-person conversation about theme of mutual interest, Babbie (2007), this was used because it is an effective research instrument of gathering deep insight about how people experience, feel and interpret, owing to the fact that business owners have their busy schedule as regards to their nature of the businesses a formal approach was made with business owner who willing made appointments for the interview, were open ended probing questions were used to facilitate free response in the participant own words. Finally, in order not to miss out data collected from interview, I took notes as each question was asked based on the interview guide with adequate time allocated to each question. (See appendix ii for interview guide)

3.9.2 QUESTIONNAIRE

Questionnaire flow chart of events



The study also used questionnaire as a data collection tool, questionnaire were distributed to financial lending institution and time frame was give when to collect the answered questionnaire, as for some banking institution they had first to communicate with head office to seek for a go ahead with responding to the questionnaire it took time to collect data from theses institution, as for other banking and non-banking institution they responded to the questionnaire in time after giving the time frame for collection of a responded questionnaires, the questionnaires were vital as the response was necessary in helping to arrive at the in-depth response as regards to study on emergent financial lending institution of which these institution were part of the study.

3.10 DATA ANALYSIS INSTRUMENTS AND PROCEDURES

In this study, both quantitative and qualitative methods of analyzing the data were used, the data obtained from the study was coded and analyzed to arrive at the conclusion of each point being investigated. Quantitative data was analyzed using the MS-Excel, the data collected was descriptive in nature hence need to excel was inevitable as it require the use of charts and graphs for easy interpretation of data and to make is easy for illustrative purposes as well as understanding by the readers to whom the information was relevant for action purposes, as for qualitative data, since the data was textual form it was summarized qualitatively and interspersed with the results obtained from the questionnaires., in case were respondent made general comment on the issue investigation, those comments were used to arrive at the generalization regarding the issue.

3.11 ETHICAL CONSIDERATIONS

I recognize that the research involves human participant. As posseted by (Punch,2005), the study involved collecting of data from people, about their business, for this reason, I applied for approval and institutional clearance from relevant institution. The rationale behind this undertaking is to maintain professional integrity in the process of carrying out a research.

In keeping up with confidentiality and anonymity, the name of participants, institutions and its location was anonymous in all documentation including the report as no name of SMEs were coded on the interview guide as well as the name of respondent to the interview guide as for lending institution, the name was not indicated on the questionnaires for privacy.

3.12 CONCLUSION

This chapter has reviewed the methods that were used to acquire and analyze the data. It has also highlighted the source and procedure employed for determining the sample and the methods used in data analysis. The next chapter is therefore a presentation of the finding and analysis of the results.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION

1.1. INTRODUCTION

This chapter looks at the results obtained from the research conducted on small and medium sized enterprises (SMEs) and financial lending institution in Kasama. It discusses and give an analysis of the results obtained. Most of the information presented in this chapter centers on the effects of emergent financial lending institution on SMEs and the problems these SMEs faces when trying to access finance from financial lending institution.

4.2 PARTICULARS AND COMPOSITION OF LENDING ISTITUTION

The lending institution in Kasama comprises of both banking and non-banking institutions, the study shows that for banking institution have been in operation in the district way back in 1980's while other banking institution have been in operation from 2000 and the recent one has been in operation from 2012. as for non-banking lending institution most of them have been in operation from 2010 and the recent one is those whose operation begun in the year 2016.

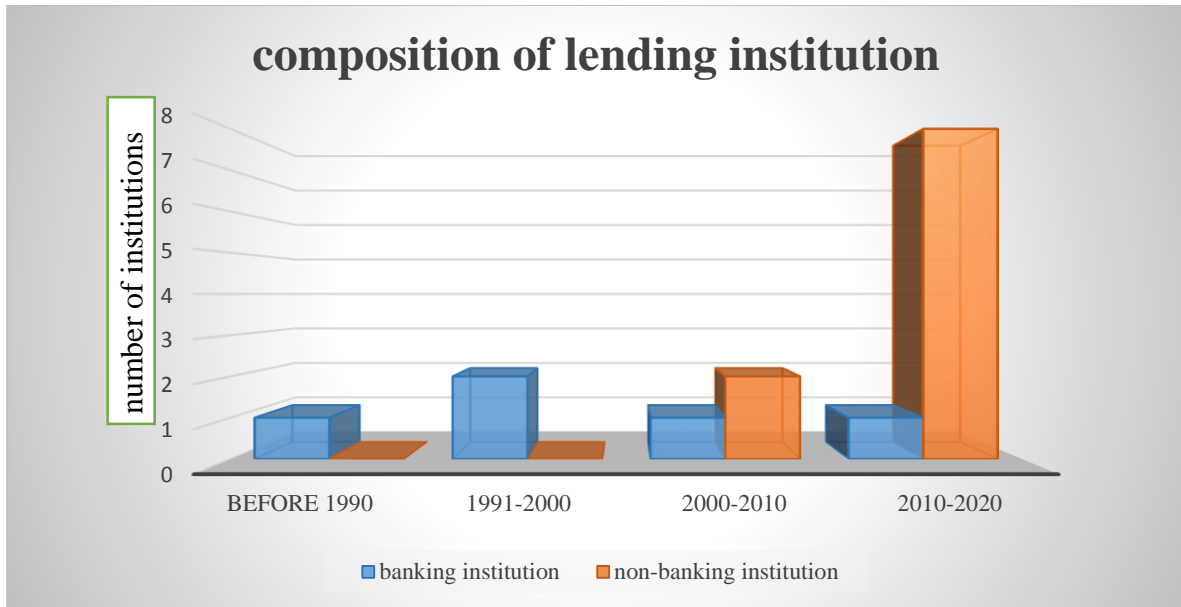
TABLE 4.1 PARTICULAR AND COMPOSITION OF LENDING INSTITUTION

PARTICULAR	BANKING INSTITUTION	NON- BANKING INSTITUTION	TOTAL OF LENDING INSTITUTION	%
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YEAR BUSINESS STARTED				
BEFORE 1990	1	0	1	6.7
1990-2000	2	0	2	13.3
2000-2010	1	2	3	20
2010-2020	1	8	9	60
			15	100

Table 4.1 shows that 6,7% of lending institution stated their operation before 1990, representing that only one banking institution was operational during the stated period, between 1991 to 2000 there were only 2 banking institution that joined the band wagon representing 13.3% of the total number of lending institution, the study also shows that between 2001 to 2010 there was an addition of one banking and two non-banking institution that joined the financial sector in the district representing 20% of the total lending institution and between 2020 to 2020 there has been an increase in the number of lending institution were one banking and nine non-banking lending institution came on board representing 60% of the total number of lending institution in Kasama District.

Figure 4.1 composition of lending institution



4.3 REASON FOR INCREASE OF LENDING INSTITUTION

Drawing back from the early 2000 it clearly indicates that few financial lending institutions were in existence in Kasama District, until early 2010 when a good number have come on board, occupying in almost each and every road of the township, the study show that there have been numerous reasons as to why the increase in the number of lending institution in a district in recent years.

Table 4.2 reasons for increase of lending institution

REASON FOR INCREASE	BANKING INSTITUTION	NON-BANKING INSTITUTION	PERCENTAGE
FOR INSTITUTIONAL GAIN	2	7	60%
BOOST THE COUNTRY ECONOMY	2	3	33.3%

SERVICE THE COMMUNITY	1	-	6.7%
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Table 4.2 above shows the reasons as to why there has been an increase in the number of lending institution, the study indicated that most of the lending institution are there only to enrich themselves and not necessarily to help the community through SMEs financing as very few SMEs are benefiting from these institution as the table above were 60% of the study represented that lending institution have increased for their own benefits as there borrowing rates are high which is a clear indication that they are there to milk, the study also indicated that 33.3% and 6.7% shows that some lending institution are there to boost the country economy through loans to SMEs and service the need through loans respectively.

4.4 PARTICULARS OF INSTITUTIONAL MANAGERS

Financial lending institutions in Kasama district for both banking and non-banking lending institution are managed by both men and women, the study shows that all branch managers have attained the first decrees. And all managers indicated that there have over 5 years' experiences in banking and finance and most of then the age limit indicated that the lowest was 32 years of age in all the lending institution in which the study was conducted.

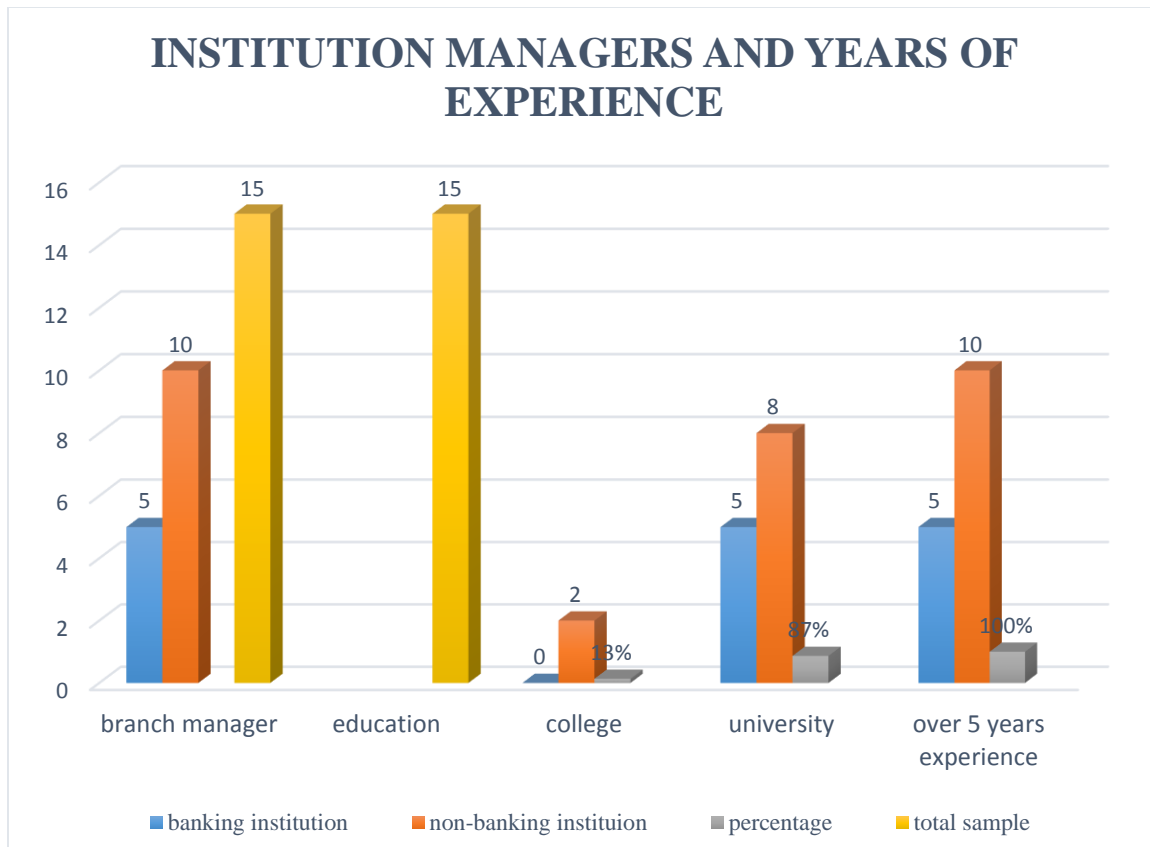
TABLE 4.2 PARTICULARS OF INSTITUTIONAL MANAGERS

PARTUCULAR S	TOTAL SAMPLE	BANKING LENDING INSTITUTION	NON-BANKING LENDING INSTITUTION	percentage
BRANCH MANAGER	15	5	10	100%

EDUCATION	15			
COLLEGE		0	2	13.3%
UNIVERSITY		5	8	87%
OVER 5 YEARS OF EXPERIENCE	15	5	10	100%

Table 4.3 shows that the total of 15 branch managers responded to the questionnaire, based on the data collected it was evidenced that of all the branch managers for both banking and non-banking institution indicated that 13.3% are college graduate managing banking and non-banking financial lending institution, on the other hand the total of 13 branch managers representing 67% have attained their university degree, the results also show that all the branch managers from both banking and non-banking institution have over 5 years of experience in similar position representing a 100% of managerial experience.

Figure 4.2 institution managers and years of experience



4.5 PARTICULARS AND COMPOSITION OF ENTREPRENEURS

the Small and Medium Enterprises in Kasama comprises of both men and women, the study shows that not all the entrepreneurs have attained secondary education, as some of the entrepreneurs have only managed to attain primary education, the study also showed that the minimum age of entrepreneur was 25 years and majority of the SMEs started their businesses as early as 1996. Most of the entrepreneurs indicated that they started their business as a way of managing their family's survival owing that the economy during those days was hard. Table 4.3 shows the composition and particulars of entrepreneurs.

TABLE 4.4 PARTICULAR AND COMPOSITION OF ENTREPRENEURS

PARTICULARS	TOTAL SAMPLE	MICRO 1-10	SMALL 11-30	MEDIUM 31-140	PERCENTAGE
SMES NUMBERS	40	32	7	1	100%
AGE > 25YRS	40	32	7	1	100%
EDUCATION	40				100%
PRIMARY		14	-	-	35%
SECONDARY		15	2		42.5%
COLLEGE		2	2	1	12.5%
UNIVERSITY		1	3		10%
FROM 1996 BUSINESS START UP	40	32	7	1	100%

According to the micro, small and medium enterprise development policy (2008), a micro size enterprise is such a business registered with registrar of companies who employs up to 10 (1-10) person, the small enterprise is a business that employs between eleven forty-nine (11-50) person and a medium enterprise is aa business that employs between fifty and hundred (50 - 100) person.

Table 4.4 above shows that a total of 40 SMEs were sampled in Kasama district where it was reviewed that 29 were micro enterprises, 9 were small enterprises and 2 were medium enterprises representing 100% of the total SMEs sampled, the results further shows that based on the level of education, 14 SMEs have only attained primary education representing 35% of the total SMEs, a total of 17 SMEs have attained secondary education

representing 42.5% of the total sample, as for college education only 5 SMEs indicated that that they have attained college representing 12.5% of total sample while a total of 3 SMEs indicated that that they have attained university education representing 10% of the total sample,. The results also indicated that most of the SMEs started their businesses in late 1990's representing 100% of all the SMEs.

4.6 REASON FOR STARTING BUSINESS

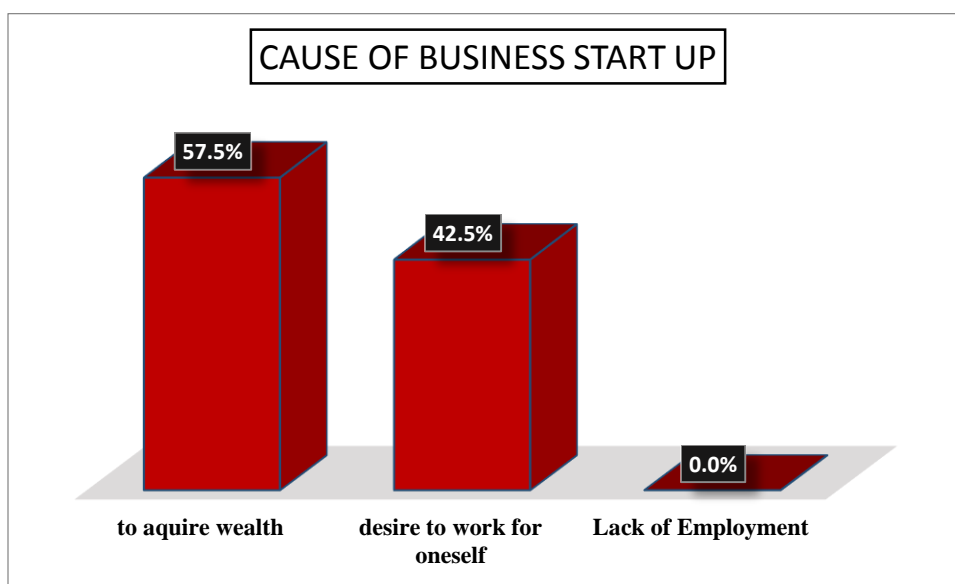
There are varied reasons why many SME businesses started in Kasama district, these range from the need to accumulate wealth, other business started because some people developed a zeal to work for themselves while other sees starting a business is the only way out as means of surviving others indicated that starting a business was just the continuation as an inheritance from founders. Table 4.5 below shows that the majority of the business started as a result of the need to accumulate wealth, however most of these businesses are in the category of micro enterprises category.

TABLE 4.5: CAUSES OF BUSINESS START-UP

REASON	TOTAL SAMPLE	MICRO 1-10	SMALL 11-50	MEDIUM 50-100	PERCENTAGE
	40				
TO ACQUIRE WEALTH		19	4	-	57.5%
DESIRE TO WORK FOR ONESELF		13	3	1	42.5%
LACK OF EMPLOYMENT OPPORTUNITIES		-	-	-	0%

Table 4.4 above shows the main reasons why entrepreneurs started their business. Of the 40 sampled business 23 indicated that they started their business as need to acquire wealth, representing 57.5% of the total sample. 17 was as a result of desire to work for oneself representing 42.5% of the total sample. However, of all the data captured there were no any businesses who indicated that the result of start of business was as a result of lack of employment opportunities.

Figure 4.3 causes of business start up



4.7 TYPE OF BUSINESS VENTURED INTO

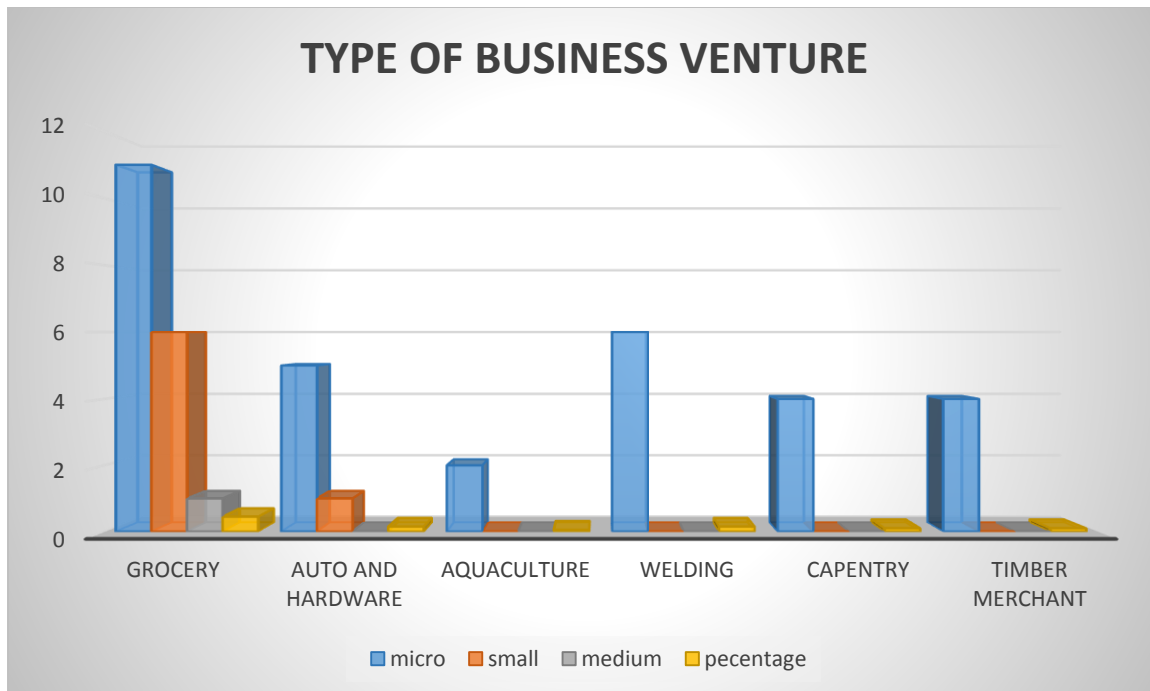
From the research conducted in most part of Kasama district, which includes central town, TAZARA, chiba, location and nseluka, majority of SME indicated that they are in grocery business and very few indicated other types of business. The table below show the different types of businesses being conducted by these entrepreneurs

TABLE 4.6: TYPE OF BUSINESS VENTURED INTO

TYPE	TOTAL SAMPLE	MICRO 1 - 10	SMALL 11-50	MEDIUM 51-100	PERCENTAGE
	40				
GROCERY		11	6	1	45%
AUTO AND HARDWARE		5	1	-	15%
AQUACULTURE		2	-	-	5%
WELDING		6	-	-	15%
CARPENTRY		4	-	-	10%
TIMBER MERCHANTS		4	-	-	10%

Table 4.5 above shows that majority of the SMEs were into grocery business of which out of the total sample 18 were into grocery business representing 45%, 6 were into auto and hardware business representing 15% of the total sample size, 2 were into aquaculture representing 5%, 6 were into welding business representing 15% and 4 and 4 were carpentry and timber merchant representing 10% and 10% respectively.

Figure 4.4 Types of business venture



4.8 LEGAL FORMS OF BUSINESS

there are basically four legal forms of business in Kasama district which constitutes the small and medium size enterprises. The majority of these are sole proprietors and few of partnership, limited companies and cooperatives, the study had not identified any limited company as shown in the table below.

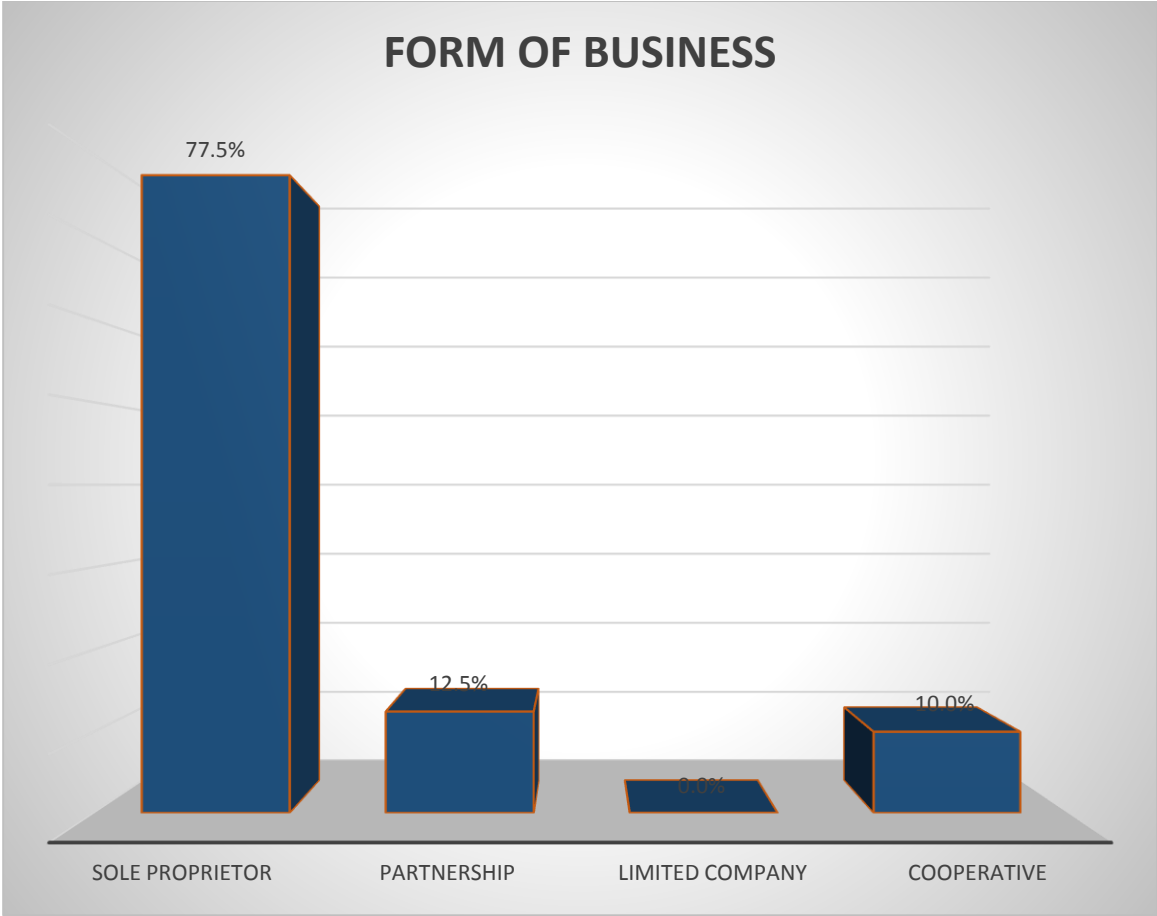
Table 4.7: legal forms of businesses

FORM	TOTAL SAMPLE	MICRO 1 – 10	SMALL 11 – 50	MEDIUM 50 – 100	PERCENTAGE
	40				
SOLE PROPRIETOR		27	4	-	77.5%
PARTNERSHIP		3	2	-	12.5%

LIMITED COMPANY		-	-	-	0%
COOPERATIVES		3	1	-	10%

Table 4.6 shows the forms of business; 31 businesses are under the umbrella of sole proprietorship representing 77.5% of the total sample, 5 were partnership business representing 12.5% of the total sample, as for limited companies, there was no study sample, while 4 were for cooperatives representing 10% of the study sample.

Figure 4.5: Forms of business



4.9 BUSINESS REGISTRATION

the study established that most the businesses are registered with the Patent and company registration agency (PACRA), and these businesses comply with the registration requirement by renewing their businesses on an annual basis.

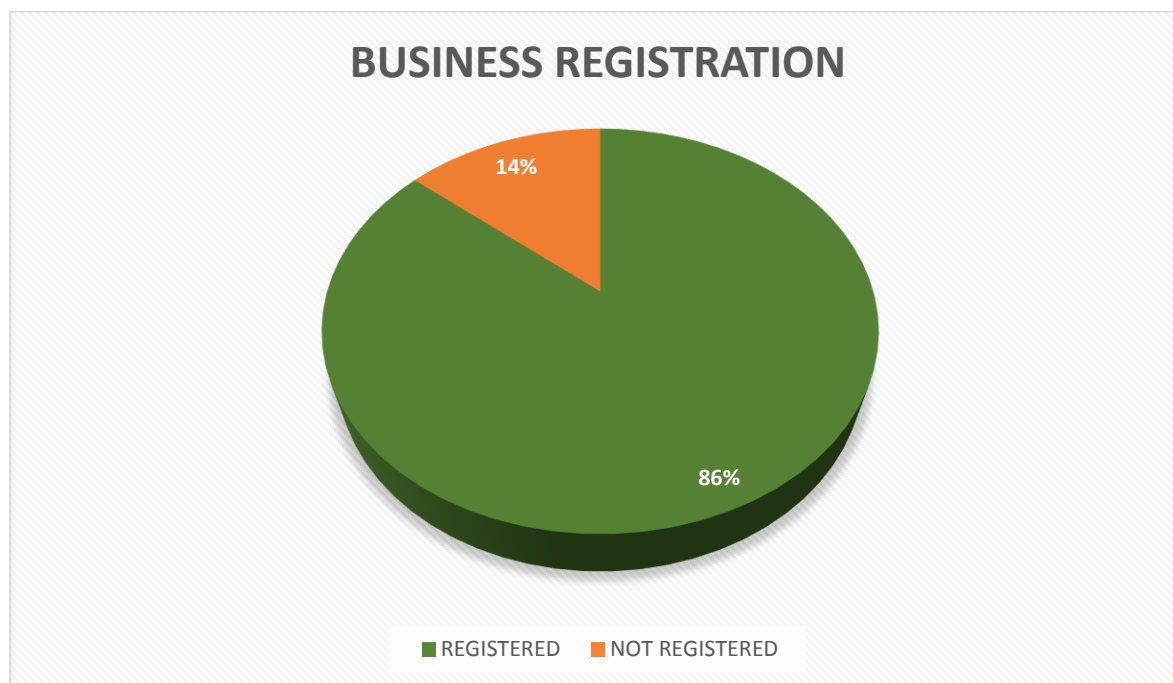
Table 4.8: business registration

BUSINESS REGISTRATION	TOTAL SAMPLE	MICRO 1-10	SMALL 10-50	MEDIUM 50-100	PERCENTAGE
	40				
REGISTERED		29	7	1	92.5%

NOT REGISTERED		3	-	-	7.5%
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The table 4.7 above shows the status of the business registration, from the study conducted it was reviewed that the total of 37 businesses were fully registered with business registration agency representing 92.5% registration status while on the other hand 3 businesses were found not registered with the agency representing 7.5% of unregistered business status.

Figure 4.6: business registration



4.10 MAJOR SOURCE OF CAPITAL

The study has established that the main source of start-up capital for SMEs in Kasama district was own savings. Despite the emergent number of lending institution, the study indicated that there was literally nothing coming from the financial lending institution, a clearly indication that these business houses are not interested in funding that stat-up capital for small and medium enterprises. Table 4.9 below shows that most of the start-up capital for SMEs comes from own savings more for micro size enterprises and small size

businesses. Other source is from friends and relatives with a smallest percentage coming from financial lending institution despite the overwhelming increase in the number of them, it is therefore surprising that the support from financial sector is marginal with such good number of these institutions housing in each and every road of the district.

Table 4.9: major source of initial capital

SOURCE OF INITIAL CAPITAL	TOTAL SAMPLE	MICRO 1-10	SMALL 11-50	MEDIUM 51-100	PERCENTAGE
	40				
OWN SAVING		23	5	-	70%
FRIENDS AND RELATIVES		6	2	-	20%
LOANS		2	-	1	7.5%
OTHERS		1			2.5%

Table 4.9 above shows the that the initial capital from own saving, accounts for 70% with 20% coming from friends and relatives. The other 2.5% comes from other share equities and a marginal percentage of 7.5% from financial lending institutions. From these statistics, it is clear that there is a very little support from financial lending institution despite an overwhelming increase in number of the for businesses who require the start-up capital, this clearly confirms that lending institutions are not willing to lend small and medium enterprises this could be because of perceived risk that is associated with the business sector.

Despite the emergent increase in the number of lending institution entrepreneurs with brilliant business ideas does not get help to expand the industrial base and consequently does not aid economic development, the study truly reflected that small and medium enterprises are struggling with their start-up capital as most of these lending institutions their prime focus is those who are in full employment and are salary-based workers. However, they should realize that even the successful firms that do business with were once small, they became large and successful because someone supported them financially. It is therefore important that major stakeholders such as the government should take keen interest in the funding of these small and medium enterprises as they are the cornerstone in driving the country economy hence government should fund them including those entrepreneurs with viable business plan.

4.11 MAJOR SOURCE OF WORKING CAPITAL

With much hope that the emergent financial lending institution which are at the moment in every corner of each road, there was much hope that the SMEs are fully accessing the financial help needed to expand their business but to the contrary, as the study shows that most SMEs obtain their working capital from profit generated by businesses, while small proportion of them get their working capital from other sources.

According to the study it has been established that of the SMEs in Kasama district get their working capital from supplier's credits, however the study reviewed that there is a marginal percentage of businesses that obtain their working capital from these lending institution despite the increase number of them in recent years, from the study most of the commercial banks have indicated that they are able to assist businesses with their working capital, but the study established that the assistance does not directly point to SMEs based on their pronouncement but rather the focus is on large businesses who are even able to sustain themselves without even assistance from these bank, as for non-banking institution it was established that the number that indicated that they are able to assist SMEs with working capital was minimal to the extent formulating it in to ratio could be one out of ten. The main arguments from these financial lending institutions why very few businesses access finances despite an overwhelming increase in number of these institution is that many small business owners do not have security to backed their loans application, on the other hand

the study indicated that business owners lack information on the existing and increase number of institution, as the majority of SMEs indicated that they have never even attended any orientation or workshops on how to source funds from these institutions.

Figure 4.7: major source of initial capital

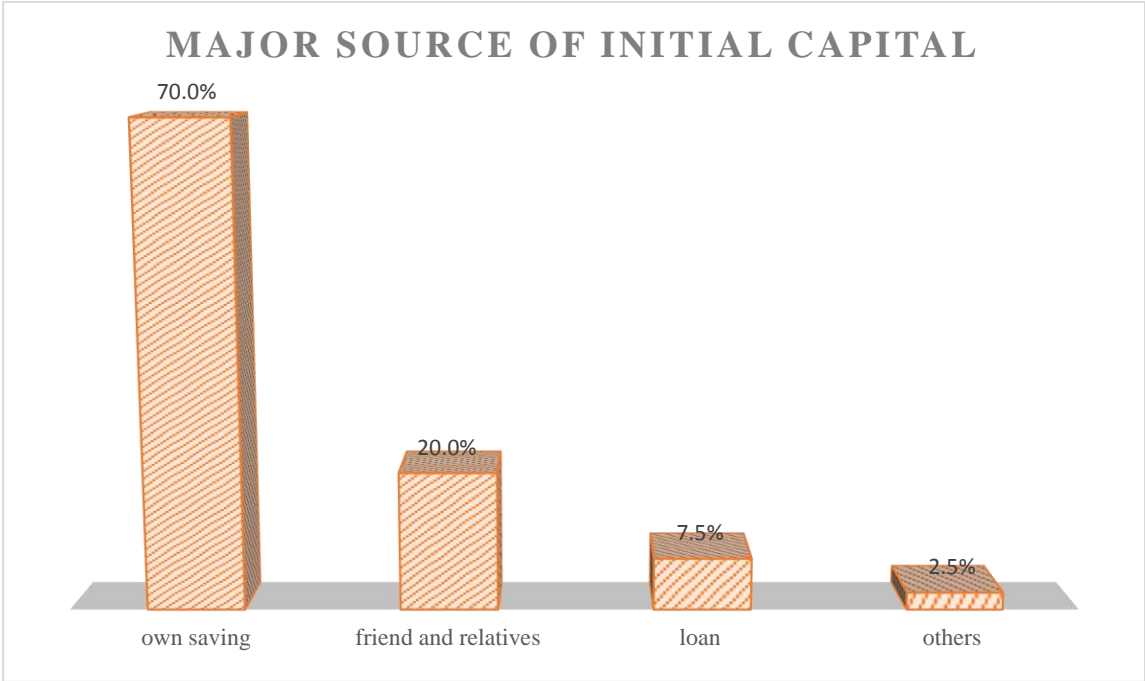


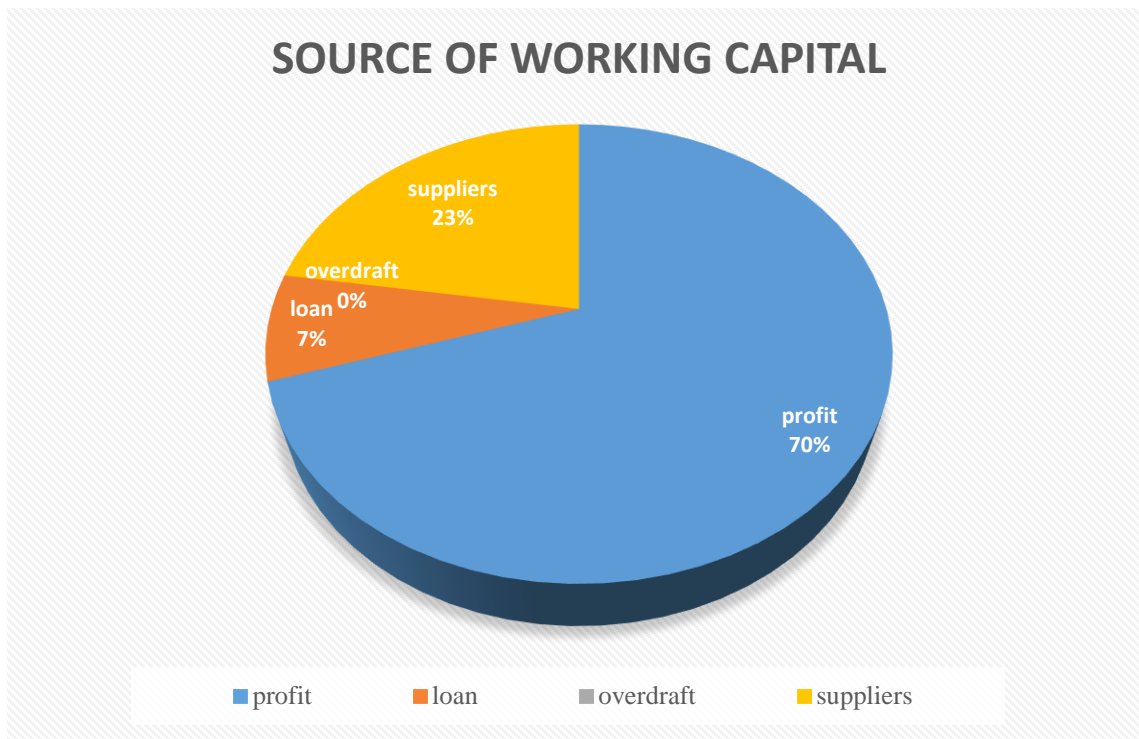
Table 4.10: source of working capital

SOURCE OF WORKING CAPITAL	TOTAL SAMPLE	MICRO 1-10	SMALL 10-50	MEDIUM 50-100	PERCENTAGE
	40				
PROFITS		23	5	-	70%
LOANS		2	-	1	7.5%
OVERDRAFT		-	-	-	

SUPPLIERS		6	3	-	22.5%
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Table 4.9 above shows that 28 SMEs of their working capital comes from the profit that is derived from the business themselves, this profit is based on their daily business dealing this represents 70% of the total sample of all the businesses to which the study was conducted. The next source of working capital for small and medium enterprises emanates from supplier's credits, this clearly shows that suppliers are part of these businesses as they act as middle men due to their credits rendered to SMEs as the total of 9 SMEs from the study indicated that their source of capital is from suppliers credits thus representing 22.5% of the total sample study taken while very little comes from loan services as this indicated that only a percentage of 7.5% of the study showed that lending institution provides loans to these businesses.

Figure 4.8: Source of working capital



4.12 FINANCIAL ASSISTANT TO SMALL AND MEDIUM ENTERPRISES(SMES) BY LENDING INSTITUTIONS.

With such an overwhelming increase in number of lending institution which include both banking and non-banking lending institution, there is a strong desire from SMEs sector to access financial assistance from these institutions for their business operations. But mostly to no avail despite such a good number of them coming on board of late, the sector is constrained from accessing funds from financial lending institutions due to a good number of reasons. From the study conducted some of the reasons that evidenced from the research results are that the sector lacks adequate information about the increase in number of lending institutions as some SMEs indicated ignorant about the increase in number of lending institutions, others indicated that they do not know the procedures and how accessible it is and lack of advice on the availability of the funds and procedures in accessing such funds, other problems that were indicated are such as collateral requirement seemed to be beyond their capacity, while other indicated that the they had a notion of fear about obtaining a loan from these institutions, other SMEs reviewed that they feel they are the one to approached by these institution through their advertisements about their products(loans) available specifically for SMEs.

Based on the research find few of the businesses have tried to access financed from these lending institution but the result could not be materialized due one reason and the other, while only a handful have managed to obtain these funds, to those that failed the most common reasons that was gives was due to lack of collateral demanded by these financial institution and mostly of these non-banking lending institution indicated that they do not provide such services to SMEs but only to salaried workers. As for commercial banks on the other hand the indication was that some businesses do not keep proper records of financial statement, which happens to be the base requirement for a loan from commercial banks.

The study also indicated that other reasons was due to lack of knowledge about the existing loans being offered by lending institution, other reason was due to high interest rates charged by lending institutions as despite the emergent number of lending institution, their interest rates to those institution providing loans to SMEs indicated that they are high to the extent that the full repayment is more than double the amount borrowed, with a short repayment period which instill fear in most of the Small and Medium Enterprises coupled with the

length of processing loans and bureaucracy in the financial sector also contributing to the failure to access finances from financial lending institution by some SMEs.

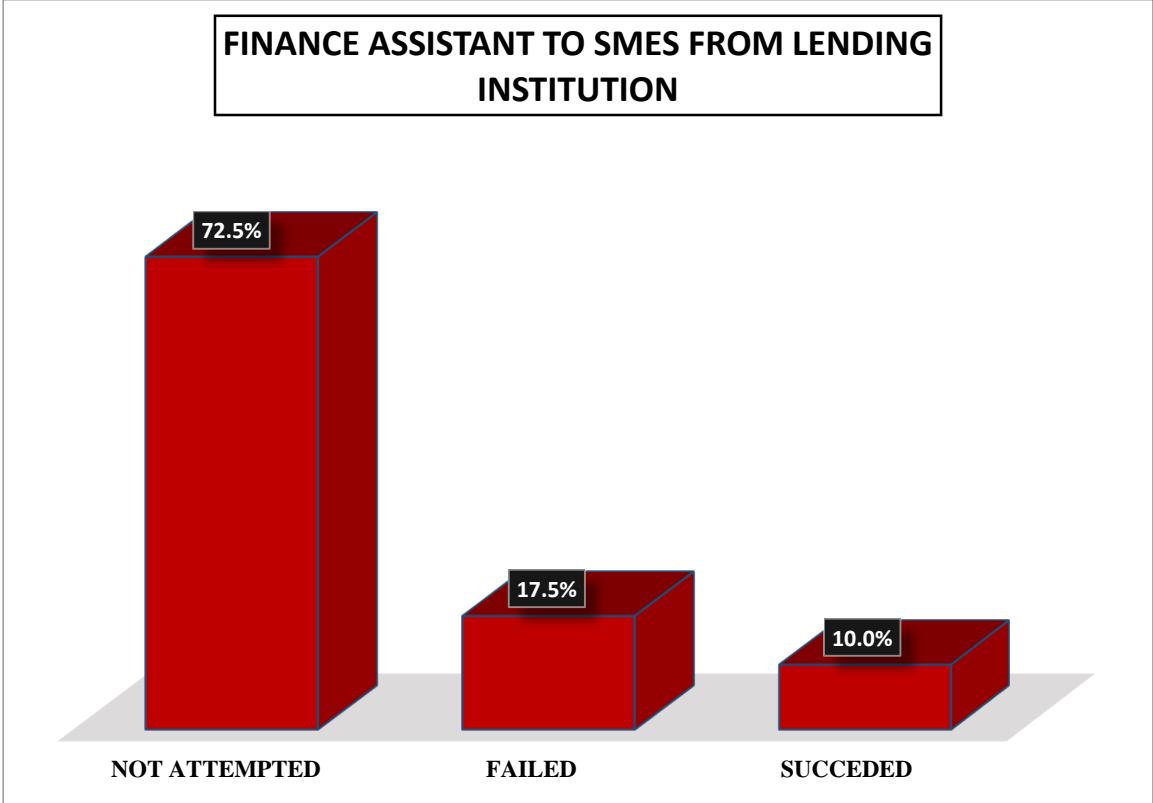
Table 4.11 financial assistance from lending institution

RESULTS	TOTAL SAMPLE	MICRO 1 -10	SMALL 10-50	MEDIUM 50-100	PERCENTAGE
	40				
NOT ATTEMPTED		25	4	-	72.5%
FAILED		5	2	-	17.5%
SUCCEDED		2	1	1	10%

Table 4.11 above with the sample of 29 respondents of all businessmen indicated that they never attempted to obtain finances from the financial lending institution, representing 72.5% of the total sample, from the study the response as to why the never attempted to access any loan, monthly an indication was that they never wanted to access such services for fear of being pushed to pay the loan in a shortest period of time others indicated that the process was hectic as they reviewed that from the data they have gathered they declared displeasure due to necessary requirement attached when obtaining such finances. However the total of seven businessmen attempted to obtain finances but failed, the common reason was due to the collateral requirement that were attached to the loan terms, however the lending institution contended that their businesses were too small with lack of proper financial documents substitution them from being granted a loan, the failed attempt represented 17.5% of the total sample, nevertheless the study also reviewed that a total of four businesses managed to secure loans representing a total of 10% of the total sample, these SMEs indicated that some attributes as to why they secured these loans was the fact that the lending

institutions were satisfied with their loan require as they were able to meet what has been stipulated in the terms and conditions of the loan agreement.

Figure 4.9: financial assistance to SMEs from lending institution



4.13 INTEREST RATES BY FINANCIAL LENDING INSTITUTIONS

the lending interest rates for both banking and non-banking lending institution varies from one financial institution to another, despite the overwhelming increase in the number of lending institution in Kasama district, from the survey conducted from the sample of the institution it showed a range of 40% t0 65% for non-banking institution and a range of 26.5% t0 60% for banking institution in both cases. See table 4.11 and 4.12 below. From the survey these rate did not only apply in Kasama district alone but rather the whole country was such institution operates, however the interest rates are too high for small businesses which is an hindrance for the and unmanageable, thus it is important that the government through the bank of who are the custodian of the operation of these lending institution put up measures to control and regulate the interest rates for these lending institution as this will

help SMEs in an event that they access any financial help are provided loan with low interest rate with flexible payment plans.

Table 4.12 Banking institution interest rates

BANKS	INTEREST RATES
	%
Zanaco	28.78
CAVMONT	32
ABSA	-
INDO ZAMBIA	33
ATLASMARA	31

Source: Bank of Zambia Website.

Table 4.13 non-banking lending institution interest rates

NON-BANKING INSTITUTION	INTEREST RATES
VISION FUND	78%
MICRO FINANCE	58.70%
MICRO LOAN	110%
IZWE LOANS	40.89%
GS CASH ADVANCE	28%

UNIT FINANCE	32%
MADSON FINANCE	64.12%
GOOD FELLOWS FINANCE	32%
MY BUCKS FINANCE	46%
X-TENDER	80.05%
YES, CASH CREDIT	24%

Source: Bank of Zambia website

4.14 FUNDING HINDRANCES

despite an increase on the number of lending institution, small and medium enterprises face many hindrances that prohibit them from accessing finances from financial lending institution. According to the study, collateral is the single most hilarious factor, followed by lack of financial statement, high interest rates and short repayment periods were identified as other factors that hinders accessibility to finances by small business despite an overwhelming increase in the number of them, other factors showed that most of lending institution their main focus in not necessarily on SMEs but rather their prime focus is on salaried workers of whom they belie that in an event that a loan is defaulted it will be easy for them to recover the full amount borrowed, those lending institution provides such services showed that failure to prepare financial statement by most SMEs coupled with low return from their business.

Despite the an emergent number of lending institution in Kasama district, their prime focus is totally different from what is expected from them as in the case of SMEs it appears that they are not helped despite such an increase in the number of them, it is also contended that lending institution are not realistic to demand such securities from small businesses those small numbers providing such services although it is appreciated that these institution are in business to make profit, they are in business because of other businesses, which were assisted by other people. Financial institution is only interested only in business that are already in operation and performing well to the exclusion of start-up capital and those that

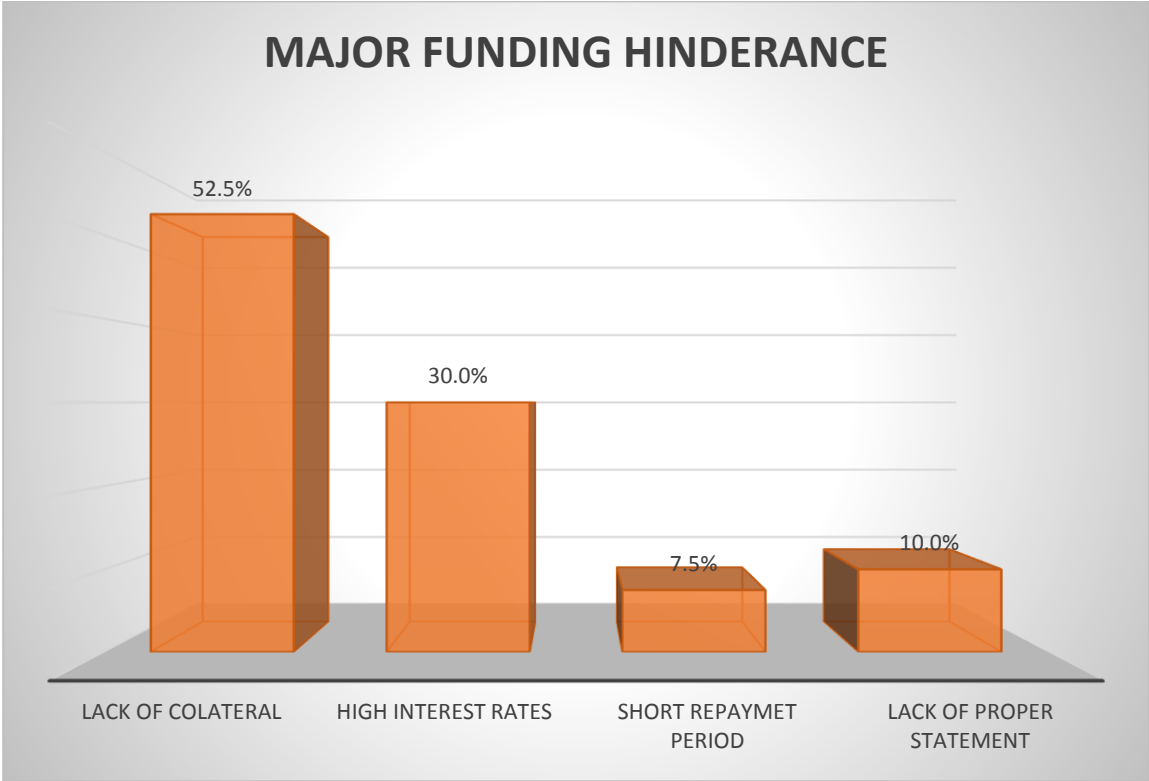
requires re-capitalization. Despite a good number of institutions coming on board the study has establish that currently there is no policy on funding of SMEs by financial lending institution, as an alternative financial lending institution should explore the possibilities of joint venture with SMEs or providing management where it is lacking.

Table 4.14: major funding hindrance

HINDRANCE	TOTAL SAMPLE	MICRO 1-10	SMALL 10-50	MEDIUM 50-100	PERCENTAGE
	40				
LACK OF COLLATERAL		18	3	-	52.5%
HIGH INTEREST RATES		9	2	1	30%
SHORT REPAYMENT		3	-	-	7.5%
LACK OF PROPER STATEMENT		2	2	-	10%

Table 4.14 above shows that lack of collateral accounts for 52.5% as a major hindrance with high interest rate accounting for 30%. Lack of proper statement accounts for 10% while short loan repayment period accounts for 7.5% of the total sample size as per reviewed from the study, this is a clear indication that an increase in the number of lending institution is not correlating with the benefits being received by these SMEs.

Figure 4.10: Major funding hindrance



4.14.1 LACK OF COLLATERAL

with and overwhelming number of financial lending institution providing finances, the study indicated that for SMEs the status was not impressive in terms of loan acquisition as only a handful of SMEs were able to access loans and to this effect the study shown that lack of collateral is a major hindrance in accessing finances from these institutions by these small and medium enterprises. From table 4.14, it account for 52.5% for both micro and small enterprises, the issue of collateral is real and therefore requires stakeholders, as the issue of collateral stands as one of the factor that affects most of these SMEs who seeks for the loans as it is one of the major requirement before anything as the study indicated that from the word go SMEs are sked the amount they would want and the followed by what they have in their possession, therefore financial institution need to exercise precise and be considerate when undertaking a dealing with small businesses as this with allow SMEs have the confidence to access any amount of loan that they would need to boost their business.

4.14.2 HIGH INTEREST RATES

with escalating increase in monetary policies by the central bank, financial lending institutions are also taking stringent measures in ensuring that they make adjustment in their lending rates by adjusting them upwards, hence from the study conducted, interest rate being charged by lending institutions are high to the point that those SMEs that have at one point accessed loans alluded to the fact that the amount of repayment is almost double the loan amount in some cases and thus this is one of the major hindrance to accessing finances by SMEs businesses, as it is shown in the table, high interest rate accounted for 30% of the study conducted, hence there is need to regulate interest rates for SMEs as these are the backbone of the country economy, which eventually shunning away these businesses from accessing funds from financial institutions despite them flooding the market.

The study conducted in Kasama district on effects of emergent financial lending institutions, the study clearly indicated that despite such an overwhelming number, these institutions their interest rates are of short term loans of up to twelve months, and the study indicated that interest does not account for the size of the business but rather universal to all aspects of business irrespective of the size or type of business, from the questionnaire administered to lending institutions, those that have the provision for SMEs indicated that they do not vary the rate but rather they are fixed.

Interest rates should be charged based on the size of the business, from the study taken small businesses fail to borrow despite these institutions increase in number based on what they have witnessed from other businesses who testify that the interest rates were too high to and unsustainable however the government should be supportive to SMEs unlike what has been on the ground where government through citizen economic empowerment only account for a handful of businesses as the SMEs interviewed indicated that government loans are only applicable to those who are royal and known.

4.14.3 FAILURE TO PREPARE FINANCIAL STATEMENT

Any business undertaking despite the size of the business proper financial statements are vital, as for small and medium enterprises seeking to source additional capital or start-up capital preparation of proper financial statements stands as one of the key criteria. Despite

the good number of lending institution on the market providing financial services, based on the study carried in Kasama from the few small and medium enterprises that had approached these lending institution one of the factor that led to failure to access financial assistance was failure to prepare proper financial statements, from the study undertaken lack of proper financial statement was ranked third accounting for 10% for the all small and medium enterprises this was due to the fact that most businessmen do not understand what constitutes a financial statement, they perceived that whatever form of financial record, right or wrong done is a financial statement, however this hindrance is under the control of businessmen themselves and can easily be overcome through education on the need of how to keep proper financial records, hence lack of appreciation and understanding the importance of financial statement has contributed to poor financial statement.

4.14.4 SHORT REPAYMENT PERIOD

despite having many lending institutions on board, the study reviewed that not even a single of these lending institution has taken a step in increasing the period of repayment for any loan acquired, as the period which a loan must be paid is a hindrance to accessing finances for some business owners, the study account for 7.5% in relation to do with hindrance, it is therefore cardinal that the loan repayment should not be fixed but rather the period should be negotiable, as the study indicates that majority have never approached these lending institution owing to the fact that all what they know is that the period for repayment of any loan is short, as any increase in the period of repayment may help to reduce defaulting on loan repayment, as it become convenient to both the lender and the one borrowing. Financial lending institution must try to be more innovative in order to win the market and also move away from traditional way of doing business, thus by exercising user friendly as it will enable them stand as key competitor owing that more lending institution have come up on the market undertaking similar business.

4.15 LENDING INSTITUTION SUPPORTING SMES

despite the emergent number of lending institution coming of board of recent, from the study conducted it was evidence enough that the very few of these lending institutions are providing loan facilitates to SMEs in order for them to boost their businesses, therefore this

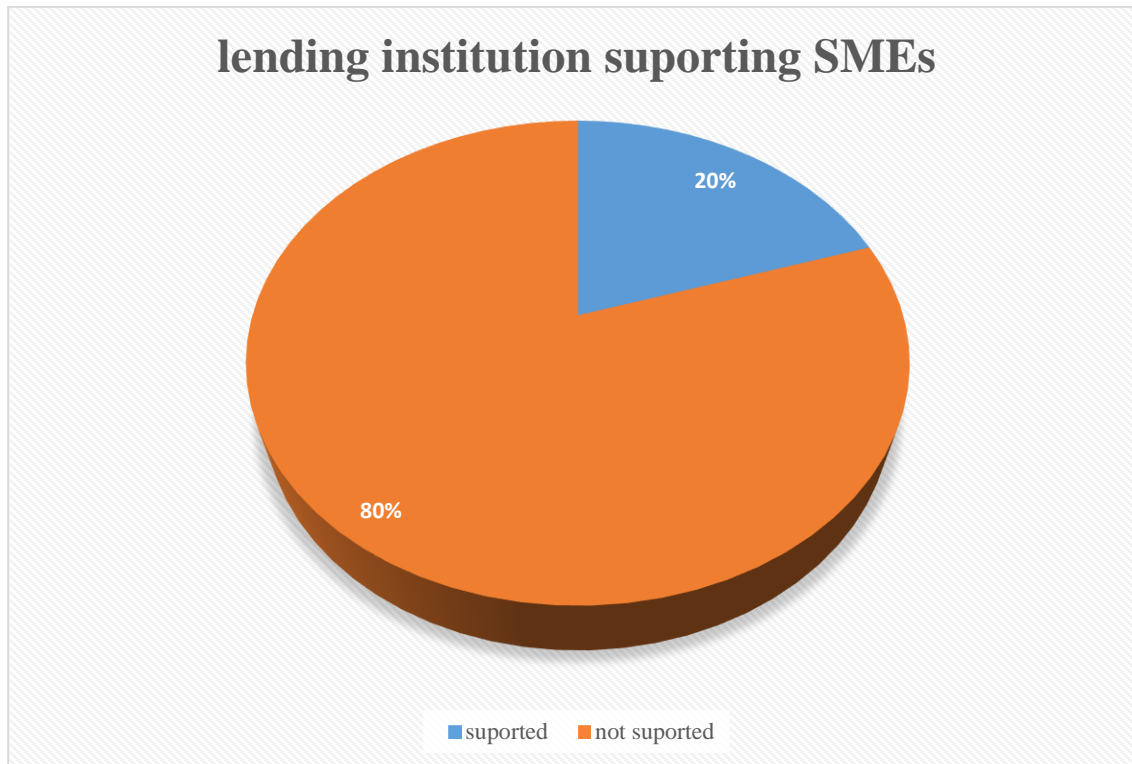
has also negatively affected such institution of late in term of their operation and their success owing to the current situation were the country is not performing well due to the pandemic which escalating the COVID-19 pandemic which has also affected small and medium enterprises. The t below shows the percentage of institution supporting SMEs.

Table 4.13 lending institutions supporting SMEs

LENDING INSTITUTION	SAMPLE SIZE	MICRO 1-10	SMALL 10-50	MEDIUM 50-100	PERCENTAGE
	15				
SUPPORTING		2	1	-	20%
NOT SUPPORTING		8	3	1	80%

Table 4.15 above show the results from the study indicating that despite the emergent lending institution being available in Kasama district on 80% of lending institution are not proving loans to SMEs while only 20% of the lending institution are providing loan services to small and medium enterprise, which from the study it clearly indicate that most of the SMEs are not accessing such services reason known that lending institution have shifted their focus to salaried employees rather than SMEs who are the highest contributor to the country economy through creation of employment, contributing through payment of different taxes and also provision of goods and services thus contributing to the country Gross Domestic Product.

Figure 4.13 lending institution supporting SMEs



4.16 SECURITY REQUIRED BY FINANCIAL INSTITUTION

there are various securities demanded by financial lending institutions as part of qualifying for financial assistance, according to the study, those small and medium enterprises that sought to visit these lending institution establishes that the pre-requisite for a loan applicant to provide security in order to access funding from financial lending institution, however what does not come out clearly from the lending institution is the relationship between the amount of the own borrowed and the value of the security, from the study of small and medium enterprises, it shows that the security demanded by the financial lending institution is higher than the amount to be borrowed, the explanation from the financial business houses on collateral is that it commits the borrower to loan servicing, this factor has not been well received by the business community and has discouraging factor to many businesses as this has also led to failure by most of these business to fail to approach for financial aid due the requirements impose on each and every loan being provided by lending institution.

Some securities that the financial lending institution ask for are as follows;

- ☒ Tittle deeds
- ☒ Immovable assets
- ☒ Foreign accounts
- ☒ Treasury bills

From the above list of securities, it can be seen very clearly that small businesses cannot provide the securities demanded by financial business houses, it is therefore important that these institutions must be innovative and try to diversify or find other forms of securities for small business. Although there has been an emergent increase in number of lending institution not much is being done to help small businesses expand, alternatively, the government strengthen the already available scheme of granting loans to SMEs that is through citizen economic empowerment commission, through the ministry of commerce.

4.17 COMMENTS

according to the study of effects emergent financial lending institution on the economy, it has been established that the focus of these institution is basically individual who are in active employment and salaried, as for small and medium enterprises accessing finances has been mostly hindered by collateral which stands as one of the main requirement and major prominent factor that is taken into account when accessing loan application, the argument received from lending institution is that it is very risky lending to SMEs that's why they ask for collateral, the issue of collateral has been blown out proportional because they ask for collateral for even small amount, this is done in the name of risk as long as the money being borrowed is for business purposes.

The other fact that has been established from the study is lack of proper financial statement that happens to be demanded by these lending institutions, this factor although pertinent, lies squarely on the shoulders of the businessmen themselves, the study has shown that small businesses do not keep proper financial rerecord for their business, the main reason is due to lack of accounting knowledge and sheer lack of appreciation for keeping proper record. Some businessmen assume that since their business are small, they do not need

proper financial statement, in a humbly way it is important for all stakeholders and the business association to quickly find ways of addressing this problem.

The study also reviewed that most business shun to register their businesses to the relevant institution in charge of managing registered businesses, as the study indicated that most of the business are not registered with the registrar of business and to this effect it has left small businesses to access loan as one of the requirements is that a business should be registered in order for it to access funds.

High interest rates have also been identified as a major source of worry SMEs. the current interest rate ranges from 24 to 100 percent, these rates are absolute high for small businesses whose return is small, hence this requires regulatory for small businesses, reduced interest rate would be seen in the increase borrowing. The effect of increased borrowing would be translated into the expansion of SMEs sector as these institutions are the one facilitating the rise in the economy, as the industrial base widen, the government would be able to collect more taxes for the provision of services to its citizen while the excess goods and services would be exported to earn the country the much-needed foreign exchange.

Lack of viable business proposal, as this during the study was notice by majority of small businesses, hence this can be mitigated by educating and through strengthened research and development. To improve research and development requires a political will from the government.

4.18 LENDING POLICY TO SMALL AND MEDIUM ENTERPRISES

according to the study of financial lending institution, despite their increase in number of them, the study established that they do not have lending policies for SMEs, this has brought problem of funding small and medium enterprises. The answer to resolve these problems lies in the well-laid out policy by government that seeks to address this problem. To put up such a policy in place requires determination and political will from the government coupled with good leadership. A good lending policy can be achieved by putting in place a good administrative and supportive regulations by the government

4.19 EFFECT OF FAILURE TO ACCESS FINANCE

as it is reviewed that SMEs play a pivotal role in contributing to the country economy through various subscription, failure to access finances has a grave negative effect on their business. The study has established that those businesses that have failed to access finances have had their businesses fails to expand while others have failed to provide quality services. Business that are not able to provide quality services are not competitive and cannot survive in this current situation were the country still wallowing with COVI-19 pandemic thus injecting of capital in any business, large or small is therefore crucial for their survival in the twenty first century.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

The study set to establish and identify the effect of emergent financial lending institution of on the economy and what problems are experienced by small and medium enterprises in Kasama district and to make recommendation on how small and medium enterprises on how they can easily access fund from financial lending institution owing to the fact that the number of lending institutions has increased. In order to fulfil the objectives of the study, financial lending institutions and SMEs in Kasama district were studied. The results obtained were analysed to arrive at what effects has emergent financial lending institution have on small and medium enterprises and what hindrance exist on SMEs from accessing finances from financial lending institutions, despite a good number of them coming on board. This chapter therefore, concludes the study and makes recommendations to the findings.

5.2 CONCLUSION

Despite the fact there has been an increase in the number of lending institution, businesses are still wallowing and striving to build up their firms, instead of which it would have been an opportunity to these businesses to freely access and benefits from the overwhelming number of lending institution on board.

The research design adopted for the study was descriptive, the type of and source of data were determined by the objectives of the research, the data and information that was collected has been used to identify the effect of emergent financial lending institution on SMEs and to the extent to which these lending institutions are providing financial services to SMEs as it is.

for the fact that Small and medium sized enterprises are the engine for economic development of any nation, such businesses create employment for the majority of the population and to this effect SMEs facilitate the improvement the welfare of the majority

of the people. Lending institution also stand as the cornerstone in aiding and uplifting the economy of the nation through provision of loan services to small and medium enterprises who in turn the net effect is that their living condition of the people also improves and thereby reducing the national budget on health expenditure, this is all because lending institution have played a role in ensuring that SMEs have accessed their finances.

Through financial lending institution provision of loan services to SMEs, they also contribute to Gross National Product (GDP) and produces good and services consumed by many people, in an effort to enable SMEs fulfil their role the increase in financial lending institution should stand as an advantage for SMEs as more financial support will be provided through different loan services provided to these businesses. The increase in number of lending institution should not only be the benefit for themselves but also for the entire country through supporting small and medium enterprises and also the government should also support the sector through formulating policies that will ensure that lending institution provide such services to SMEs so that they are able to access fund from financial lending institution. However, the study has established that despite the emergent number of lending institution coming on board of recent years there is still funding problems for SMEs in Kasama district as this problem does not only carter for SMEs alone but also the lending institutions.

It was with much hope that having an overwhelming increase in the number of lending institution will have a favourable motive on SMEs in accessing finance but to the contrary as lending institution are still not confidence enough in allowing small and medium enterprises accessing their fund but rather most lending institutions have resorted and put more focus on individuals who are in active employment, disadvantaging SMEs failing to access financial assistance as from the point of the lending institution their indication are that SMEs fail to meet collateral requirement and some even lacks proper financial statement. And for SMEs majority of them are shunning to visit these lending institutions for fear of high interest charged on their loans and the short period of repayment for the loans, some SMEs indicated that in as much as these lending institution have increased in number some businesses indicated that they are not the prime target for the loan services,

others indicated that there is a reduction of turnover due to current situation being experience which in turn may result in failure to repay the loans, lending institution also indicated that the challenge experienced are that most of these small and medium enterprises fail to present their viable business proposal which is one of the requirement for when accessing finances.

It has also been established that despite the increase in number of lending institution most of these lending institution are not willing to lend to small and medium enterprises as they perceive that the sector is risk, and there is much need for security, however lending institution most of them especially non –banking lending institution they seem to be relaxed when it comes to providing funds to SMEs as they presume that these SMEs do not possess all competencies necessary to run the businesses, hence there prime focus is not necessary SMEs but rather salaried and government employees were they see that it is easier to make a recovery once a loan has been defaulted, and also from the point of the lending institution there was an indication that most small and medium enterprises do not possess all the competences necessary to run businesses.

5.2.1 LACK OF COLLATERAL

From the study, most SMEs in Kasama district lack collateral to use for backing their loans application, this has greatly contributed to failure to access financial assistance from financial lending institution despite the increase in number of them, the study also indicated that most lending institution that provide SMEs loan services regards collateral as one of the key requirements when a business intend to seek for a loan.

5.2.2 HIGH INTEREST RATES

The study indicated that most SMEs shun to seek for financial assistance through loans due to the fact that most of the lending institutions providing such services their interest rate are too high and unbearable, and such rates are applicable irrespective of the size of the business and therefore unfavorable to the sector due to low economies of scale.

5.2.3 LACK OF PROPER FINANCIAL STATEMENT

From the study there was much evidence that small and medium enterprises do not keep financial records for their businesses, they argue that their return are too small to warrant keeping records this was mostly experienced to those who are under the micro enterprises whose capital seemed to be very small, the study further reviewed that they have failed to prepare proper financial statement because these statements are derived from account records. When these businesses visit financial lending institutions they are asked to tender in their financial statements, and failure by them to produce such statement they are denied to access funds for the business.

5.2.4 LOAN REPAYMENT PERIOD

The period required for servicing a short-term loan range from 1 to 12 months, most of the lending institution would rather lend a short-term basis because they want quick return from their investment. They also do not want to tie their capital for a long time, especially with small and medium enterprises where return are too small.

5.2.5 LACK OF INFORMATION

From the study conducted, most of small and medium enterprises lacks information on the emergent number of lending institutions as other did not even know about the existing of such institution, others indicated that they do not even know where to start from when they need funds, most of those that have little knowledge believed that its only commercial banks were such funding can be accessed.

It of this fact that despite quite number of lending institution coming on board, there are still a quite a number of discrepancies that financial lending institution do not meet in that for SMEs it would have been a plus for owing that these lending institution have been growing but to the contrary as lending institution despite a good number of the them joining the district SMEs are still in the standing at a distance because of requiring necessary during the process of acquiring a loan which has therefore instilled fear amongst themselves due the requirements such as high interest rates, collateral require this is a

mandatory requirement among others, lack of adequate information on the loans requirement and payment period as this is for the view that most SMEs would want to acquire a loan hoping that the repayment period will be spread across the tenure of the loan period.

5.3 RECOMMENDATION

Having carried a study on the effects of emergent financial lending institution, the prime focus was the fact that what benefits is being derived by small and medium enterprises from the emergent landing institution in Kasama district of northern province, after the study the following are the major finding and suggested recommendation.

1.2.1 MAJOR FINDING

- Most of financial lending institution their prime target are not small and medium enterprises, but rather their main focus is based of salaried workers.
- The interest rates for SMES are very high and exorbitant and unboreable an ordinary small business to afford.
- Most of the financial lending institution have set up the requirement for SMEs that intend to obtain loans and are that they are required to present their collateral whose value must be higher than the loan amount to be obtained.
- Lending institution indicated that some SMEs lacks proper business ideas for them to be granted loans and that some do not even have a proper business plan that will automatically grand an access to a loan.
- For SMEs there it was noted that some business has a fear to approach lending institution owing to the fact that they regard loans as one of difficult thing to undertake.
- Some SMEs indicated that the repayment period for is too short as this was indicated by those businesses that took time to visit these institutions.
- It was also discovered that some lending institution do not clearly give an explanation to individuals who would want to obtain finance.
- It was also discovered that the few lending institutions that are providing finances to SMEs requires that such business but come in groups unlike as an individual.
-

1.2.2 SUGGESTED RECOMMENDATION

- there should be a need to regulate the operations and services offered by these lending institutions.
- Lending institution should not only limit their finances only on workers but also SMEs as they are the key drivers of the country economy.
- BOZ should always undertake a snap check on some of these institution as some are there for exploitation purposes and not necessarily providing services to needy who are emerging SMEs.
- Regulating the borrowing rates through ensuring that the rates are standardised by all lending institution unlike the current situation were each lending institution has its own lending interest rates.
- Lending institution should equate the collateral requirement with the amount of the loan to be borrowed unlike the current trends were collateral requirement should be higher than the amount to be borrowed.
- Lending on the issue of period of repayment of loans plus interest this should be extended to the minimum of 12 months or according to the requirement of the business or depending on the SMEs desire to repay the loan.

5.3.1 GOVERNMENT

This was not the first kind of the research done in the area of small and medium enterprises and the findings were similar and known, therefore having taken first-hand information from both SMEs and lending institution it is therefore that the government should take account on what is happening to these SMEs on the ground in as much as it is a known factor that the government is providing funds to the sector is for this reason that the much anticipated citizen economic and empowerment commission (CEEC) is available were small businesses can access fund with low interest, on the ground it was evidenced that there is less or no support by the government to emerging SMEs it is for this reason that that the government must be on the ground and undertake a survey on who and who is benefiting from CEEC, the government must enact laws and put in place policies that support the administration and funding of SMEs. Financial lending institution that support

SMEs must be supported so that even those that do not offer services to SMEs can also involve themselves as they are very few non-banking institutions providing loans to SMEs.

5.3.2 FINANCIAL INSTITUTION

Both banking and non-banking institution should lower their interest rate owing to the fact that may lending institution have come on board, this not only end up in the increase number of the but also their interest rates should be lowered for the them to be competitive, as for those non-banking institution based on the study undertaken it was discovered that despite an increase in the number of lending institution their main focus has not been on SMEs but their prime focus is on salaried workers leaving SMEs behind, it is therefore recommended that these institution should extend their services to small and medium enterprises as the economy of the country depends on the existing of SMEs hence it is important that these businesses are taken into account so that they are able to survive on the market through acquisition of loans with lower interest rate.

Collateral should not be demanded from small businesses seeking smaller amount of money for their business operations the loan repayment period should not be fixed, but should be negotiated by the borrower, this will improve the loan recovery rate, as there will be fewer defaulters due to mutually agreed repayment period.

5.3.3 ZAMBIA CHAMBER OF SMALL AND MEDIUM BUSINESS ASSOCIATION

The Zambia chamber of small and medium business association (ZCSMBA) in collaboration with all stakeholders such as the citizen economic and empowerment commission should ensure that SMEs are helped through conducting training in various areas of investment which may include fish hatching, block making, innovation, tourism, packaging and water bottling and support them with funding which will help small and medium enterprises be revamped and be focused on proper business ethics and basic accounts.

5.3.4 SMALL AND MEDIUM ENTERPRISES

The owners of SMEs should take advantage of the emergent financial lending institution through visiting these institution and undertake a consultation on how best they can access funding and what services are provided if any to SMEs, and also ensure that they keep proper financial records at all-time no matter the small the size of the business, the SMEs should also ensure that their business are fully registered with the registrar of business so that whenever they want to access any funding they will be able to present their registration certificates rather than what was discovered were most of the emerging SMEs are not even registered and eventually they miss opportunities of accessing fund from lending institutions.

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APPENDICES

i. (a) Questionnaire for institution managers



The University of Zambia

In collaboration with

Zimbabwe Open University

Effects of emergency financial lending institution on the economy, a case of SMEs in Kasama district.

Instruction a case of SMEs in northern province.

- Do not write your name on this paper
- Treat this work as contribution towards the impact of mushrooming financial lending institution on the country's economy.
- **Tick (√) or place an x** to the appropriate response and/ or write in the space provided, please be honest and answer what you know and how you see things.
- All responses must be written in the space provided.

Section A: introduction

1. Name of institution

2. Gender of respondent

a) Male []

b) Female []

3. Age

A) 25-30 []

b) 31- 35 []

iii.
.....

(b) If the answer is No, why is there no need for any collateral when obtaining such services?

.....
.....

14. Has your institution experienced any defaulters in servicing the loans borrowed?

Yes []

No []

(a) If the answer is yes, can you give an approximate number of defaulters

.....

(b) If the answer is no, what could be the attributes as to why your institution has not experienced such.

.....
.....

15. Does your institution provide any bellow out to some SMEs who have challenges in repaying their loans?

Yes []

No []

(a) If the answer is yes, what are some of the bellow out that are provided.

.....
.....

(b) If the answer is no, why is it that there are no such provisions.

.....
.....

16. What economic benefits has been realized in the services that are provided to the SMEs

i.

ii.

iii.

17. As a lending institution do you feel the increase number of lending institution has positively helped the country's economy to improve?

Yes []

No []

(a) If the answer is yes, how has the economy improved.

.....
.....

(b) If the answer is, why has there been no improve in terms of the economy.

.....
.....
.....

18. With such an overwhelming increase in number of lending institution, what recommendations can you give that will be of best interest to both the institution and the SMEs that ensure that the country's economy is improved?

.....
.....
.....
.....
.....

End of questionnaire

Thank you.

Period of Research

16th December,2020 -10th February 2021

(b)Interview guide for SMEs

1. How well do you know about small and medium scale enterprises (SMEs) ?
.....
.....
2. What type of business have you ventured in?
.....
3. When did you start your business?
.....
4. Is your business registered with PACRA?
.....
5. Where did you access your start-up capital?
.....
6. Are you aware that there has been an increase in the number of lending institution of recent?
.....
7. If the answer is yes to question 6 above
 - (a) Have you ever accessed any loans from any of these institutions and how much?
.....
 - (b) If the answer is no, why haven't you accessed any loans from these institutions?
.....
8. If you have accessed any loan from these institutions, were you asked to tender any collateral security?
.....
9. How is your business contributing to the economic welfare of the country?
.....

10. Do you think the mushrooming of financial lending has brought good than harm to the country's economy?
.....

11. What do you think could be done to enable emerging SMEs can access fund in a quickest possible way?
.....

12. What recommendation can you give to enable these institutions provide the best possible services to SMEs?
.....

13. Is the government doing anything to enable emerging SMEs also have an opportunity to access different financial aids to boost their businesses?
.....

14. What is the best advice you can give to those entrepreneurs who wish to start their small businesses?
.....
.....

15. Has your business been making profit and how are you contributing to the country gross domestic product based on the business you are doing?
.....
.....
.....

End of interview.

Period of Research

16th December,2020 -10th February 2021.