AN EVALUATION OF CHALLENGES TO SMEs IN OBTAINING FINANCE IN ZIMBABWE A CASE STUDY OF BINDURA

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I certify, to the best of my knowledge, that the required procedures have been followed and the preparation criteria has been met for this dissertation.

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DEDICATION

This research project is dedicated to my parents, and my sister for their unfaltering and visionary support upon which I concede that my academic endeavors are a product that owes much to their contribution. To you the reader, this work is also dedicated.
ABSTRACT

This paper aims to explore some of the barriers faced by SMEs in raising finance to support and grow their businesses, specifically exploring the extent to which owner-managers’ personal characteristics (ethnicity, gender and education) impact upon their ability to access finance for their enterprise. The major objectives used were; to identifying challenges SMEs faces when sourcing for finance? And access the appreciation of SMEs on the various methods of sources of finance that they can employ. A survey was done to 20 SMEs. The research used the questionnaires and interviews as the research instruments. The literature review in the paper shows that previous research indicates constraints in accessing finance for females, ethnic minorities and the less well educated. This paper builds upon this research and reveals some new insights.

The study is an important piece of research given the critical need of policymakers to understand differentials between different types of entrepreneurs. It is brings new insights into its field access to finance and with respect especially to marginalized group.

Major findings of the research showed that SMEs have low levels of academic and professional qualification, levels of employment are low, lack of traceable credit history, SMEs are considered to be too risk getting funds from the banks and they lack collateral security.
ACKNOWLEDGEMENTS

Writing a dissertation requires patience not just from the writer but also those whose lives become involuntarily entwined in it. As such I would like to extend my regards to my supervisor Mr. Chari, for his immense contribution to this study. I do promise to pay it forward and pass the knowledge I have gathered to all those in need of it and apply it where necessary. I also wish to acknowledge the help that I received from my friend Liberty Chimwaza thank you for being there for me during hard times of doing this project.

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CHAPTER I

INTRODUCTION

1.0 Introduction
This chapter highlights on the background to the problem, statement of the problem, purpose of study, objectives of the study, research questions, significance of the study, limitations of the study, scope and the delimitation of the study, assumptions guiding the study, as well as the definition of terms in the research.

1.1 Background to the study
The importance of Small to Medium Scale Enterprises (SMEs) in economic development and growth continues to be one of the top agenda items on economic policy planning and growth deliberations in both developed and developing economies. SMEs have been acknowledged as the hub of economic growth and a
building block for globalization. The advantages put forward for the establishment of SMEs are quite numerous. More generally the development of SMEs is seen as accelerating achievement of wider economic and socio-economic objectives, including poverty alleviation. Undoubtedly, for any nation to attain sustained economic growth and higher GDP per capita more focus should be placed on enhancing growth and development SMEs. “However, the ability of SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification. Beck et al (2007).

All these investments need capital and therefore access to finance” is the major factor for SMEs development and growth. International finance and economics literature is replete with evidence to prove and support those SMEs, especially in developing or emerging economies, are more constrained than their larger counterparts, in terms of access to finance for various reasons; chief among them being macroeconomic imbalances, weak financial systems and the capital market structures that have not been adapted to deal with the unique requirements of SMEs, thus leaving them to orphanage; with very limited or no ways in which to finance their growth initiatives. Access to and cost of finance is often ranked as one of most constraining feature for an enabling business environment by SMEs. Small firms do not only report higher financing obstacles, they are also more adversely affected by these obstacles, small firms’ financing obstacles have almost twice the effect on their growth that large firms’ financing obstacles do. Beck Thorsten et al (2007).

Furthermore, the global financial/economic crisis is most likely to shrink access to finance for SMEs more than for bigger companies for the next foreseeable future. The SMEs sector in Zimbabwe is no isolation, despite being credited for having created most of unprecedented new jobs, export markets and vast of other economic benefits over the last decade; with prospects for 2009 and beyond. However if their unique financial requirements are not fully addressed, as the case is with other developed and developing nations, this may all be history. A dynamic small business sector is, therefore an essential and core component of a more flexible, growth oriented and innovative economy, which is one of the key agendas being pursued by the government, under the indigenization strategy. SMEs development may prove to be an effective antipoverty programme and the foundation for innovation and sustainable growth. Consequently, the improvement of access to finance allow for SMEs to
undertake productive investments in order to expand their operations, thus ensuring their competitiveness and that of the nation as a whole. It is therefore crucial that SMEs be strongly supported with more flexible and inexpensive channels of finance which match international best practice.

Like the world over, the traditional method of SMEs funding in Zimbabwe has largely been debt-based finance as a rescue for SMEs with little benefits for the SMEs, due to its inherent disadvantages; despite wide criticism for it being misdirected, leading to a shift in many developing and developed economies away from debt-based and other related modes of financing SMEs towards establishment of frameworks to support equity-based financing such as external commercial borrowings, private equity, venture capital, business angels. Little or no attention has been paid to improving access to equity-based capital market for SMEs in Zimbabwe; the only closer step was the talk about a second tier bourse, which is yet to be instituted. Other SMEs lenders(including government schemes), in a bid to run away from debt financing, have come up with direct financial assistance; focusing more on working capital with very little or no changes on the SMEs’ fixed capital, leaving them with little scope for growth thus practically not assisting them at all.

Certainly, there is a challenge in accessing capital by the small business sector the world over. However, the issue in Zimbabwe is more aggravated; largely due to none existence of deliberate schemes to assist SMEs access finance, the economic meltdown that the country has gone through, and the recent dollarization which has grossly affected most small businesses and even forced some to closure; mainly due to lack of finance to resuscitate their operations.

Thus the key constraint, for SMEs growth and competitiveness remains: availability and accessibility to finance. Equity investment especially at the early stages of a business’ growth, is an alternative and complementary source of funds for SMEs, which can enhance their access to additional sources of medium-to-long-financing and thus highly attractive to SMEs several researchers, in Zimbabwe, have undertaken study on SMEs, with astounding benefits for financial institutions willing to extend debt to SMEs, or on competitiveness of SMEs (Mpofu, 2004).

However, the ability of SMEs to develop and grow depends on their potential to invest, and investment requires capital, therefore access to finance/capital (non-
expensive forms – like equity) is the drive for SMEs growth and development. Most research has focused on more general problems faced by SMEs, and key characteristics of SMEs that ensure determine success, without any focus on improving access to funding as a rescue for Zimbabwean SMEs. Important, though, the other factors may seem to be, but access to finance is the engine that drives all the other factors. It is against this background that this study is being conducted. It seeks; above all, to identify specific challenges faced by SMEs in accessing finance and, based on international experience and the needs of SMEs, recommend the way forward for the Zimbabwean situation.

SMEs are the backbone of economic development and growth and a building block for globalization, and for this to be realized fully economies need to change their mind set towards SMEs, and improve SMEs access to finance. This research seeks to identify challenges/constraints faced by Zimbabwean SMEs in accessing finance and how this can be improved.

1.2 Statement of the problem
Sustainable economic growth and development calls for careful and articulate attention towards the development and improvement of mechanisms to ensure ease of access to finance by SMEs, in order to improve their potential for investment. Key among the constraints to SMEs’ growth and competitiveness is access to adequate and timely financing, at competitive terms. With the challenges of globalization, world economies are now forced to come-up with astute and robust ways of improving SMEs’ access to finance, in line with international best practice. Access to finance therefore equips SMEs with productive investments which are essential for individual company expansion and growth, with positive consequences to overall economic development, growth and competitiveness.

1.3 Research Objectives
The main objective of this research was to identify the major constraints faced by SMEs in Zimbabwe in accessing sources of finance. In addition, the following objectives were pursued:

1. What challenges do SMEs faces when sourcing for finance?
2. Access the appreciation of SMEs on the various methods of sources of finance that they can employ.
3. Provide recommendations to SMEs on how best they can access finance based on international best practice.
4. Present relevant findings and recommendations to authorities and policymakers on how sources of finance can be competitively availed to SMEs in Zimbabwe.
5. Make any other recommendation as may be found necessary.

1.4 Research Questions

1. Do SMEs understand the various kinds of non-debt based sources of finance they can use?
2. What constraints, if any, do SMEs confront in accessing sources of finance in Zimbabwe?
3. What developments or improvements need to be made in the Zimbabwean economic environment to improve SMEs access to finance?
4. What government is it doing for the SMEs

1.5 Significance of study

To The Researcher

The research project is a requirement for the partial fulfillment of undergraduate students at Bindura University of Science Education and stands as a partial fulfillment of Bachelor of Science (Honours) Degree in Economics. The research would also enable assessment of the relevance of theory learnt to practical situations. Furthermore, the research also plays a major role as a marketing tool in the job market as it equips the writer with research skills.

To the University

After being carried successfully, the research might be of use to the university. It forms part of research material and provide further literature for review for Bindura University of Science Education. This might be essential for other students at the institution and other related institutions who wish to ponder further in research on the same subject.
To the SMEs

This study contributes immensely to existing knowledge about improvement in the operating activities of SMEs in Zimbabwe and thus created a base for further studies to be carried on this topic by the researchers. Furthermore, this study serves as a necessary aid in offering advisory assistance to SMEs seeking sources finance for their enterprises. The research highlights the major constraints that SMEs face in accessing finance and best practice in structuring sources of finance for SMEs, for the benefit of economic players. Research findings and recommendations are general in nature; covering the main requirements of broadly all SMEs for economic wide applicability. The guidelines are, therefore, general in nature and have broad applicability to all stakeholders.

1.6 Assumptions

This research was anchored on the following assumptions:

- SMEs are at the pivot of economic growth and development.
- The major impediment for SMEs growth and development is lack of access to capital.
- With proper orientation and education SMEs would prefer external finance as a source of finance.

1.7 Delimitation of study

The study focused on SMEs’ access to debt-based finance in Zimbabwe, however the research was focused particularly on SMEs based in Bindura; with the view that findings and/or recommendations can be extended to all SMEs countrywide. Details were gathered on various aspects but chiefly among them were; SMEs views of current methods of funding, factors that they consider in selecting the best method of financing, and the impediments they currently face in accessing finance.

1.8 Limitations

The major constraint which limited the through carrying out of the research included the facts that;
- The response rate on questionnaires was not quite excellent as some respondents probably considered the information to be sensitive, and a greater portion were had low literacy, thus it long to get the responses.
- The time given to conduct the study may not be fully adequate, also considering that the researcher is a full time student. The university should at least factor this into account and give students enough time to carry out their research.

The strategies that the researcher used to mitigate the effects of the limitations cited above include:

- Informing the respondents that the information disclosed was used for academic purpose only and it’s confidential.
- Contacting the respondents to tell the researcher when they had free time to respond to the questionnaires.

1.9 Definition of terms

**Micro-enterprises** are the smallest unit of business, with less than five employees, they are usually family owned and home based.

**Small enterprises** is a firm that employ between five and 50 people, they use advanced to sophisticated production techniques with several clear steps in each stage of operation, and they have basic accounting, internal auditing and payroll systems are in place.

**Medium enterprises** employ between 51 and 75 worker. They standardized accounting documentation, governance, products and marketing strategies and they export and/or compete in foreign markets. Medium enterprises are further divided into lower and upper medium categories. Lower medium sized firm employ between 51 and 64 employees and upper medium employ 65 to 75 employees.

**Collateral** is a specific property or asset that a borrower pledges as security for the repayment of a loan. The borrower agrees that the lender has the right to seize and
liquidate the asset to recover the debt in case the borrower fails to repay the loan.

**Debt finance** is the amount of borrowed cash or assets by a business to supplement its business operating activities.

1.10 Chapter Summary
The study is organized into five chapters as follows: - Chapter one, deals with study introductions, purpose of the study, significance of the study objectives, research questions, including limitations of the study. Chapter two looks at review of literature relevant to the study in line with the research objectives. Chapter three focuses on research methodology; like research design, population, sampling techniques, sample sizes, data collection methods. The fourth chapter is on data analysis and presentation. Finally, chapter five has the conclusions observations and recommendations based on the research findings on which way forward were made.
CHAPTER II
LITERATURE REVIEW

2.0 Introduction
This chapter focuses on literature review on SMEs, and generally challenges they face in accessing finance. The review considered various literatures from books, journals, conference papers, periodicals, research papers, magazines newspapers and government circulars on SMEs financing. A review of both the theoretical and empirical literature, on the research objectives would be the prime focus of this chapter. Under each objective relevant data gathered from previous researchers is presented.

2.1 Theoretical Review
In the start-up phase entrepreneurs typically use their own savings or rely on financial support from their family members (Hussain et al. 2006). The need for external finance usually increases as the firm size grows and external finance is often a more important prerequisite for growth in small firms than in large companies (Beck e al 2006). Moreover, the cost of loans could be higher in those new small firms where the owner-managers lack previous entrepreneurial experience or where the firm has no track record indicating its performance (Wright et al. 1997). For example, according to Voordeckers and Steijvers (2006) the length of bank borrower relationship may decrease the collateral requirements.

Although SMEs offer employment and income to the majority of people in developing countries, their performance has been characterised by low contributions to output low growth rates and the inability to graduate into larger companies (Berry et al., 2001 & Liedholm, 2002). Compared to large firms, the poor performance of SMEs has been connected to limited demand for their products and their inability to access foreign markets and technology (Kimura, 2003). Other factors which are also connected to the
poor performance of SMEs in the developing world is a shortage of working capital, institutional and infrastructural obstacles and their inaccessibility to formal market supporting institutions and government incentives (Liedholm, 2002; Peel & Wilson, 1996 & Kappel and Ishengoma, 2004).

Worldwide, the SMEs have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potentials at low capital cost. The labour intensity of the SMEs constitutes over 90% of total enterprises in most of the economies and is credited with generating the highest rate of employment growth and account for major share of industrial production and exports (Government of India, 2007), and the rapid expansion of small enterprises in economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as a dynamic and innovative factor, they contribute directly to economic growth. (Piotr and Rekowski, 2008). However, the SMEs sector is faced with many constraints. Among them is the most pressing one known to be financing.

According to the Organization for Economic Co-operation and Development (OECD) Policy Brief (2006), SMEs constitute between 95% and 99% of enterprises in both OECD and non-OECD member states and they contribute between 60-70% net job creations in OECD countries. In Zimbabwe, SMEs contribute a significant portion of economic activity and with their relative contribution cutting across all sectors, they are strategically positioned as major economic drivers and key to improved economic activity.

2.1.1 Small and medium enterprises and access to finance
A major barrier to rapid development of the SMEs sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries like Zimbabwe. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire
or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

Many factors are believed to be responsible for the refusal of loans and sources of funds to SMEs by formal banks. According to Cork and Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities.

However, Cressy and Olofsson (1997) sum up constraints facing SMEs into two; these include demand-based (SMEs) and supply-based (formal banks) financial constraints. The duo define a supply-side finance constraint as a capital market imperfection that leads to a socially incorrect supply of funds to projects, or the incorrect interest rate charged on funds. They further define a demand-side financial constraint as a capital market imperfection in which performance of a firm is adversely affected by a factor internal to the firm. Thus for example, if the firm’s owners would like to grow the firm faster, but the only way they can do this is to relinquish equity, and they refuse to do so, it may be said that the firm’s demand for funds is demand-constrained. These deficiencies shall lead us to exploring other alternative financial sources for SMEs.

2.1.2 Alternative sources of financing SMEs

Although the banking sector is the largest and most important source of external financing for SMEs, by and large, it is believed to be under-serving the needs of this sector. SMEs alternatively draw financing from a variety of sources. According to Organization for Economic Co-operation and Development(OECD) (2006), small firms rely proportionally more on non-bank sources of financing such as internal funds (savings, retained earnings, family network) and the informal sector (money lender), as a result of their inability to produce the collateral requested by commercial banks (Satta, 2003). The informal sector is the main channel of credit for SMEs in Asian countries. According to RAM Consultancy Service (2005), informal sector
channel fund up to 70-80 % of SMEs need in Viet Nam compare to 20-30 % funded by formal channel. Also in Cambodia and Lao PDR, family and friends are said to be the main channel of funding because they provide the cheapest funds compared to either banks or money lenders. The latter which are not licensed entities charge exorbitant rate of up to 20% per cent monthly for unsecured loans. In Nigeria, it is common practice in the country for small business owners to organize themselves into cooperatives commonly called “Esusu”. Members of an Esusu would generally contribute a fixed amount daily, weekly or monthly, to be pulled and then collected in turns to fund their business or personal projects (Elumilade et al, 2006).

2.1.3 Economic significance of SMEs

The contribution of SMEs and their catalytic effect on economic growth and development cannot be overemphasized; SMEs constitute the dominant form of business of organizations. According to Hallberg (2001) SMEs form the base for private sector led growth. Small businesses are an engine for innovation and growth, and they help to alleviate poverty as the majority of them are inherently labour intensive. However, most (if not all) SMEs are constrained by institutional and market failures mostly in relation to access to finance for expansion (Biggs -2002).

In the supplement to the January 2007 Monetary Policy Review Statement, the Reserve Bank of Zimbabwe (RBZ) stated that; “Small to Medium Enterprises (SMEs) are recognized world-wide as engines for economic growth and are potentially the future giants for both local and international markets”. Indeed SMEs are considered to be a major economic contributor and driver world-wide.

According the Ministry of Economic Development (2006), “SMEs represent an important component in the economy. They have a potential to grow and evolve into global players. Government will with immediate effect support the development of SMEs through facilitating access to adequate and cost effective financing initiatives and advisory services such as marketing”.

Sadly though most of the schemes aimed at assisting SMEs have been debt-based and thus not accessible to most SMEs, especially start-up, as most of them fail to meet the minimum requirements. High risk businesses like SMEs, cannot easily access debt as they are charged higher interest rates compared to larger firms, thus increasing their operating costs and reducing their competitiveness and often, due to their operation
they fail to produce some required records. Access to financing remains a significant impediment to the creation, survival and growth of SMEs. (Reserve Bank of Zimbabwe, 2007).

2.2 Empirical Review
Access to finance is rated as the major constraints by around 30% of small and medium enterprises worldwide. (Thorsten Beck etal- 2007). According to Ayagari, Demirgüç Kunt and Maksimovic, (2006), evidence from across countries indicates that SMEs are more constrained in their operation and growth than large enterprises and access to and cost of finance is often ranked as one of most constraining feature by SMEs. Bataa Ganbold (2008) asserts that access to finance has attracted significant research interest and increasing importance for policy makers in both developed and developing economies mainly due to the following factors:

- There is empirical evidence that, expansion of access may reduce poverty in developing economies.
- Financial developments, which may lead to growth, often include improved financial access.
- The widespread lack of access to financial services in emerging economies particularly when compared to the developed countries, leading to a strong correlation between access and economic development
- The Investment Climate Survey (ICS) by the World Bank indicated that one major impediment to SMEs growth is lack of access to financial services. In order to improve access to finance one should be in a position to measure this access. However, there are various dimensions that can be used, the easiest way would be to measure accessibility to financial services in general, and then identify which financial services are accessed, from whom and by who.

In Zecchini’s study (2006), empirical study was carried out and inveterate that Public loan guarantees had reached a measure of effectiveness in easing the SMEs’ financing difficulties. The econometric tests provided evidence that the Fund’s guarantee raised the amount of credit SMEs received from the banking system although it was rather limited, not least because of the relatively small amount of resources the Government has committed to this purpose. The econometric study also confirmed anecdotal
evidence drawn from some surveys of SMEs public guarantee lowered the SMEs’ borrowing cost to a substantial extent. In their own opinion Guarantees can prove to be a highly effective policy instrument to achieve these goals, provided that they are more focused on those enterprises that are more financially constrained in pursuing these objectives.

Bradshaw (USA, 2002) presents empirical evidence on the success of the California State Loan Guarantee Program during the period 1990-1996. Employment increased by 40% at firms benefiting from loan guarantees. Additional state tax revenues of $25.5 million were collected while $13 million was spent on the program.

African Development Bank Group (2009) presents empirical evidence that developing economies need to learn a lot from developed economies as far as financing SMEs is concerned. Access to finance has become the most critical challenge faced by African countries. Empirical evidence has shown that in most developing economies access to finance is often restricted either physically or institutionally, i.e. lack of legislative and supportive economic framework and the non-existence of actively involved institutions (public and private) to promote access to finance. The current global financial crisis calls for increased efforts to improve SMEs access to finance through long-term investments and provision of adequate incentives, for efficient allocation of the little financial resources that are available. Only economies with robust structures/schemes to access to firm for high growth firms would be able to peak from this crisis. Above all, the crisis calls for a shift against the traditional methods of credit financing to innovative mechanisms aimed at reducing the inherent risks of financing for both parties.

According to Hans Falkena, etal (2001) the issue of access to financial services has come to the forefront recently as a public policy problem because a positive correlation appears to exist between increased access to financial services and social inclusion. If an entrepreneur fails to access finance through the regular system, they may not start-up their operation or operate at very low scale; a potential loss for the economy. Generally in Zimbabwe, data on access to finance has been not been, actively compiled (especially in relation to SMEs access to finance). In this regard, access to finance has been lacking and very expensive for SMEs. Consequently most
of them have resorted to informal, inflexible and costly sources of finance and a move that has been counter economic growth and development.

2.2.1 Women entrepreneurs
Carter and Rosa (1998) argued that, although finance constraints for female entrepreneurs have been a recurrent issue in policy debates, no consensus has been reached on the question of whether disadvantages exist for female entrepreneurs accessing finance. In a survey of 600 firms, equally split by gender, they found that there are: “quantifiable gender differences in certain areas of business financing, although intra-sectorial similarities demonstrate that gender is only one of a number of variables that affect the financing process.” The complex influences of other variables, such as education, are an important factor.

Ennew and McKechnie (1998) compare the banking relationships of male and female entrepreneurs and suggest that, “discrimination occurs amongst lenders at a more unconscious level”, and then consider the relationship between banks and female entrepreneurs with respect to terms and conditions, and quality of service. Coleman (2000) finds that women have a lower propensity to access external financing but he argues that this is due not to discrimination by lenders, but rather “that women-owned firms paid higher interest rates than men for their most recent loans”

A recent study commissioned by SBS analysed a number of databases, Global Entrepreneurship Monitor (GEM), Household Survey of Entrepreneurship (HSE), Annual Small Business Survey (ASBS) and UKSSMEF, found that for start-ups there are “negative, gender-specific, finance effect which would tend to reduce female start-up rates females are around 7.5 per cent more likely to perceive financial barriers to business start-up reduce start-up rates” (GEM). Using HSE, “the researcher find no evidence that females face any increased difficulty in obtaining start-up finance. The researcher does find evidence, however, that females are less likely to seek external finance”

For existing firms, Roper et al found that “In terms of the supply side our results are somewhat contradictory with evidence from the ASBS highlighting some negative gender effects but the UKSMEF suggesting that women-led firms are less likely to be
discouraged in their search for business finance. More specifically, the ASBS suggests that women-led firms are around two per cent more likely to have difficulty raising finance and also two per cent more likely to find it impossible to raise the finance they are seeking. The UKSMEF 2004 data on the other hand suggests that women-led businesses are less likely to face discouragement when applying for external finance”.

2.2.2 Ethnic minorities

The most comprehensive review of ethnic minority businesses (EMBs) is a report by Ram and Smallbone (2001) which recognises that the finance issue is crucially important. The report reviews the literature on access to finance for EMBs and emphasises that previous research showed that ethnic minorities were experiencing problems with access to finance especially during the start-up phase (Bank of England 1999; Ram and Deakins 1996). In fact, they show that there are considerably more difficulties than experienced by white entrepreneurs. These problems are shown by various studies to be more acute in particular groups, particularly African, Caribbean’s and Bangladeshis although there is a strong influence of the business sector in which particular ethnic groups concentrate (Curran and Blackburn 1993).

Research by Smallbone et al (2001) suggested that the picture is actually quite mixed: “as a group, EMBs are not disadvantaged in terms of start-up capital from banks and other formal sources. However, more detailed analysis shows that whilst Chinese owned businesses demonstrated a significantly higher propensity to access start-up finance than white owned firms, the proportion of ACBs (African Caribbean businesses) to do so was below that of the white control group and significantly below with respect to bank finance solely.”

The study also found that EMBs were much more reliant upon informal sources of start-up finance. A study by Ram et al (2003) finds that EMBs trying to break out of traditional ethnic sectors face discrimination evening the case of entrepreneurs with seemingly impressive track records and personal resource endowments” thought there is an argument that since it is well known that Asian Entrepreneurs typically borrow from within the community; proposals are reviewed rigorously when commercial finance is sought.
2.2.3 Macroeconomic Environment

Ogujiuba Ohuche and Adenuga, (2004) found that the Nigerian macroeconomic environment to be relatively unstable especially for a number of factors, high interest rates, exchange rate disparity, unavailability, and dominance of the government sector in the economy.

**Interest Rates:**

Interest rates in Nigeria are officially as high as 23.6 %, making it very discouraging for the small and medium scale industries to obtain credit from the banks, high interest rates are not encouraging to investors in the sense that the cost of funds could undermine profits, and cause a loss of the investment. This situation is even worse for the manufacturing sector that sees interest rates from the bank go as far up as 36% or more. According to a World Bank surveys, (2001) banks offers lower interest rates to bigger firms.

**Exchange Rates:**

Disparity in the management of the foreign Exchange Rates system greatly affects the business environment and this has been the case in Nigeria for a while now, making it a huge challenge for the small and medium scale industries to procure raw materials from abroad and equally constrains the availability of trade credits for SMEs by banks.

**Inconsistency in government industrial policies and a weak legal apparatus:**

Inconsistency in government policies is a major problem affecting the growth of small and medium scale industries. The inability of the government to execute budgets on time is a major restriction on the ability of manufacturing firms to factor tariff measures into their trade decisions also affecting the availability of trade credits for SMEs by banks (Ogujiuba, Ohuche and Adenuga, 2004).

More so, weaknesses in the legal framework of the country (for instance, in terms of guarantees” enforcement) makes it extremely difficult to recover bad loans. These difficulties reduce interest in SMEs financing further still and, at the same time, lead banks to impose stiffer conditions for their financing.
2.2.4 Stringent collateral requirements

According to a World Bank survey, (2001) the most commonly cited limitation to SMEs borrowing among the SMEs surveyed in Ghana, Kenya and Tanzania was that bank collateral requirements are too high In South Africa; collateral requirements appear to be a concern primarily for the smallest firms. At first glance, average collateral levels in the four countries studied seem quite high: ranging from 106%-120% for small firms, and 101%-130% for medium-sized firms. However, note that collateral requirements in Germany are 124% for small firms and 130% for medium sized firms, yet access to finance is not considered a major barrier to SMEs there. It is not the level of collateral required that appears to be the problem for the African countries, but the inflexibility of capital requirements and difficulty in obtaining collateral that particularly affect SMEs.

Borrowers in Ghana, Kenya and Tanzania are required by many banks to use only landed property as collateral. Slightly less-conservative banks may allow use of the asset to be financed as collateral, especially if it is a registered vehicle. Only the most progressive banks appear willing to venture deeply into debenture, use of inventories, or accounts receivable which is all standard means of obtaining financing in OECD countries. The reasons for this are often linked to the legal system in the country, where the enforcement of contracts may be very difficult and only registered assets (property or vehicles) are useful in securing a judgment against a debtor. There are also few if any collections agencies and markets for repossessed goods. And one bank noted a general “lack of trust in the market”, which is necessary for collecting on accounts receivable, and is often taken for granted in the developed world.

2.2.5 Role of Government in facilitating access to finance

Based on the empirical evidence that SMEs access to finance vary widely around the globe and its importance towards assist SMEs and the economy in general, it is quite clear that the government have a greater role to play. Governments are generally expected to support or put legislation to control/ ensure the operating environment is conducive for both SMEs and providers of finance. However, the government should, at the same time, guard against counter-productive policies or legislation. The success of a particular regulation in a certain environment is no guarantee that it will work in
any environment with similar results. To enhance access to finance and promote financial depth, the government should develop policies aimed at stabilizing macroeconomic imbalances and improving information asymmetry. (Curran and Blackburn 1993).

According to Beck and de la Torre (2007), the government should distinguish between financial systems where the service providers deliver as widely as is possible given existing infrastructures, against systems where service providers are hampered by inappropriate regulatory or other policies or coordination failures. Thus the extent of government action can be categorized into four measures as follows:

- **Market development interventions:** development of measures that improve the contractual and information frameworks within the economy.
- **Market activity facilitating or enabling activities:** focusing on streamlining regulations, or improving start-up of key activities.
- **Regulations that harness or restrain market participants in order to prevent institutions from engaging in speculative activities**
- **Policies designed to substitute for market decisions by direct ownership or subsidy of financial intermediaries.**

### 2.2.6 The role of financial institutions to the access of finance.

Cosh and Hughes (2003) found that loans from UK banks provide the funding for around two thirds of UK businesses and the largest source for over 25 per cent of firms. The British Bankers Association (2006) reports that in the year to September 2005, term lending reached £33bn and overdraft lending had grown to nearly £9bn. In addition, the BBA reported that half a million small businesses had established new banking relationships over the year.

Consequently, one can be in no doubt that banks are a major lender to small firms yet there is still a debate about whether they are effectively addressing the needs of women, young people and ethnic minorities. It is critical to understand the decision-making process of both banks and entrepreneurs in the lending process and the way in which distortions caused by the impact of entrepreneurs’ personal characteristics could lead to discrimination. Kotey (1999) reminds us that growth is constrained and failure can be caused by financing constraints, and that there are both supply and
demand side factors. On the supply side, it is noted that banks are less likely to lend long term to SMEs due to risk (which is in itself caused by SMEs “lacking a track record of performance on the basis of which their credit rating could be assessed”) and cost (“administrative costs, potential interest income and to the risk of default”) and on account of lack of collateral. The demand side, Kotey argues, is that many entrepreneurs do not wish to use long-term debt finance. Whilst this may be true for some, it is clear that many entrepreneurs are refused finance by banks.

Fraser (2005) in the UK Survey of SMEs Finance (UKSSMEF) reported that some 2.9m SMEs (80%) had used external finance in the previous three years and that the main sources of finance for start-ups are personal savings (65%), bank loan (10%) and friends/family loan (6%), which is considerably different from Cosh and Hughes. He also found that approximately 900,000 businesses (24%) used term loans and that obtaining finance was reported as a major problem at start up by some 10 per cent of businesses. And as his survey was only of people already in business, it fails to capture all those people who have given up as a result of being turned down for a loan.

Lane and Quack (1999), taking a sociological approach, reviewed an important issue in their comparative study of UK and German SMEs’ bank lending and their entrepreneurs’ attitudes towards risk. It is this issue of risk which influences both entrepreneurs and banks in the deal making process: entrepreneur’s judge the level of risk with which they are comfortable whilst banks assess how risky the entrepreneur is as a lending proposition.

Our study will therefore bear in mind the issue of risk given that certain personal characteristics of SMEs may make them more risk-averse or may lead banks to consider them more risky propositions.

Howorth (2001) investigated the pecking order, although the theory emerged in other literature: entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends is often essential (and often regarded as quasi-equity by the banks) to unlock support from commercial institutions.

Cressy and Toivanen (2001) say that, “better borrowers get larger loans and lower interest rates; collateral provision and loan size reduce the interest rate paid. The bank
is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses.” In effect, it may therefore be that simply because banks approach the lending process in a risk-averse way (in order to protect the funds of savers), and thus turn down a number of propositions perceived to be ‘riskier’, that there is an apparent ‘discrimination’ against for example women and ethnic minorities.

2.3 Chapter Summary
This chapter has highlighted the theoretical and empirical literature review of challenges to SMEs in obtaining finance in Zimbabwe. The chapter will essentially introduce the reader to the conceptual and theoretical framework within which the study will be confined. The study will also be important since it will reveal the different schools of thought and the debates that revolve around the topic of study, thus revealing the research gap that the researcher intends to fill. The research also gave the empirical evidence to the existence of challenges that SMEs to faces in obtain the finance. The next chapter will explains how the researcher wants to fill this research gap.
CHAPTER III

METHODOLOGY

3.0 Introduction
This chapter described the activities and procedures undertaken during the course of the research. A description of the research design adopted is given. Also highlighted in the chapter are the research instruments employed, data collection procedures, the target and sample population as well as the data presentation and analysis plan.

3.1 Research design
A research design can be thought of as the glue that holds all the elements in a research project together Trochim (2006:22). It is used to structure the research to show how all of the major parts of the research project, the samples or groups measures, treatments or programs and methods of assignments and how it can work together and try to work together to address the cantered research problems.

A descriptive/qualitative survey was used as it involves the use of varied instruments namely questionnaires, interviews, primary, secondary, internal and external sources. The design also enables comparison of principles in related literature with the research findings thereby coming up with a clear understanding of the challenges faced by SMEs in obtaining finance.

Among the tools used in collecting information were questionnaires. These are a systematic compilation of questions in writing that are submitted to a sample of population from which information is desired. Open-ended questions were used where the researcher required clarity from the owners of SMEs.

Interviews are a purposeful discussion between two or more people. These were used in carrying out the survey. The interviewer asked questions to owners of SMEs since these are the people who know the challenges they face in getting finance. The interview questions were designed to obtain answers pertinent to the research questions and objectives.
3.2 Research Population

For the convenience the researcher considered SMEs situated in Bindura only to minimize costs and reduce time. The selected SMEs are expected to be a true representative all SMEs in Bindura, which can then extrapolated to the entire country.

3.3 Data collection methods

3.3.1 Secondary/desk research

A website publication, http://brent.tvu.ac.uk, secondary data is data that has already been collected by someone else for different purpose. Gunter (2001:3) defines secondary data as sources that digest, analyze, evaluate and interpret the information contained within primary sources. This is data collected and processed by others for a purpose other than the problem at hand. Information used in compiling the study was also obtained from publications, economic journals, research papers, text books and articles mostly on development of SMEs. Such data was analyzed, tabulated and then summary tables and graphs were published.

Merits of using desk or secondary data derived were inclusive of the following.

1) There was relatively easy access to these documents as the researcher could search for literature in libraries, institutional publications e.g. Association of SMEs publications and the internet. Furthermore, from Ministry of SMEs in Zimbabwe.

2) The above point implies that costs related to data collection were reduced hence resources could be channeled to other aspects that are of pivotal importance to the research. This enhanced the comprehension of the study through the use of well-informed judgments and assessment considering optional or additional detailed information at the researcher’s disposal.

However, shortcomings of using secondary information included the fact that some information was becoming out of date and not subject to further manipulation. Evidently, some of the methods used in the early days to source finance by SMEs were becoming out of date due to the natural dynamic changes of the economy.

3.3.2 Primary data

Primary data is information collected specifically by, or for, the data users without any intervening party to summarize the original data. Thus, data is obtained first hand and
constitutes most of the information in this study. Generally, primary data sources are questionnaires, interviews, observations and personal surveys and so on. These are often time consuming and expensive but necessary. Such techniques were relevant to this study and were employed mainly in gathering data from the owners of SMEs. Strengths derived were that: Information gathered was reliable. Further observations and changes apart from that obtained in secondary data were also identified through the use of primary research.

3.4 Data Collection Instruments

3.4.1 Questionnaires
A questionnaire was used to gather written responses from the targeted population which were reviewed, tabulated and analysed. However, the researcher is aware that, with a questionnaire some respondents may not submit the forms or may return them too late and/or some questionnaires may be wrongly completed; particularly if they feel the research will not benefit them. In addition a questionnaire relies more on the respondents’ literacy levels; depending on their literacy levels and their command of the language used; respondents may interpret and answer some questions from varied angles. However, because of its fundamental advantages; which include, among others, lower cost, reduction in bias, greater anonymity and accessibility in primary data gathering, the questionnaire method was used. The questionnaire was distributed to the sample population of all the SMEs. However due to low literacy levels amongst most entrepreneurs, the researcher had to administer the questionnaire personally in certain instances.

3.4.2 Interviews
Interviews conducted provided direct personnel contact with respondents to get in-depth information and cross validate the questionnaire responses. Bouma and Atkinson (1995:214) postulated that interviews are indispensable in qualitative research as one of the most important ways of understanding others and their activities is to ask them. These were conducted during working hours and recorded by way of notes. The researcher interviewed the owners of SMEs. Therefore, the interviews had following merits.
• Data was collected immediately because responses are spontaneous from the owners of the SMEs.
• Presence of researcher ensured that no-one else contributes to answer the question except the responded.

However, the interviews had the following limitations
• Interviews were costly to conduct since the researcher had to meet the owners of the SMEs face to face.
• They were time consuming.
• There were difficulties in trying to locate respondents.
• The sample size was reduced because of the cost and time.

3.5 Validity and Reliability of Research Instruments
Validity refers to the measure of the extent to which the research instruments are measuring what they are supposed to measure. This could be the quality of data whether it is a true representation or not. Reliability of an instrument refers to the extent to which an instrument measures any subject under study. Validity and reliability were achieved by asking a variety of questions to a wide cross section of the target population.

3.6 Data Presentation and Analysis
Data was collected using questionnaires, interviews and observations. The responses were analyzed and grouped that is, the same or similar answers were grouped together. The results were presented in tables, graphs and pie charts in chapter four

3.7 Summary
The chapter outlined the research design, tools used in soliciting for information and various procedures undertaken to obtain data. The data collection methods were also discussed giving a basis on the build up to the presentation of findings and interpretation. Chapter four looked at the analysis and presentation of the data collected, in line with objectives indicated in chapter two, to allow for the meaningful conclusion and observations.
CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction
This chapter focuses on data analysis and presentation based on information gathered during the research, mainly from the questionnaire that was distributed to a sample representative of SMEs. Therefore data is analysed in order to answer the research questions.

4.1 Response Rate
Out of the 20 questionnaires distributed, the researcher managed to obtain 18 responses giving an overall response rate of 90%. Two questionnaires were not returned, constituting the other 10%. This could be due to the fact that some respondents took the questionnaires to their offices and misplaced them. The high response rate was attributable to the follow ups that the researcher made to the subjects where the questionnaires had been left. Therefore, the researcher was confident that the response rate was enough to be fair representation of the population.
4.2 Analysis of Research Findings

4.2.1 Distribution of respondents

Generally most SMEs in the sample were small enterprises; that is, employ 5 to 50 employees as shown in the categorization below:

**Figure 4.1** Distribution of respondent SMEs according to number of employees

![Pie chart showing distribution of SMEs by number of employees](chart.png)

*Source: Primary Data.*

The above distribution may suggest that research findings may be more applicable to small enterprises, than micro- and medium-enterprises, though they can be extrapolated across all SMEs categorizes, however this may also suggest that small enterprises comprise the bulk of SMEs, in the population under study.
4.2.2 Level of education

Figure 4.2

Source: Primary Data

From the above pie chart it can be concluded that education plays a pivotal role to the aces of finance to the SMEs. It was possible that the level of education was a major factor in coming to a lending decision, either because bankers valued a higher education or because a higher education means that entrepreneurs are more articulate and more likely therefore to persuade the banks that they have a viable proposition. Not surprisingly, graduates have the least difficulty in raising finance. Education appears to make some difference to sources of finance, except that those educated (only) to A levels seem more likely to use friends and family and to mortgage their home.

4.2.3 Assistants from the government.

The 70% of the respondents said there are not getting any help from the government. However, the other 30% said there were getting some help from the government in the form of workshop being done by the government to educate them on how to run the business under the Ministry of SMEs. They also indicated that they get some soft loan from the government under the Ministry of SMEs although it is not enough. Therefore, it shows that the government is not doing enough in helping the SMEs.
4.2.4 Gender in obtaining finance.

**Figure 4.3**

![Bar graph showing gender distribution in obtaining finance](image)

**Source: Primary Data**

From the diagram above, males had successfully raised finance than female through financial institutions. From the data the researcher gathered shows that 70% of successful applications for bank loan, 50% were male and 20% were female. This shows that females are facing more challenging to obtain loans from financial institutions than their counterparts. From the results obtained it can be concluded that gender also plays a pivotal role for SMEs to get the finance.
4.2.5 The main source of start-up finance

Figure 4.4

Source: Primary Source.

The pie chart above indicates that 70% of the SMEs surveyed used personal savings as principal source of finance to start their business. However, 20% used funds borrowed from friends and family to start the business. The other 5% used bank loan as a source of finance to start the business. The last 5% used leasing as a source of finance to start the business. This implies that most SMEs rely heavily on the capital of their personal savings to start the business. According to Hans Falkena (2001), this would suggest that most respondents (SMEs) are traditional type of SMEs and are still in start-up phase.
4.2.6 Financing history

Have you ever applied for additional funding in the past five years?

Figure 4.5 Pie chart on type of financing applied for?

Source: Primary Data

In response to the above question, 100% of the SMEs indicated that they applied for additional funding in the past five years; of these 70% applied for bank loan as indicated above. However, the rest went for Leasing/ hire purchasing and Asset finance.
About 36% of the SMEs that applied for bank loan/overdraft/mortgage were successful and the rest were not, the most common reasons for none-approval was lack of traceable credit history and not being in business for too long. Further probing, outside the questionnaire, revealed that most of the SMEs who received the loan/overdraft/mortgage had applied during Zimbabwean dollar era. 64% per cent of the SMEs who indicated that their application was not approved because of lack of traceable credit history also indicated that their application was disapproved because the economic climate was not conducive. Generally SMEs expressed dissatisfaction on the requirements for accessing bank credit; especially information on trade/credit history.

From the above it can be concluded that most SMEs have been relying on short-term financing and they do not keep proper records of their trade transactions.
4.2.8 Problems in paying back the loan

**Figure 4.7**

Source: Primary Data.

The pie is made between sex of those who applied and had loans and whether they experienced problem in paying back the loan. The pie shows that, 70% of female were facing problems in paying back the loan, however only 30% male were facing problems in paying back the loan. Therefore according to this study females are facing more problems in paying back the loans than there are counter parts.

4.2.9 How SMEs pay back loans.

The pie diagram below shows that some SMEs actually experience problems in paying back their loans. 60.30% had to pay in instalments, 23% had to borrow from friends and family. Majority had to pay back the loan using instalment with high interest rates as penalties for not paying the loan in time. Therefore, the SMEs are facing a challenge of paying back the loan due to short period of time to pay back the loan and high interest rates are touched to the loan. 16.70% ended up losing their property that they had used as collateral security.
Source: Primary Data

Figure 4.8 How SMEs pay back the loans

4.2.9 Factors considered when selecting method of financing by SMEs

➢ **Cost of application or processing (transaction costs)**

Generally, the cost of application or processing of loan is not considered as a major factor when selecting a method of funding, 62.1% of respondents indicated that they do not consider the cost at all; whilst 37.9% indicated that the cost is of least importance when selecting a method of funding.

➢ **Security/collateral required**

Amount of security/collateral required to obtain the funding is generally valued by most SMEs; 51.7% of the surveyed SMEs consider this as a most important factor, whilst 48.3% consider it as important. This can also be attributed to the fact that since most SMEs have very little or few assets; it becomes difficult for them to obtain funding linked their resource base; therefore they consider this as an important factor when selecting a method finance.
➢ **Impact on company capital structure**
59% of the SMEs surveyed consider impact on company’s capital structure as one of the least important factors; however 41% of the SMEs consider this as an important factor in selecting a method of funding.

➢ **Amount of disclosure required**
The majority of SMEs consider amount of disclosures required as an important factor when selecting a method of financing, this is indicated by 82.7% of the respondents who indicated that this is an important factor. It would appear; most SMEs still want to keep their business very secretive and would not want to disclose certain information about their business or operations to outsiders; including prospective investors.

➢ **Accessibility**
Most SMEs consider accessibility as a most important factor when selecting a method of financing; SMEs indicated that they consider this as a most important factor, this is also substantiated by the fact that none of the surveyed indicated that they do not consider accessibility at all.

➢ **Time taken to receive capital**
69% of the respondents consider time taken to receive capital as a most important factor when selecting a method of funding, and 31% per cent consider this as an important factor.

➢ **Repayment terms**
86% of the sample population indicated that repayment terms is an important factor they consider when choosing a method of financing. However, 14% said they do not consider it as an important factor. Therefore, the researcher concluded that SMEs do consider repayment terms as an important factor when choosing method of financing.

➢ **Interest rate (or cost)**
Generally, SMEs appear not to be willing to pay high interest rates; 75.9% indicate that they consider interest or cost as an important factor when selecting a method to use for financing. However, the rest do not consider the interest rates.
➢ **Amount of control over business operations**

In line with the general notion that most SMEs do not want to give-up ownership-off their businesses; 51.7% indicated that, they consider amount of control over business operations as an important factor, this refers to both amount control that the SMEs is entitled too, and that which the investor may want to take over. Generally, though SMEs want additional funding they do not want to give too much control to an investor.

➢ **Risk involved**

55% of the respondent rated this is an important factor when selecting a method of financing.

**Fixed assets that SMEs have**

70% of the respondents of the SMEs do not own any fixed assets however, only 30% own fixed assets such as building, vehicles and farms. Not having fixed assets by some of the SMEs it has a danger of not being able to get loans from financial institutions since an asset is a prerequisite for one to have loan since it will be used as collateral security.

**4.3 Chapter Summary**

The study revealed that, SMEs face a number of challenges in raising finance, and most of them rely mainly on loans from owners/directors and/or from family/friends. SMEs are generally, not aware of the various sources of finance that they can use. However, it is quite evident that SMEs in Zimbabwe do face challenges to access sources of finance due to various reasons, which include, repayment terms, interest rates, time taken to receive the capital; limited knowledge on and recognition of external financing and poor perceptions about external investment amongst SMEs. The next chapter develops conclusions and recommendations based on details gathered from this and previous sections and identify future areas of study on access to finance for SMEs.
CHAPTER V

RESEARCH FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This chapter uses the key issues and findings of the study, to derive conclusions and recommendations on improving SMEs’ access to finance. The research gathered perceptions, attitudes and views of SMEs’ on various issues relating to finance. Conclusions and recommendations are based on key findings as discussed in the preceding chapter and are expected to be applicable to all SMEs in the population; with the possibility of being extrapolated to SMEs nation-wide and even other countries where SMEs may be operating under the same or similar conditions. The main objective of this research was to identify the major constraints/challenges faced by Zimbabwean SMEs (Bindura based) in accessing finance.

5.1 Research Findings
This study managed to identify the major challenges that are being faced by SMEs in obtaining finance from financial institutions in Zimbabwe. The difficulties that SMEs encounter when trying to access financing is due to 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 SME’s side. Banks are avoid to provide finance to certain types of SMEs, in particular, start-ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns but at a substantial risk of loss.

SMEs due to their few employees it is also working as barrier to access to finance from financial institutions. Therefore, SMEs tend by their very nature to show a far more volatile pattern of growth and earnings, with greater fluctuations, than larger companies. Their survival rate is lower than for larger companies one analyst found that SMEs with fewer than 20 employees were five times more likely to fail in a given
year than larger firms. Thus, SMEs are at a particularly severe disadvantage when trying to obtain financing relative to larger and more established firms.

SMEs are considered to be too risky by financial institutions to give loans. Banks and other traditional sources of credit may decide that SMEs represent a greater risk than larger companies, and respond by charging higher interest rates. This makes it more difficult for SMEs to borrow than for bigger companies, and may make it effectively impossible for many SMEs to borrow money at all because the price of credit is too high.

Furthermore, interest rates charged to SMEs are too high. This is also a big challenge that SMEs are facing. According to this research SMEs are charged high interest rates because there are considered to be too risk giving loans.

This study also reviewed that education level is also a challenge being faced by SMEs to obtain finance from financial institutions. It was possible that the level of education was a major factor in coming to a lending decision, either because bankers valued a higher education or because a higher education means that entrepreneurs are more articulate and more likely therefore to persuade the banks that they have a viable proposition. SMEs graduates have the least difficulty in rising finance however; SMEs with low level of education are facing the major challenge to obtain finance.

More so, the issue of gender played a pivotal role for SMEs to obtain loans from financial institutions. The female are facing more challenges to get loans than their counter parts male.

5.2 Conclusions

Generally, in Zimbabwe other sources of financing are still an unknown, however, SMEs are willing to various sources of financing; though some still require enlightenment on this concept of external financing. SMEs’ perceptions of various source of finance is still very poor and thus proper public relations exercise is needed to enhance the profile of this sector. The government has a major challenge of development and implementation of non-discriminatory regulations and policies, to enable SMEs access to finance without negatively affecting economic development.
and growth. However more research needs to be done to establish the view of other economic players as SMEs do not exist in isolation; they are integrated into the economic supply chain with other economic players, the widening of SMEs research base would be of equal value.

On the evidence gathered through the research study, the following conclusions can be made:

- SMEs do not have (or at least have limited) access to non-debt sources of finance.
- SMEs face a number of challenges in accessing finance, chief among them being informational problems relating to financing namely; limited knowledge, education, collateral security and recognition of external financing, leading to poor perceptions of financing amongst SMEs.
- Limited information on location/identification of investors. Under development of this form of financing in the country. Unfavourable rules and regulations to open way for investors. In adequate property rights protection for investors. Macro-economic and political instability; thus preventing potential investors. Current efforts by government/state sponsored agencies in development and/or provision of finance to SMEs are in adequate, in terms of scope, applicability, policy and regulation. High growth-minded SMEs aspire to use financing.

5.3 Recommendations

In light of the above research finding and conclusion, the following specific recommendations are made:

- **The role of government and other policy makers**

  Governments can play an important role in supporting the SMEs sector, particularly where there is market failure or where incomplete markets inhibit the provision of adequate financing on terms suitable for the SME’s stage of development.

  Government measures to promote SMEs should be carefully focused, aimed at making markets work efficiently and at providing incentives for the private sector to assume an active role in SMEs finance. Where necessary, banking systems should be reformed in line with market-based principles.
Governments should also act to improve awareness among entrepreneurs of the range of financing options available to them from officials, private investors and banks. Micro-credit and micro-finance schemes play an important role in developing countries and efforts should be made to boost their effectiveness and diffusion.

Any provision of official funding should respect the principle of risk sharing, so official funds should only be committed in partnership with funds from entrepreneurs, banks, businesses or universities. Governments should also look at whether government technical support can be used generate the emergence of business angels and to make the existing business angel systems operate more efficiently.

Policy makers need to ensure that the tax system does not inadvertently place SMEs at a disadvantage. They should also review the legal, tax and regulatory framework to ensure that it encourages the development of venture capital. At the same time, national policies should encourage diverse forms of institutional savings and institutional investors should be regulated flexibly.

The market for corporate control should be allowed to function efficiently for both domestic and foreign entities. In order to assess the success of such actions, governments need to be able to measure the size of the SMEs financing gap and evaluate the impact of government actions.

The major challenge faced by the government is on development and implementation of non-discriminatory yet support policies to enable SMEs access finance. To implement this, the government should first focus on stabilizing the macroeconomic environment and improving information asymmetry; these two are the key prerequisites for financial markets success. A stable macroeconomic environment; supported by a comprehensive regulatory system, is a strong foundation for a highly credible financial system and conducive for SMEs growth and development. The current macroeconomic imbalances increase the cost of doing business, not only for SMEs but for all economic participants. Once macroeconomic stability is attained, the government can then focus on reducing distortions within the market. An ideal economic environment is one that encourages and rewards innovation, growth and development; which is currently lacking.
As things are now, economic players are highly uncertain on the direction of the economy, this affects a lot of long-term investment decisions and it has to be addressed in order to encourage investment inflow. In line with above, the government should therefore establish institutionary and regulatory support to:

- Gather and disseminate information on regulations, taxation, standards and general views of SMEs and incorporate these in policy and regulatory framework development.

- Foster and develop stronger, more effective representation of SMEs’ interests at national level. Current efforts by Small Enterprise Development Corporation (SEDCO) and the Ministry of SMEs have not yielded expected results; these institutions need to change their approach towards SMEs; their roles, focus and objectives, to ensure they serve the real needs of SMEs, in services they provide to both SMEs and potential investors. Undoubtedly, this can only be through and purposeful research on SMEs, and wide publication of such research studies.

- Assist SMEs in solving technological problems, impart ideas and to search for know-how and promote innovation, by improving online access for SMEs for successful e-business models and top-class small business support. This will also reduce information asymmetries that currently exist.

#### Role of SMEs

- SMEs should invest in staff development to ensure their staff are acquainted to and are abreast with latest developments in the economic environment.
- Also, efforts should be directed at increasing literacy levels of owners as this has negative effects on their operations and in access of funds
- SMEs should seek to learn how to access various sources of finance and understand their pros and cons
- Investment in technology should not be undermined as a tool for effective communication.
- SMEs should lobby for development of stronger and more effective representation of their interests at sectorial, regional and national level.
Role of private sector

SMEs do not exist in isolation; they are integrated into an economic supply chain, through various linkages and thus have diverse roles; in this regard the role of other private sector market players cannot be overlooked. The private sector should support the development and growth of various sources of finance by facilitating e-based communication, so that investors and SMEs can meet online thus, greatly reducing travelling cost and time. Banks and other financial institutions are by de-facto the major intermediaries in any financial matters, thus they should play an active role in educating the SMEs about the good corporate governance of the business.

5.4 Suggestions for further study

Further study on this topic should focus at surveying SMEs nation-wide, and also gather data from economic players, such as banks, stock brokers, potential investors, to establish an economic-wide point of view; which could not be done within the research specification limits. For SMEs financing to be of value, it should not only be viewed from the SMEs point of view, but from an economic wide perspective as SMEs do not exist in isolation; they are integrated into the economic supply chain with other economic participants. However, the findings and recommendations are still significant to regulators, policy makers and all economic participants as they present a fair view of SMEs.
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APPENDIX I

Questionnaire

My name is Kudakwashe Ishmael Kunyongana. I am pursuing a Bachelor of Science Honours Degree in Economics at Bindura University of Science Education (BUSE). I am carrying out a research on “An evaluation of challenges faced to SMEs in obtaining finance in Zimbabwe” A case study of Bindura. Your assistance in filling out the questionnaire will help this study achieve its objective. I will like to assure you most sincerely that whatever information is supplied by you through these questions will strictly be confidential and used for the research purpose only.

1. What is your gender □ male □ female?

2. The level of education

□ Degree □ Diploma
□ Certificate □ ‘A’ Level
□ ‘O’ level

3. What was your main source of start-up finance?

□ Bank Loan
□ Personal Loan
□ Leasing
□ Loan from friends and family

4. How many employees are in your company?

□ Less than 5
□ 5-20
5. Have you ever applied for bank loan?

☐ Yes  ☐ No

6. Was the application successful? (if yes go to question 8)

☐ Yes  ☐ No

7. Why was the application not successful?

☐ No collateral security
☐ Too much existing debt
☐ Lack of traceable credit history
☐ Industry considered too risk

8. Did you had problems in paying back the loan

☐ Yes  ☐ No

9. if yes how did you finally pay it

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

10. Have you ever applied for additional financing in the last 5 years?

☐ Yes
☐ No
11. Of each of the following factors indicate the level of importance you attach to them when selecting a most appropriate method of raising additional capital.

(Use the following to indicators:

1-most important, 2-important, 3-least important, 4-not at call)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Level of important</th>
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</thead>
<tbody>
<tr>
<td>Cost of application (transaction costs)</td>
<td></td>
</tr>
<tr>
<td>Collateral required</td>
<td></td>
</tr>
<tr>
<td>Time taken to get receive capital</td>
<td></td>
</tr>
<tr>
<td>Repayment terms</td>
<td></td>
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<tr>
<td>Accessibility</td>
<td></td>
</tr>
<tr>
<td>Interest rates</td>
<td></td>
</tr>
</tbody>
</table>

12. What sort of fixed assets does the enterprise holds?

- Building  
- Vehicles  
- Farm  
- Other assets

13. Are you getting any assistant from the government?

- Yes  
- No

14. If the answer is to the above question is yes, indicate the major area of assistants.


15. Any comments that you feel might not have been captured by this Questionnaire that needs to be taken care of?


I thank you.