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Exploring Operational Challenges Faced by Small and Medium-Sized Enterprises (SMEs): Case Study of Lusaka Central Business District.

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ABSTRACT-

This study, The Challenges faced by Small and Medium Enterprises (SMEs) in Zambia, was undertaken to highlight the issues facing SMEs in their quest to accessing bank credit (loans) from financial institutions (banks & non– banks) to undertake various activities; be it general business operations or carrying out expansion project all in the name of fulfilling the objectives as being job creators and helping to reduce poverty. In tackling this topic, the qualitative approach was adopted. Questionnaires and face to face interviews were conducted to 80 SMEs in Lusaka Central Business District through a technique of random sampling. Based on the responses received through these questionnaires and interviews, the following major findings came to the fore. There are institutions such as banks and non-bank financial institutions that are willing to provide funds to SMEs, but Lusaka SMEs are not able to meet the requirements of these financial institutions. Hence, among these requirements is the issue of collateral, which most SMEs cannot provide. In addition, is the other issue of small equity base of these SMEs? Secondly, those who are able to access this credit are also faced with high interest rates and short repayment periods making it very difficult to embark on any developmental or expansion of projects. Another interesting revelation with regards to the high rate of defaults in repayment of loans contracted, relates to the tight Cash flow situations of these SMEs that is mostly due to difficulties in the management of the account receivables of the respective SMEs surveyed. The study concludes with some recommendations to help free up capital or credit to the SME sector. Among the recommendations are encouraging financial institutions (banks & non-banks) to establish factoring services, enforcement of the credit reporting act and finally provision of tax incentives for banks that lend to SMEs to encourage others to do the same.

I. INTRODUCTION

According to Oteh (2010), there is no universally accepted definition of SMEs. Hence, every country or region has developed its own definition which varies across national statistical systems OECD (2000). For instance, scholars like Kurokawa, Tembo, & Velde, (2008) maintain that the definition of an SME depends on the number of employees, firm size, total assets, sales and investment level. Otherwise, Banks define SMEs in terms of average annual sales, with thresholds that vary by country according to the size of the economies and structure of the corporate sector (Torre, Soledad, Peria, Schmukler, 2010). The World Bank defines SMEs as enterprises with up to 300 employees and total annual sales of up to US$15 million (Zavatta, 2008). From the African perspective, an SME is a firm employing 0-250 employees (Ayyagari, Meghana, Thorsten, et al, 2005). For the case of Uganda, according to Mbaguta (2003), an SME is that firm that employs a maximum of 50 employees, with a working capital of about 50 million Uganda shillings and the turnover value of 10-50 million Uganda shillings. Therefore, SMEs are viewed as an engine of growth that contributes enormously to nation's Gross Domestic Product (GDP), employment generation, industrial output, poverty alleviation, export promotion and self-independence.

Small and medium enterprises (SMEs) are very key instruments for the development of an economy through creation of employment, increasing tax base for the country, improving incomes for the low earners among other benefits. (MCTI, 2007; MOF, 2002). Considering the 1996 baseline survey of SMEs in Zambia, about 97 percent of businesses are in the micro small and medium enterprises sector and the sector employs about 18 percent of the labour force and a lot of them are women accounting for 47 percent (Parker, 1996). There is no latest documented nationwide baseline survey on SMEs in the country. So, the available reliable base line data on SMEs in the country is of the year 1996. It is in the year 1981 that the government realized the vital role of the micro small and medium enterprises sector in contributing to the social economic development of the country and it recognized that they were operating under extreme financial difficulties leading to the enactment of MSME the Small Industries Development (SID) Act of 1981 to make the sector more orderly and effective (MOF, 2002; FSD Zambia, 2009), in the same period another MSMEs came named Small Enterprise.

Development Organization (SIDO), this was geared to help improve on the SID Act of 1981 (Kingombe, 2004; MCTI, 2007). Entrepreneurs' financial center (EFC) specializes in providing funding for SMEs in the country. As of 1989, a provision was made in the legislation to enable micro small entrepreneurs to have access to business infrastructure, accessibility to micro financing, improve production services etc., the legislation provided for all these with the view that efficiency and effectiveness of SMEs will improve and this would mean increased employment, increased households incomes etc. so as to help the poor out of poverty (MCTI, 2007; OPM, 2012; Newman, 2011).

Zambia Development Agency is responsible to monitoring the activities of SMEs in the country and is responsible for their development; it is responsible for programs like establishing strategic partnerships with different SME development organizations and building their capacity so as to improve their operational proficiency (IFAD, 2013). There seems to be no clarity on SMEs operations in the country and with no adequate documentation on their activities, it would be difficult to clearly portray their contribution to the

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

1.1 BACKGROUND

The Zambian economy continued to grow at faster rates than the region as a whole. Preliminary estimates suggest that the economy grew at around 5.5–6.0 percent in 2014, which is a slight increase from the 6.3–6.7 percent recorded during 2011–12. The services sector accounted for around three-quarters of real growth the other year, with logistics, communications, and financial services industries growing by more than 13 percent. Construction grew by 7.5 percent, stimulated by mining industry investment and the government's capital projects, and accounted for 15 percent of total growth last year. The record maize harvest pushed agriculture growth to 6.5 percent (Zambia Economic Brief, 2015).

In order for the Zambian SME's to continue contributing to national development they need access to finance to carry out their business operation and expansion. The seeming lack of finance for SMEs is not only retarding their expansion but also the growth of the nation's economy. Macroeconomic conditions in Zambia in 2012 and 2016 severely constrained private sector access to credit.

In the Sixth National Development Plan, the policy of Government is to accelerate private sector investment so as to achieve increased and diversified growth. Government will, therefore, continue with the strategy of attracting investment through facilitation by Zambia Development Agency and improving the overall business and investment climate. Deliberate efforts will be made to linking FDI to the domestic economy in order to broker linkages with SMEs with the view of increasing their productivity, capacity and ability to penetrate into larger markets. The overall effect intended is the creation of decent employment in the various areas of investment (SNDP, 2011-2015). However, despite the fact that MSME has been identified as a tool for economic development and provision of employment, they lack economies of scale due to their limited size. Poor absorptive capacity and limited funds have also been identified as factors that hamper the development of MSMEs in Zambia.

Nevertheless, MSME can be perceived as a tool for economic development, even though variety of challenges seems to have a negative impact that prevent MSMEs from playing the vital role of stimulating economic development. Otherwise, if

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they are utilized properly, they provide employment opportunities, might reduce some hardship and may reduce the poverty level of citizens in developing nation like Zambia (Yusuf, 2012). The picture of the Zambian economy is a mixture of contrasts. On the other hand, economic growth has been relatively high, and the authorities have succeeded in keeping inflation under control. The main challenge for the economy will be strengthening control over fiscal policy, curtailing growth in spending and moving towards a path of gradual deficit reduction.

Another area of constraint, which tends to block the flow of credit to SMEs, is lack of information. Small business owners most often possess more information about the potential of their own businesses but in some situations, it can be difficult for business owners to articulate and give detailed information about the business as the financiers want (JCTR, 2017). Additionally, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors.

Many economic indicators are positive. Zambia continues to grow faster than many of its neighbors, even though the growth rate dipped in 2014. The authorities have succeeded in keeping inflation in single digits for the past five years. The rising fiscal deficit makes the economy more vulnerable at a time when world financial markets are becoming more turbulent (CSO, 2015). High levels of spending on government salaries and on farm and fuel subsidies leave little space for the government to expand cash transfers and other poverty reduction programs. Reducing the deficit and rebalancing spending to support inclusive growth will require tough choices in the months and years ahead.

The contributions of MSMEs to economic growth of countries have been very significant. The Bank of Zambia Monetary Policy Committee noted that inflation would likely rise later in 2015 and remain above the target of 7.0 percent towards the end of the year, fueled in part by depreciation of the kwacha. Consequently, it raised the policy rate by 50 basis points announcing that reserve requirements for commercial banks would be increased to 18 percent from 14 percent (BOZ, 2015).

Credit guarantee schemes are principal to alleviating the constraints facing SMEs in accessing finance. A significant number of our SMEs in Zambia demonstrate good commercial viability. However, they have limited access to conventional bank credit facilities. This was due to inadequacy of collateral and lenders' limited understanding of the SME business model (JCTR, 2016). Access to credit is necessary to grow the SMEs and accelerate the pace of industrialization. Government through the Bank of Zambia will embark on a process of de-risking lending to the SMEs and put in place measures to provide affordable and long-term finance to support SMEs. This will strengthen the SMEs' resilience to external shocks.

The Economic Association of Zambia submitted that the lack of credit from commercial banks to SMEs slows down this group's ability to develop and grow. However, the improving macro-economic environment has revived banks' interest in lending again beyond the comfort of Treasury Bills and of a small and highly sought-after corporate market. In this regard, there should be a timely based analysis which will increase access to credit by SMEs for short, medium and long-term financing. Financing that will help these businesses to upgrade and increase on-farm production, increase purchases of local raw materials for processing, replace old machinery and open opportunities in new markets, creating income through added value and export opportunities, further stimulating the economic revival occurring in Zambia right now (EAZ,2016). Another matter

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has to do with the inadequate capital base of most SMEs in the country to meet the collateral requirement by the banks before credit is given out. In a situation where some SMEs are able to provide collateral, they often end up being inadequate for the amount they needed to embark on their projects. SMEs assets backed collateral are usually rated at 'skeleton value' to ensure that the loan is realistically covered in the case of default due to the uncertainty surrounding the survival and growth of SMEs

The interconnection between the theory of social capital and challenges faced by SMEs in raising finance cannot be under-estimated. In the subsequent discussion, such an interconnection is revealed as inherently embedded in every challenge that SMEs encounter either consciously or unconsciously. The main focus here is on dissection of challenges such as; inadequate collateral to secure loans; lack of information; low level technical and management skills; lack of professionalism; competition; inability to afford long term financing among others, (JCTR, 2016).

1.2 STATEMENT OF THE PROBLEM

Most SMEs in developing countries operate without set standards of production and proper planning systems. This results in large amounts of inventories and failure to meet customer demand thus failure to grow from small to medium and medium to large (Nenzhelele, 2017). Several negative features are postulated in small enterprise sector, including production of poor-quality products; a lot of labour turnover, poor management and failure to reach targeted goals, (Nkonoki, 2016). Failure of firm's internal environment are no doubt the reason for the poor performance of the firm, these are factors such as finance (especially internal finance such as owner's equity contribution and collateral), managerial competency of the owner, location, investment in information technology, cost of production and networking (Cassar, 2014; Barbosa and Moraes 2014). Nevertheless, external factors like contractual and informational frameworks, macro-economic environment, social factors and technology are a major influence on firm performance especially new SMEs, (Beck, 2014).

Many researchers have studied SMEs business environment and their contribution in economic development, for example, (Wines, 2007; Hobohm, 2009; Nenzhelele, 2009) distinguishing between strategies associated with high and low performance, but little is known on the relationship that exists between the factors and firms productivity as this study intends to achieve. Therefore, answers to these problems are very important in developing strategies for both new and existing SMEs as there is a potential for improving SMEs performance when the relationship that exists between the success factors and firm's productivity are known.

1.3 RESEARCH OBJECTIVES

GENERAL OBJECTIVE

To highlight the specific operational challenges that SMEs face in Lusaka's central business district and to suggest some recommendations to help alleviate these challenges.

SPECIFIC OBJETIVES

To know the problems faced by SMEs as they attempt to run and sustain their businesses.

To evaluate some of the factors that hinder SMEs to access credits to revamp their business operations

To identify the effects of interest rates on accessibility of loans by SMEs.

1.4 RESEARCH QUESTIONS

What are the problems that SMEs face during operations?

What are some of the factors hindering SMEs to access credits?

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What are the effects of interest rates on the accessibility of loans by SMEs?

1.5 SIGNIFICANCE OF STUDY

Despite the role of SMEs in the Zambian economy, the financial constraints they face in their operations are discouraging and this has had a negative impact on their development and also limited their potential to drive the national economy as expected. This is worrying for a developing economy without the requisite infrastructure and technology to attract big businesses in large numbers. Studying operational challenges SMEs in Lusaka central business district may have as they endeavor to run and meet their primary objective. SMEs are crucial in the business supply chain since they would present as buyers and consumers of certain products in the business world and from that perspective of the SMEs thereby making it a base line study for policy interventions by state agencies, development partners and non-governmental organization with missions to develop the SME sector.

II. 2. LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews relevant literature on SMEs. It gives some theories relevant to the study. Following each theory is an empirical review of the studies done based on the theory and their findings. This is then criticized and concluded on.

2.2 GLOBAL PERSPECTIVE

The majority of the commercial enterprises are very small and small enterprises that occupy one up to 49 persons (over than 90% of the enterprises). According to the recent studies and clues, Small and Medium Sized Enterprises (SMEs) of the commercial sector in periods of prolonged economic crisis may suffer disproportionately from economic downturns, because of their limited financial resources and dependence on banks' lending, paying such high interest rates. Adding to the financial aspect, their relative shortcomings in terms of technological, managerial and human capabilities may reduce their capacity to overcome the economic crisis. On the other hand, their greater dependence on (fewer) customers and suppliers may lead to increased difficulties in maintaining their activity in the face of the crisis. (NCHC 2012, Papaoikonomou & all 2012, Penrose 2000, Shama 1993).

The above ascertain is getting enforced from the clues of the National Confederation of Hellenic Commerce Research Project. This research took place between March-June 2013 in sample of 2375 traders from all over the country, during the period of crisis, that is to say the period (2009-2013). According to the clues of the search the commercial enterprises lost approximately the half of sales. More specifically, the average circle of works, from 425.000 euros in 2009, there is going to be a decrease into 232.000 euros at the end of the year (a loss of 45,2%) while in period 2012-2013 the decrease of sales is 27%. The loss to the net profits of the commercial enterprises is bigger, from 49.000 euros in 2009, there are going to be limited into 7.000 euros in 2013 (a decrease of 86%, the loss the last two years is about 45%).

On the contrary, lots of studies show that there are still some sectors that have been affected a lot from the financial crisis, there are companies, which show a remarkable yield and it seems that they get a benefit from the crisis and make use of chances. The difference of the companies' attribution still observed in the same geographical region even though to the same local market. Penrose (2000) says that a crisis can be perceived both as a threat and as an opportunity, reciting an old Chinese proverb. Therefore, he continues, the way decision makers perceive the crisis directly affects the way they will respond to it and they will involve in any activity. As Shama (1993, p. 62) mentions, the response to recession depends on how decision makers "perceive its meaning and impact on their businesses." Assuming that entrepreneurs are the decision makers, and SMEs strategic development occurs as a result of the perceptions formed about the context, the existing difficulties, and possible opportunities for growth. Entrepreneurs' perceptions of recession are dependent upon their context and the wider social structures that might facilitate or hinder their functioning. The wider institutional context and the interaction with stakeholders such as investors, government, and competitors all contribute to the formation of perceptions. On the basis of those perceptions, opportunities are identified, and strategies are shaped (Kitching et al. 2009). In a broad yet similar vein, Hall and Silva (2005) focus on the effects of national culture on existing empirical evidence regarding entrepreneurship, claiming that even when the exact same variables are tested, cultural factors should be taken into account and empirical results should be contextualized.

The conclusion of those international searches is confirmed and from the data of the search of the National Confederation of Hellenic Commerce four to ten commercial enterprises (42%) are "very or possible enough" to be closed in the near future. On the contrary 58% of the commercial enterprises said that "the shutter" is not "so possible" or "non-possible". So, six to ten Greek Commercial Enterprises believe that they will survive at the end towards economic crisis. As it comes from the data of the search this conception is not based of the traders' subjective views, but to original clues that have to do how enterprises have handled crisis up today. One impressive clue is about what is going to happen with the employees to those enterprises. The 74% of SMEs of the commercial sector expect that the number of the employees will remain the same. According to this paper some strategies present, tactics and successful practical SMEs of the commercial sector that belong to the optimistic enterprises of the sample search ESEE. Some primary data gathered through entrepreneurs' interviews and questionnaires that fulfilled parallel to the interviews.

Small and medium enterprise or small and medium-sized enterprise (SMEs, small and medium-sized businesses, SMBs and variations thereof) are companies whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). In most economies, smaller enterprises outnumber large companies by a wide margin. SMEs are said to be responsible for driving innovation and competition in many economic sectors. Statistically, in countries for instance, in Japan, 80% of the total industrial workforce is with SMEs Sector, 50% in Germany and 46% in USA are utilized in SMEs. In USA, SMEs help almost 39% to their national income (Udechukwu, 2013).

According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees.

SMEs can be defined in two ways: based on the number of employees in an enterprise and/or the enterprises fixed assets. According to Boon (1989), the size of the enterprise's employment is the most important criterion used in Ghana. But one must be cautious when defining SMEs based on fixed assets because of the continuous depreciation in the exchange rates, which often makes such definition outdated.

UNIDO defines SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19 workers and takes the example of the ubiquitous small shops in the cities such as hair dressing saloons and chop bars. A medium enterprise has 20 to 99 workers and these include manufacturing firm and exporting companies.

In general, different authors (Robbins and Pearce 1993, Michael and Robbins 1998, Latham 2009) affirm that SMEs are the first and the most important victims of a prolonged economic crisis. SMEs may suffer disproportionately from economic downturns, because of their limited financial resources and dependence on banks' lending, paying such high interest rates (Mulhern 1996 for the crisis of 1989–1994 in Venezuela, Domac¸ and Ferri 1999 for the 1997 Asian financial crisis and Ozar et al. 2008 for the 2001 Turkish financial crisis). Adding to the financial aspect, their relative shortcomings in terms of technological, managerial and human capabilities may reduce their capacity to overcome the economic crisis (Gertler and Gilchrist 1994, Forbes 2002 Beck et al. 2005, Butler and Sullivan 2005, Regnier 2005, Marino et al. 2008 Das and Pradhan 2009). On the other hand, their greater dependence on (fewer) customers and suppliers (Nugent and Yhee 2002) and markets (Butler and Sullivan 2005, Narjoko and Hill 2007 OECD 2008) may lead to increased difficulties in maintaining their activity in the face of the crisis. Papaoikonomou & all, (2012) argue that in this context, most SMEs suffered from demand shock.

As mentioned in the Organization for Economic Cooperation and Development (OECD 2009), there has been a drop in demand for goods and services and a tightening in credit terms for SMEs at a global level. But there are some researching works that are putting the situation into doubt that all the SMEs take a bigger effect of the economic crisis in connection with the large-scale enterprises. Gregory et al. (2002) say that Korean SMEs during the Asian financial and economic crisis of 1997 decided that it would be better to strengthen themselves in marketing activities and technology innovation. This adaptation was the easiest for SMEs businesses in connection with the big unites. Shama (1993) mentions that SMEs react using market segmentation tactics much more effectively and quickly than the big businesses, whereas Pearce and Michael (1997) comment that investment in sales and marketing improved SMEs' performance during economic recessions.

In the literature, we find valid reasons why small firms may have different effects from larger firms. Smaller enterprises may be more flexible in adapting to an economic downturn because they are less resistant to inertia, rigidity, and sunk costs (Tan and See 1997), more able to exploit market niches (Gregory et al. 2002, Narjoko and Hill 2007, Hodorogel 2009, concentrated on activities characterized by economies of agglomeration, rather than economies of scale (Berry et al. 2001, Hall and Harvie 2003), and less reliant on formal credits compared with their larger counterparts, which are more burdened by debts (Sato 2000, ter Wengel and Rodriguez 2006).

Even their disadvantages at technological and knowledge levels can be overcome by imitation of other firms' best practices (Nugent and Yhee 2002). As a result, SMEs may be more able to sustain their sustainability and thus counteract the negative effects of the crisis, helping to stabilize the economy. Indeed, there is robust empirical evidence showing that SMEs, and specifically export-oriented SMEs, are better able to adjust to crises (Sato 2000, Berry et al. 2001 and ter Wengel and Rodriguez 2006 for Indonesia, Gregory et al. 2002 for Korea; Tan and See 2004 for Singapore, and Regnier 2005 for Thailand, all in the context of the 1997 Asian financial crisis). Furthermore, as Harvie and Lee 2001 mention, SMEs are of strategic importance for the economic recovery because they help restructure industries because they can act as a source of competition for larger companies, can promote regional trade, contribute to technology transfer, and also regional development. Entrepreneurs' importance has been historically crucial for economic recovery and growth by contributing to job creation and social progression (Elmore 2009). We don't have easy solutions and direct effective strategies to anticipate crisis effects. In the wake of the economic crisis, many firms were faced with severe threats that called for immediate action to ensure firm survival. When choosing the measures to cope with this crisis situation, responsible decision makers were confronted with the challenge to manage the trade-off between the benefits and costs of short-term crisis reactions (Rhodes and Stelter 2009).

On the one hand, short term action like massive cost-cutting, cash generation, shorter reporting cycles, increased employee monitoring and tight budget control seemed necessary to cope with a decline in orders and revenues and to ensure an appropriate and well-coordinated response to changed environmental conditions. On the other hand, such short-term measures might damage the long-term growth potential and go at the expense of the long-term health of the firm as key stakeholder relations may be irreversibly harmed (Asel & all 2010).

2.3 REGIONAL PERSPECTIVE

Education and skills are needed to run micro and small enterprises. Research shows that majority of those carrying out micro and small enterprises in Tanzania are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002). As such, for small businesses to do well in Tanzania, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

The Central bank of Nigeria in its 1990 credit Guidelines for financial institutions characterized SMEs as those whose yearly revenue does not top N200, 000,000 or capital use does not exceed N200, 000,000. Nevertheless, the CBN act 2001 placed the level of employment by SMEs of less than 50 and medium scale enterprises of less than 100 labour forces. In term of the asset based; small scale has capital of less than N 1 million while medium scale has less than N150 million (IFC 2002).

The Central bank of Nigeria in its 1990 credit Guidelines for financial institutions characterized small-scale enterprises as those whose yearly turnover does not exceed N200, 000,000 or capital use does not exceed N200, 000,000. Nonetheless, the CBN act 2001 placed the level of employment by small scale enterprises of less than 50 and medium scale enterprises of less than 100 labour forces. In term of the asset based; small scale has capital of less than N 1 million while medium scale has less than N150 million (IFC 2002 referred to in Ogboru 2007). The SMIEIS characterized MSME as any business undertaking with a most extreme capital base of N200 million barring land and working capital and with the number of workers at the very least 10 or more than 300.

The contributions of MSMEs to economic growth of countries have been very significant. SMEs are viewed as an engine of growth that contributes enormously to nation's Gross Domestic Product (GDP) employment generation, industrial output, poverty alleviation, export promotion and self-independence. Statistically, the contribution of SMEs in the Nigerian GDP base on the sector reveals that industry about 41% agriculture 32%, and service 27% (Weller et al., 2009). In countries for instance, in Japan, 80% of the total industrial workforce in with SMEs Sector, 50% in Germany and 46% in USA are utilized in SMEs. In USA, SMEs help almost 39% to their national income (Udechukwu, 2013). However, in nations, for example, India, Indonesia and Mali SMEs have been recognized to constitute more than 95% of manufacturing sector and have become a very

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strong engine for development in terms of provision of employment, industrial output and export promotion.

Economies throughout the world are nowadays turning their attention to small and medium-size enterprises. Since, attempts to promote economic progress by establishing large corporations have usually failed to improve the lives of majority of the populations concerned. Therefore, Small and Medium Enterprises (SMEs) are now viewed as important players in even and equitable economic development process (Memba, Gakure and Karanja, 2012). Mbugua et al. (2013) also observe that growth of SMEs has been in the recent past of great concern to many government policy makers and researchers globally because of realization of their economic contribution to Gross Domestic Product (GDP) and economic growth. As such they are no longer viewed as stepping stones to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (Mbugua et al., 2013). According to OECD (2014), SMEs are known to contribute to over 55% of GPD and over 65% of total employment in high income countries.

They also account for over 60% of GPD and over 70% of total employment in low income countries (OECD, 2014). Growth of SMEs thus contributes to employment and job creation. Further, growth offers the opportunity for financial gain, return on investment and also increased chances for survival (Dobbs and Hamilton, 2007). Hyland (2013) classifies growth strategies to either organic or inorganic clusters. Companies growing organically not only measure their success on financial metrics but also, they take note of other internal metrics like customer satisfaction, in-house competencies and product quality. On the other hand, inorganic (external) strategies deal with increasing output and business reach by acquiring new businesses by way of mergers or acquisitions (Hyland, 2013). There are various theoretical perspectives which explain the growth of SMEs and associated strategies, but Dobbs and Hamilton (2007) claim that there is no single theory which can adequately give the explanation.

The organic/evolution theory by Greiner (1972), cited in Gupta, Guha and Krishnaswami (2013), asserts that firms learn about their efficiency overtime and move through distinguishable stages. New firms entering the market are unaware of their true efficiencies immediately but as they mature, they are able to uncover their productive efficiencies and adopt strategies befitting the circumstances (Staines, 2005). According to dynamic stage theory by Papadaki and Chami (1982), cited in Levie and Lichtenstein (2010), SMEs have certain characteristics that are associated with the propensity for operation (Kisumu Constituency Development Fund (CDF) Strategic Plan, 2013). The report affiliated this to the failure of the entrepreneurs to come up with effective strategy that could enhance SMEs' performance. However, it did not offer details on the structured growth strategies, if any, that the SMEs were adopting. Various studies have previously been conducted regarding SMEs and Jua Kali operations but none has specifically focused on the unique context of Kibuye Jua Kali. Bowen et al. (2009) conducted a study on challenges affecting small and medium sized manufacturing firms in Kenya. They emphasized on general challenges facing SMEs survival in Kenya. Thus, the study did not give sufficient light on growth strategies that could spur growth and competitiveness in the sector. Atieno (2001), studied SME growth but with bias on 'credit access' as a catalyst for the survival of the Jua Kali sector in Kenya, while Kipyegon (2009) did a survey on positioning strategies by firms in Kenya. Based on these studies, it is evident that strategies for growth of the Jua Kali sub-sector remain largely unexplored. Hence, this study will be expected to fill this knowledge gap by answering the question: What strategies for business growth

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are adopted by the Jua Kali artisans in Kibuye market of Kisumu County?

However, despite the fact MSME has been identified as a tool for economic development and provision of employment, but lack economy of scale due to their limited size. (Basil 2005). Poor absorptive capacity and limited funds have also been identified as factors that hamper the development of MSMEs in Nigeria. (Taiwo, Ayodeji and Yusuf, 2012)

Nevertheless, MSME can be perceived as a tool for economic development, even though variety of challenges seems to have a negative impact that constraint MSMEs from playing the vital role of stimulating economic development, but they provide employment opportunities in developing nation like Nigeria, if utilise might reduce some hardship and may reduce the poverty level of citizens.

In Nigeria, Small business was defined by the third National development plan (1975-1980) as a firm that is capable of providing employment to not more than ten employees. (Taiwo, Ayodeji and Yusuf, 2012). However, MSMEs also refer to as a business with a fixed asset and working capital of an amount not exceeding N60, 000 and capable of employing 50 workers. Moreover, SMEs is a firm with an annual turnover worth N2 million and a net asset of an amount not exceeding N1 million. (Companies and allied matters act 1990, Federal ministry of Industry; Nigeria cited in Taiwo, Ayodeji and Yusuf, 2012).

However, despite the fact MSME has been identified as a tool for economic development and provision of employment, but lack economy of scale due to their limited size. (Basil 2005). Poor absorptive capacity and limited funds have also been identified as factors that hamper the development of MSMEs in Nigeria. (Taiwo, Ayodeji and Yusuf, 2012

A distinguishing feature of SMEs from larger firms is that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation costs of smaller projects. In addition, SMEs face the same fixed cost as Large-Scale Enterprises in complying with regulations but have limited capacity to market product abroad (Kayanula & Quartey, 2013).

Cuevas et al (2014) however indicates that other alternatives to loans secured by real and movable property have practical constraints. For example, it is possible to take security interest in liquid assets, the foreclosure upon which is much quicker than that for real and movable property. However, many debtors especially traders are not in the habit of saving money in liquid accounts, rather they turn to either move it into the informal economy or reinvest in their business. Another alternative would be for the banks to accept the assignment of contractual benefits from borrowers. Though this arrangement is known in Ghana, it is not chosen by banks as they prefer to stay out of other contracts. Cuevas et al. (2014).

There are varieties of SMEs in Tanzania that can be distinguished according to the nature of activities and type of energy services they use for production or performing their services. SMEs such as brick burning, local beer brewing, salt drying, fish drying and charcoal production depend on biomass fuels as a source of power. Other SMEs like retail shops, salons, restaurants and bars, wood processing, welding, depend on electricity services for lighting, refrigeration, entertaining customers, cooking/baking, grain grinding and oil processing (Sawe, 2004). The SMEs in Tanzania are characterised by very low productivity, poor infrastructure, inadequate power supply, low capital, poor market access, and high prices of inputs and shortage of water (Kazungu, Ndiege, Mchopa & Moshi, 2014). Most are self-employed and located at home due to lack of designated work premises and not linked to modern sector (larger enterprise) because of people's ignorance of regulations. This means that they do not go through business formalities such as registration, keeping accounts and even paying taxes (Maleko, 2015).

The Korean Development Institute (KDI) in its study, "Building the Foundations for the Development of SME in Ghana" (September 2008) noted rather grimly, the obstacles these SMEs face daily in Ghana. The study enumerated these as smaller sizes of the SMEs; they are few in number and lack competitiveness internationally. These factors affect the SMEs in many ways. For instance, over 80% of SMEs in Ghana are reportedly having employees numbering less ten. The smaller size of these SMEs means less value addition as fewer processes are possibly involved in the production.

To some writers (Cofie, 2012; Ahiawodzi and Adade, 2014), the SMEs sector can do better with respect to its current contribution to GDP growth. Invariably, the sector can grow faster and better contribute to employment in Ghana. These arguments are indirect ways of saying that the sector is not realizing its full potential logically as a result of some constraints. Ackah and Vuvor (2011) are among several writers who have acknowledged that some of these constraints are challenges faced by SMEs in having access to credit facilities from financial institutions (banks, micro-finance firms, savings and loans companies among others), which are the sector's financiers.

In the microfinance and SMEs literature, several challenges are identified as militating against access to credit facilities among SMEs. Some of these challenges are: SMEs lacking collateral security; poor records keeping; poor credit rating as a result of poor savings history, and stringent lending criteria used by financiers (Ackah and Vuvor, 2011; Cofie, 2012). The fact is that these and other challenges have been consistently found in researches conducted in both developed and developing country contexts, making them strongly confirmed constraints faced by SMEs in the global SMEs industry. However, these challenges have been found in previous studies (Adjei, 2012; Cofie, 2012) only from the perspective of SMEs.

Zairani and Zaimah (2013) are of the view that this situation is unwholesome and poses a major gap in the literature because some of the challenges faced by SMEs in accessing credit are best identified entrepreneurial behaviour. SMEs with more of these characteristics are more likely to grow faster than those with fewer ones (Papadiki and Chami, 2002). In other words, the attitude of the individual entrepreneur in taking risks, motive of going into self-employment, his or her managerial abilities to raise capital and perceive new markets, will determine the growth of the firm. Finally, the life cycle model by McMahon (1998) and similar in principle to the organic theory, explain the growth of an enterprise using the biological metaphor of the "lifecycle". The model postulates that organizations are born, grow and decline. The iterative life cycle stages help to determine the genre of growth strategies to adopt (McMahon, 1998). In Kenya, like other growing economies, SMEs play a significant role that could not be overemphasized. According to the Micro and Small Enterprises baseline survey (1999), the number of enterprises in the sector grew from 910,000 in 1993 to about 1.3 million in 1999.

The survey also points out that SME contribution in terms of output product and services reached a significant 30% of the GDP in 1999 (GOK, 1999). In job creation, micro and small enterprises have been on the forefront in the absorption of ever-increasing supply of young unskilled school leavers and the unemployed in general. In 1999 for instance, the sector employed 2.4 million persons. This number increased to 4.2 million in 2000 and to 5.1 million in 2002, accounting for 74.2% of the total persons engaged in employment (GOK, 2005). Emphasizing further on their role in employment creation, Wachira (2006) points out that 12.8% of the retrenchees who received the 'golden-handshake' in the year 2002 started their own

SMEs. This percentage grew to 19.2% and 21.4% in the year 2003 and 2004 respectively. However, despite the importance of SMEs, studies reveal that most SMEs have no growth incentive and majority remain at their initial level, or choose to expand horizontally by starting other similar ventures or change to other unrelated activities (Ng'ang'a, 2003). The case of Kibuye market SMEs which covers Jua Kali artisans is not yet documented, hence a justification for this study.

A 1992 study by the Ghana Statistical Service revealed that nearly 93 percent of all registered businesses in Ghana are of the SME category. The National Board of Small-Scale Industries (NBSSI) defines SMEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and building) not exceeding the equivalent of $100,000. Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana.

Again, from an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demand of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment) (Berry et al., 2002).

The private sector of Uganda is still in its infancy, covers a broad range of areas, and predominately consists of micro, small, and medium enterprises (SMEs). According to the Bank of Tanzania Sector Report (2009), SMEs contribute to economic development through job creation, innovation, and the competitive disciplining of markets. This is justification why both developed, developing and emerging economies like Tanzania have continued to recognize SMEs as a major economic entity, and SME performance, an opportunity for accelerating the country's sustainable economic growth (Bank of Tanzania Sector Report, 2009).

It is increasingly recognized that Small and Medium Enterprises (SMEs) play a crucial role in employment creation that leads to income generation in Tanzania (SMEs Development policy, 2003, Wangwe, (1999), Massawe (2003), Nenzhelele, (2009) and also extended its importance in creating global employment thereby reduce poverty. In Tanzania it is estimated that about a third of the GDP originates from the SME sector. According to the informal sector survey of 1991, micro enterprises operating in the informal sector engaging 1.7 million small business consisted of about 20% of the labor force (3 million people then), and more recent data show the contribution of SME to account for a significant share of 30% of the GDP, (policy brief, 2008). Though data in Tanzania, especially in the SME sector, are somewhat unreliable and sketchy, the above data saves to show how crucial the SME sector is to the Tanzania economy, (Nkonoki, 2010).

SME is growing fast in Tanzania however the main challenge has been on the nature of employment itself in this sub-sector. In all developing countries, self-employment comprises a greater share of informal employment than wage employment and specifically, self-employment represents 70% of informal employment in Sub-Saharan Africa (Becker, 2004). The Government has expressed its aspirations through designing and implementing a number of policies and programs to support the development of SMEs. Examples of policy development includes the Tanzania Development

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vision 2025, The Sustainable Industrial Development Policy- SIDP, 1996, National Microfinance policy (2000), Mineral Policies (1997) and the National Economic Empowerment Policy of 2004 which all together supports the improvement of the Small and

Medium Enterprise (SME) sector, in order to boost economic growth of the national at large and business in the informal sector where the majority can be employed.

Since 2010, Stanbic Bank Ghana Limited, Ghana Commercial Bank, Standard Chartered Bank, and other commercial banks have improved their financial commitment towards SMEs lending (Ghana Banking Survey, 2013). Stanbic Bank in particular has repeatedly increased its annual budget allocation for SMEs lending in the last few years (Ghana Banking Survey, 2014). Unfortunately, at the end of each year, the bank disburses just a small fraction of this budget to a very limited number of SMEs. While in each year large amounts of money are spent by the bank on personal and corporate loans, lump sums loaned to SMEs continue to reduce in size, a totally discouraging situation. Stanbic Bank Ghana Limited and other banks are irrefutably committed to supporting SMEs financially. Sadly, Stanbic Bank's inability to reach many SMEs with credit facilities is attributed to some challenges. According to Waari and Mwangi (2015), these challenges are faced by both the banks and the SMEs in Ghana.

A business or entrepreneurial venture is successful if it is growing. Growth has various connotations: It can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business. It can also be measured in the form of qualitative features like market position, quality of product, and goodwill of the customers (Kruger, 2004). Business growth is a vital indicator of a flourishing enterprise. There are many factors like characteristics of the entrepreneur, access to resources like finance, and manpower which affect the growth of the enterprise and differentiate it from a non-growing enterprise (Morone and Testa, 2008). Gilbert et al. (2006) suggest how and where questions are important in the context of the growth of the enterprise. The authors highlight that growth is a function of the decisions an entrepreneur makes, like how to grow internally or externally and where to grow in domestic market or international market. Mateev and Anastasov (2010) argue that an enterprise's growth is related to size as well as other specific characteristics like financial structure and productivity. They further observe that the total assets have a direct impact on the sales revenue, but the number of employees, investment in research and development, and other intangible assets have not much influence on the enterprise's growth prospects.

Lorunka et al. (2011) also attest that the gender of the founder, the amount of capital required at the time of starting the business, and growth strategy of the enterprise are very important factors in predicting growth in a small enterprise. They have further highlight that apart from human capital resources, the growth of an enterprise can be predicted on the basis of commitment of the person starting a new enterprise (Lorunka et al., 2011). Chaston and Mangles (1997) suggest that if an enterprise adopts multi-strategy transformation initiatives, the probability of achieving the growth objective increases. They further point that in planning a performance improvement program, different capabilities must be given priority depending upon the development stage of the firm. In their study, Kolvereid and Bullvag (1996) found that almost 40% of the respondents do not want to grow. Further, they found that there is a significant relation between education, industry, past growth turnover, past growth in employees, and entrepreneur's aspiration to grow.

Aspirations are also significantly related to many factors like experience, sex, location, and size of the firm. They concluded that entrepreneurs who want their firm to grow will have higher level of education and will tend to have manufacturing firms rather than service firms (Kolvereid and Bullvag, 1996). Majumdar (2007) acknowledges that economies have included many policies for the promotion of the SME sector like product reservation, infrastructure support, direct and concessional credit, tax concession, and special assessment in procurement of equipment, facility of duty drawback, quality control, and provision of market network (Majumdar 2007). Muthaih and Venkatesh (2012) suggest that many factors contribute in the SME growth; similarly, there are many barriers to growth. For small businesses, barriers can be of two types, institutional and financial. An institutional barrier includes the enterprise's interaction with government, issues related to legalization, taxation, and government support. Financial barriers will involve lack of financial resources.

Further, the authors notice that SMEs can also face external and internal barriers along with social barriers which would cover aspects of market position of an enterprise, access to right kind of human resources, and access to network (Muthaih and Venkatesh, 2012). Moreover, Gaskill et al. (2003) assert that small businesses are dependent on the owner's insight, managerial skills, training, education, and the background of the company's leader. Often, lack of these characteristics is the cause of small business' failure (Gaskill et al., 2003). The Kisumu County Integrated Development Plan [CIDP] (2013) estimates that there are 2,438 SMEs accommodated within the Kibuye Market stretch out of which there are 900 Jua Kali artisans. Compared to the Kisumu Municipal Council Report of 2008, indicating that the market had 1870 SMEs, it is evident that the market is growing in terms of operators and economic activities alike. Abayo (2014) noted that Kibuye market is one of the leading informal employers in Kisumu town owing to its strategic positioning thus attracting a bigger number of sellers and buyers. Notably however, there is no information regarding growth strategies that the existing SMEs in general and Jua Kali artisans in particular, adopt.

Business Growth Strategies Barney (2002) argues that a firm has a wide range of strategies to pursue in creating and sustaining internal growth. The author advocates for the Porter's Generic Strategies which include cost leadership, differentiation and focus. Firms can achieve cost leadership through low-cost access to factors of production and adoption of technology. Moreover, they can differentiate their products in different ways such as product features, linkages between functions, timing, location, product mix, links with other firms, product customization, product complexity, consumer marketing, distribution channels, service and support, and reputation. Finally, firms focus on a particular market niche and company resources to maintain market leadership in that niche (Barney, 2002). Besides these, marketing, development of alliances and the focus on the ethical issues comprise important components of the growth strategy (Kazem, 2004). O'Gorman (2001) notes that 'success strategies' are characterized as high growth businesses.

High growth businesses in turn are competitive on product quality, price and new product offering. Firms seeking growth on the basis of innovation would essentially be oriented towards continuously offering a product that would take a high rank on the 'state-of-the-art' scale in the market (O'Gorman, 2001). Porter and Stern (2001) attest that business growth is also realizable through innovation, which the OECD (2000) defines as encompassing any new development in firms. This strategy involves creating or reengineering products or services to meet new market demand, introducing new processes to improve productivity, developing or applying new marketing techniques to expand sales opportunities, and incorporate new forms of management systems and techniques to improve operational efficiency (Porter and Stern, 2001).

The most important impediments to innovation in the SMEs, according to OECD (2000) are limited resources within many SMEs for carrying out research and development, risk of investing in new knowledge, access to new technologies and know-how, ineffective rules, procedures, education and training programs. In addressing these limitations, Grant (2008) stresses the way in which internal factors including knowledge, skills, patents and brands are combined in unique ways by means of managerial capabilities. Hoffman (2007) identify positive relations between the SME's innovation and profitability, hence growth. In a study by Scozzi et al. (2005) in Niagara region of Canada, it was found that innovators performed higher in terms of sales and exports. Also, there were direct links between increased research and development expenditure and innovativeness in terms of the introduction of new products. Furthermore, quality, specialization, speed of delivery and after sales services were regarded as much more important in terms of improved competitiveness by innovators in comparison to non-innovators who tended to concentrate on low-cost leadership strategies. Also, high innovators placed more emphasis on a wide range of network linkages to access services such as market research, advertising, legal, banking, insurance and technical support (Scozzi et al., 2005). Pecas and Henriques (2006) opine that SMEs belonging to clusters and networks are often more innovative than those operating in isolation and thus have a higher growth propensity. Networking allows the SMEs to combine the advantages of smaller scale and greater flexibility with economies of scale and scope in larger markets – regionally, nationally and globally.

A large number of firms result in greater growth for new ideas. Ramsden and Bennett (2005), also write that growth of small firms is strongly influenced by the level of the inter-firms' collaboration. The links take different shapes in which different firms join together to co-produce, co-market, or co-purchase, cooperate in new product development, or share of information. While networking is viewed as an important requirement in enterprises of all sizes, these learning opportunities are argued to be of particular importance to small firms in order to offset the vulnerability of size acting as the key determinant of organizational success (Pecas and Henriques, 2006). Finally, Jones and Tilley (2003) present organizational flexibility as another strategy to sustaining business growth. The authors argue that, SMEs offer some of the best options for making meaningful productivity gained in the global marketplace based on their flexibility and speed in adapting to market dynamism. Rothwell (2009) supports this premise that organizational flexibility is the key source of growth for most SMEs.

The pivotal role played by SMEs is widely acknowledged, but there is no standard definition of SMEs. Nonetheless, the scale of enterprise can be measured in terms of total work force, turnover, investment and number of business units (KIPPRA, 2006). In the Kenyan context, enterprises are mostly classified by the number of employees engaged in the business. According to National Micro and Small Enterprises Baseline Survey (1999), SMEs are defined as enterprises in both formal and Informal sectors employing 5-99 fulltime employees. Small scale enterprises employ 5-49 employees while medium enterprises employ 50-99 fulltime employees. A feature in the Kenyan economy, SMEs cut across all sectors, providing a prolific source of employment, income, and government revenue and poverty reduction. The sector comprises 98% of all businesses in the country, employs more than 4.6 million people (30%) and accounts for 18.4% of the country's

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GDP. Total capital employed in the sector is 28 billion (GOK, 2013).

The sector provides goods and services; promotes competition, innovation and an enterprise culture and provides opportunities for the development of appropriate technological and managerial competencies. Since they dominate the business sector in Kenya, SMEs are acknowledged as an important factor in the context of poverty reduction as a source of income and employment especially for poor households (Oluoch, 2002). According to Kiveu and Ofafa (2014), growing concern about persistent stagnation and decline in economic growth accompanied by chronic unemployment, poverty and its resultant social problems has led to increased search for strategies which could stimulate economic activity in Kenya. SMEs development has been at the centre of these efforts based on the notion that small businesses form the context within which entrepreneurial activity takes place. Nevertheless, access to markets and marketing information remains a severe constraint to SMEs development and competitiveness in Kenya. Prescribed policies to address these challenges seem not to be effective (Kiveu and Ofafa, 2014). Overall, aggregate demand is low; markets are saturated due to dumping and overproduction, and in most cases, markets do not function well due to lack of information and high transaction costs. Most of the SMEs are ill-prepared to compete in globalised liberalized markets while fewer are capable of venturing into the export markets to tap into new market frontiers. This confines majority of SMEs to narrow local markets characterized by intense competition. Small capital base and limited technology also confine SMEs to poor quality products that cannot compete effectively in a globalised competitive market environment (KIPPRA, 2006).

The Kibuye Jua Kali cluster is situated in Kisumu town along Kakamega road and is nearby the town's busy bus station. The cluster forms over 70% of the SMEs currently registered and operating in the entire Kibuye open-air market (Onyango, Wagah, Omondi and Obera, 2014). The enterprises sell their merchandise daily although the market peaks on Sunday, running from early morning to late at night. The number of traders is about 7,000 but this number doubles on the peak day. There are also 2,800 traders doing wholesale and about 1,000 artisans (Abayo, 2014). The market provides an outlet for raw products and manufactured goods. The Jua Kali units at the market majorly include a number of timber and metal artisans fabricating goods for local sale and export to other markets in the region. There are also units dealing with tailoring and related works (Abayo, 2014). There have been various initiatives to provide stalls for the Jua Kali traders inside the market. However, the interventions have been piecemeal and do not address the needs of the large multitude of traders and customers.

The market is divided into upper Kibuye which houses fishmongers and food-stalls and the whole units, Middle Kibuye which is where most retail trade takes place and Lower Kibuye which houses most of the artisans and cereal traders. Kakamega road which joins Nairobi road links the market to key towns in Kenya through these highways and the public transport system. The market spills over the fence onto the road reserve and this has made it difficult to provide security in all locations. The market is complex of shops, stalls and open-air traders operating a flux of symbiosis and competition depending on location and say. The large number of customers selling more or less the same goods makes the trade cut-throat (Onyango et al., 2013).

To banks, impromptu Bank of Ghana regulatory activities such as review of policy rate, and other economic situations such as high inflation and unstable exchange rate may be challenges hindering them from issuing credit facilities to SMEs (Zairani and Zaimah, 2013), though they may have the

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financial means for SMEs lending. Moreover, the inability of SMEs to meet the conditions required by the financial institutions for advancing credit constitutes a limiting factor. For instance, a principle and model of lending requires that an SME provides collateral security and other evidences of creditworthiness to be able to secure a loan (Waari and Mwangi, 2015). Unfortunately, most SMEs are not able to meet these stringent requirements.

2.4 LOCAL PERSPECTIVE

SMEs in Zambia can be categorized into urban and rural enterprises. The former can be subdivided into 'organized' and 'unorganized' enterprises. Organized ones tend to have employees with a registered office and are mostly solely owned by an individual whereas the unorganized ones are mainly made up of artisans who work in open spaces, temporary wooden structures or at home and employ little or in some case no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include: soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, timber and mining, bricks and cement, beverages, food processing, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (Liedholm & Mead, 1987; Osei et al., 1993) as cited by (Chibamba Kanyama, 2015)

Kundhavi Kadiresan the World Bank Country Director for Zambia assessed the recent economic developments and outlook in the short to medium term, and its analysis of a specific development topic or theme. Many economic indicators are positive. Zambia continues to grow faster than many of its neighbors, even though the growth rate dipped in 2014.

He further highlighted three main issues blocking the flow of credit from banks to SMEs. These are lack of equity in SMEs, lack of organization in terms of human resources, accounting, and administrative management among others and finally the firm's lack of forward-looking vision. For him, most firms were born on the impulse on the part of the entrepreneur, without any in-depth-analysis of the market or competition, which often leads to disillusion in terms of turnover and, consequently, in repayment capacity for bank loan. These are some theories from the perspectives of financial institution but are these really the issues from the perspective of SMEs?

Having looked at the various perspectives on the issue of SMEs difficulties in accessing credit, there is a better understanding of the direction of the study.

Many theories have raised the issue on the financing gap for small and medium enterprises (SMEs), meaning that there are a good number of SMEs when given access to credit could use it profitably to grow their businesses but cannot obtain credit from the formal financial system, because of the inability of the SMEs to meet the stringent requirement of these financial institutions. The issue of lack of credit to SMEs can be looked at from two fronts: the financial institutions and the SMEs operators.

Government wishes to promote industrialization as a means of diversifying the economy. This will be through the facilitating of value addition in the agriculture, mining and manufacturing sectors. In 2017, the private sector and government will invest US$100 million in the Economic Zones across the country. (National Budget, 2017). Industrialization cannot take place without financing to SMEs that form the backbone of the economy. To address this, Government has accessed US$50 million for lending to SMEs. This will create dynamic SMEs that will contribute to growth and generate jobs. (BOD, 2017)

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Government will further develop financing instruments that will attract pension funds led by the National Pension Scheme Authority (NAPSA) and other investment companies to support industrialization under the Industrial Development Corporation (IDC). Priority will be given to projects that add value to output of the agriculture, mining and other primary sectors managed by SMEs. (National Budget, 2017)

These are some of the factors already acknowledged by some researchers as blocking most SMEs in accessing credit from the financial institution in the country. But are these really the case in Zambia? SMEs in Zambia do not also have the luxury of picking a financing scheme that will be appropriate for their businesses. The major type of financing open to them is debt financing from the financial institutions, which most often comes with a long list of requirements that most SMEs find them difficult to meet. The other type that is Asset financing, aside the long list of criteria also requires operators of SMEs to provide 50% of the funds and the financing institution providing the other half to fund the purchases of the assets. This type of financing does not allow for growth of the SMEs sector since they are all short term in nature.

Over the years, the challenges faced by SMEs in accessing credit facilities have been largely empirically examined from the perspective of SMEs. As a result, researchers have hardly incorporated the views of financiers into existing frameworks of these challenges. The gap in the literature provides opportunity for this study to address the issues of: (a) the absence of reliable evidence on what constitutes a full framework of challenges preventing SMEs from accessing credit facilities from financial institutions; and (b) the lack of a holistic framework that reconciles all challenges faced by SMEs from the perspective of financiers and SMEs themselves. This study, therefore, provides a dual focus approach to viewing the challenges that inhibit access by SMEs to credit and financiers' lending to SMEs. This is important in identifying and implementing the most valuable model for SME lending.

A person carrying on a business in Zambia which involves handling or dealing in goods which are imported or exported or which are subject to excise duty or surtax shall keep or cause to be kept in Zambia, in the English language, reasonable and complete records of all of that person's transactions for a period of six years. (2) A person required to keep a record under subsection (1) shall, if required at any time within a period of six years after the date of the importation, exportation, manufacture or purchase of any goods, produce the bills of lading, rail notes, invoices, and all other documents including electronic documents containing all particulars regarding those goods, and shall allow such books, accounts, and documents including any electronic documents and electronic record systems at all times within such period to be open for inspection by any officer. (3) A person required to keep records under this section shall keep records for the period required by or under this Act. (4) The Commissioner-General may require a person to keep records for a longer period where the Commissioner-General determines that the records are required for the purposes of enforcement of this Act; and This amendment increases the period required for a taxpayer to retain records to six years from five years. However, the Commissioner-General may require a person to keep records for a longer period if required for the purposes of enforcement. (ZRA, the Customs and Excise (Amendment) Act No. 18 of 2015).

Prices have been growing at a somewhat slower rate in recent months. The inflation rate fell to 7.4 percent (year-on-year) in February 2015 from 8.1 percent in November 2014, after having risen fairly steadily since February 2012. Food price inflation has continued to rise since mid-2014. In contrast, the rate of growth in transportation prices has fallen sharply to 2.7 percent (year-on-year) in

February 2015 from 7.3 percent in January 2015 and 11.9 percent in February 2014. (Economic Association of Zambia, 2015)

Meanwhile, government borrowing to finance the fiscal deficit has been pushing up interest rates. After falling during the third quarter of 2014, average yields at Treasury bill auctions have risen to 20.3 percent in February 2015 from 17.6 percent in October 2014. The small size of the local capital market imposes a constraint on the government's ability to finance any increase in the fiscal deficit through domestic borrowing. (Zambia Economic Brief, June 2015, Issue 5)

In 2014 and 2015, while fiscal policy has been expansionary, monetary policy shouldered the burden of moderating inflation. In Q1 2015, the BoZ increased the statutory reserve ratio to 10% from 14%, but kept the policy rate constant at 12.5% until November 3, 2015 when it was increased to 15.5%. Caps on lending rates were removed to improve the functioning of the credit market. The rising interest rates have helped moderate inflation, but at a cost. Higher interest rates increase the cost of borrowing and make it even harder for firms and individuals to access credit. In a 2013 published Enterprise Survey of 720 Zambian firms, access to finance was highlighted as the largest business environment constraint. (World Bank Group, Powering the Zambian Economy, 2016)

Poverty in Zambia remains stubbornly high, especially in rural areas where three out of every four people had income below the national poverty line in 2010. Such situation is likely to continue this year linked to the failure- and late onset of 2015 rains, which will reduce agricultural incomes in 2016 and cause some households to fall into poverty. On the other hand, the benefits of growth have accrued mainly to urban areas where many of the gainful economic activities in the country take place, such as in the highly urbanized Copperbelt and Lusaka regions. But recent adverse developments in the country, such as power shortages (and effects on SMEs in industry and services) and depreciation may impact adversely on urban centers. Zambia also has one of the most unequal distributions of income in Sub-Saharan Africa, with a Gini coefficient of 55.6. (Http//: www.jctr.org.zm, 2017)

A number of major challenges or constraints exist in the Zambian sugar market including the high cost of doing business in Zambia as reflected in high taxes, high fuel, electricity and transportation and distribution costs and the high wages that push the domestic price of the commodity upwards. The sugar industry is capital intensive and requires heavy capital investments such as setting up irrigation facilities and factory plants. In Zambia, the cost of borrowing is very high and this limits growth of the sugar industry particularly for small industry players and potential new entrants. Zambia also faces a major challenge with transportation which affects is competitiveness in the international market. Zambia is a landlocked country and coupled with poor transport infrastructure, this makes it very expensive to access export markets. (Thomson Kalinda and Brian Chisanga, Asian Journal of Agricultural Sciences 6(1): 6-15, 2014).

2.5 ESTABLISHMENT OF THE GAP

Most studies reviewed show that financing has a bearing on SMEs' operations and productivity; the effect on SMEs has not been stressed fully in Zambia and Lusaka district to be precise.

Globally, regionally and locally, the influence on SMEs by operational challenges. Consistent also in the studies has not shown that operational challenges badly affect levels of their success. It is also important to mention that most studies have concentrated more on impact on the national level.

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2.6 CONCLUSION

This chapter has discussed the conceptual framework upon which this research will be anchored on together with the literature review. It has highlighted how challenges faced by SMEs affect their success could be maintained and alleviated at international, at the regional and finally at the domestic levels. It has through the review of literature observed that the perception that local SMEs suffer as a result of operational difficulties. The next chapter will look at the methodology that the study will employ in order to come up with the findings based on the research objectives as highlighted in chapter one.

1.6 CONCEPTUAL FRAMEWORK

The contributions of MSMEs to economic growth of countries have been very significant. SMEs are viewed as an engine of growth that contributes enormously to nation's Gross Domestic Product (GDP) employment generation, industrial output, poverty alleviation, export promotion and self-independence. Statistically, the contribution of SMEs in the Nigerian GDP base on the sector reveals that industry about 41% agriculture 32%, and service 27% (Weller et al., 2009). In countries for instance, in Japan, 80% of the total industrial workforce in with SMEs Sector, 50% in Germany and 46% in USA are utilized in SMEs. In USA, SMEs help almost 39% to their national income (Udechukwu, 2013).

III. 3. METHODOLOGY

3.1 OVERVIEW

This chapter presents the research methodology that was used to conduct the study. It presents details relating to the research design, area of study target population and the sampling procedure engaged. Its highlighted data collection methods, data analysis, validity and reliability of research instruments and looked at issues related to ethical considerations and limitations of this study.

3.2 RESEARCH DESIGN

The research applied pure qualitative approach. This involved collecting, analyzing, and interpreting data in a single study, investigating the same underlying phenomenon, and this was argued that its logic of inquiry included the use of induction, deduction and abduction. This decision was largely influenced by research questions, asking both the 'how' and 'what' dynamics of survival strategies among retrenched miners.

Qualitative approach was used to collect data, mainly relating to people's judgments, preferences, priorities and perceptions about mining, retrenchment and survival strategies (Carvalho, 1997). The reason was that questions were open-ended, evolving, non-directional and tending to seek, discover, explore processes, or describe experiences (Creswell, 1998). It can be argued here that such questions can take a grand scale form, representing broad or specific sub-questions, thereby yielding more invaluable data.

The design used was a case study approach. A case study connotes, inter alia, a study that is focused on in-depth fieldwork, which concentrates on one or a few instances of a phenomenon (small-N analysis). This permitted the researcher to yield a critical case, thereby comprehensively examining operational challenges that SMEs face. In this regard, causal linkages were easily identified and analyzed. In a way, this allowed that this investigation oscillates between deductive and inductive reasoning (Hugland, 2010).

To achieve the proposed research objectives of highlighting the specific challenges inhibiting businesses in the CBD in their quest for growth and expansion. The researcher adopted a research method which was efficient and cost-effective research method. In view of this, the study focused on businesses in Lusaka Central Business area in the Lusaka province of Zambia. The survey was designed to investigate the challenges that SMEs

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face when operating and the suggested solution to the problem.

3.3 TARGET POPULATION

Basha and Harter (1980 cited in Dan, 2013) "a population is any set of persons or objects that possesses at least one common characteristic." The term population" should not be taken in its normal sense when sampling rather it represents the full set of cases from which the sample is chosen (Saunders et al., 2012). Thus, the population from which sample for the study were chosen are owners of Micro and Small-scale enterprises (MSEs) in the Lusaka's CBD Area.

3.4 STUDY LOCATION

The study was conducted in Lusaka District. Lusaka district has a total population of over 1,100,530. The research was only centered on retrenched workers based in Lusaka district (Geo Hive, 2000 - 2011). Lusaka Central Business District was suitable for this investigation because of the presence of SMEs, thereby providing valuable insights into the study.

3.5 SAMPLE SIZE

The sample for this study was drawn from the businesses in Lusaka's Central Business District. The study adopted Fisher et al. (1983) formula in Mugenda & Mugenda (1999) to determine the sample size of businesses in the central business district. The sample for this study was drawn from small and medium enterprises dealing in groceries, local farm products, retailing and hard ware. In purposive sampling, sampling is done with a purpose in mind. We usually would have one or more specific predefined groups we are seeking (Babbie, 1986:165).

All of the methods that follow can be considered subcategories of purposive sampling methods. The researcher proposes to sample specific groups of SMEs as in modal instance, here it will be the stakeholders of these SMEs. In this method the researcher was sampled with a purpose.

3.6 SAMPLING TECHNIQUES

The survey population includes randomly selected businesses seeking finance from financial institutions. Multistage sampling design is proposed to be adopted for the SMEs. These businesses will first be stratified into Small and Medium enterprises.

Secondary information, which is meant to review information regarding current situation will be collected from financial institutions such as commercial banks and micro finance institutions.

3.7 DATA SOURCES

In order to achieve the objectives of the research, two types of data sources, such as primary and secondary sources, were used for this research.

3.8 SECONDARY DATA

Secondary data refers to data that was collected by someone other than the user. It also refers to data based on research by others as well as published and unpublished sources in private and public domain.

The purpose of consulting secondary data was to develop a deeper understanding of the problem. Partly, this was to understand the historical dimension of SMEs in Zambia and also the prevailing circumstances, policy options and debates. This helped in appreciating what was already known and assisted in formulating research questions. Moreover, secondary data was used in collaboration with primary information, and in further exploring of the topic (Tashakkori and Teddie, 2003). The sources of secondary data included journals, books and another research that was previously done on a similar topic either in Zambia.

3.9 PRIMARY DATA

Primary data refers to data that is collected by the researchers for their research and archival documents. Primary data was collected by using questionnaires, and focus group discussions due to its low cost and convenience. This was administered to owners and operators of SME businesses and other stakeholders who are represented in the sample. The sample includes Lusaka City Council and financial institutions that do business with these SMEs. The aim of doing so was to get a wide range of views from as many Lusaka stakeholders.

3.10 SEMI - STRUCTURED INTERVIEWS

Structured interviews are a social survey where the range of possible answers to each question is known in advance (Nichols, 1991). Possible answers are listed on the form so that the interviewer simply marks the appropriate reply in each case. This research had both open ended and closed ended questions. The closed ended questions were used with a view of limiting the respondents from giving unnecessary data and partly to assist the researcher in collecting specific data from the field. Structured interviews were undertaken to collect quantifiable data around their survival strategies. The pre-designed questions were standardized, and made coherent. This was to make comparisons and analysis simpler.

The objective here was to collect detailed quantifiable data and adopt a more confirmatory approach towards the prevailing social construct. Moreover, interviews embraced more sensitive issues that could not be covered in groups. At an investigation level, research bias was in a way minimized, owing to low literacy levels among retrenched miners. Therefore, the researcher and research assistants played a major role in administering the interviews, recording, and note-taking.

3.11INSTRUMENTS OF DATA COLLECTION

The questionnaire was used in financing assessment on SMEs.

It was deemed important to understand the possible challenges faced by SMEs and how the same has impacted these SMEs located in the central business district of Lusaka.

The questionnaire consisted of two parts. The first part contained questions about the businesses the SMEs considerations, that is, location, their operational challenges and other challenges they face.

The second part included the direct cost estimation of operational challenges. This part solicited the actual impact of the operational challenges on the SMEs. This will be in regard to the level of operation affected and prevented investment as a result of operational challenges.

Before the questionnaire is validated, it will be tested in smaller focus groups followed by a final survey study of administering of not less than 50 copies of questionnaire to the corresponding respondents.

Secondary information that is review and collection of information from Lusaka City Council and financial institutions themselves such as commercial banks and other micro financial institutions.

3.12 DATA ANALYSIS TECHNIQUES

This investigation employed the framework for analyzing data in mixed methods research spearheaded by Onwuegbuzie and Teddie (2003). The rationale lied in legitimation, and representation allowing the researcher to use the strengths of both methods. This was to deepen the understanding the phenomenon under investigation. This was adopted because it allowed for the use of qualitative and quantitative analytical techniques, either concurrently or sequentially at some stage, beginning with data collection process, from which interpretations are made in either a parallel, an integrated or iterative manner. This was important to this research because analysis was treated as a continuous process stemming from the field, thereby feeding into the methodological sequencing (ibid). This model identifies seven steps feeding into data analysis, data reduction, display, transformation, correlation, consolidation, comparison, and integration. Drawing from the research objective, this model was beneficial because identified themes could easily be compared.

This model also assisted in creating space for drawing a clear distinction between descriptive data and the researcher's interpretation. This also created an opportunity to assess and find causal linkages, discover gaps, make inferences, attach meanings and possibly deal with contradictory Cases (Boyden and Ennew 1997). It was also selected to strengthen the triangulation point which refers to the use of multiple methods to gather or analyses data (Denzin, 1979).

The analysis of quantitative data was at another stage also, done by using the Statistical Package for Social Sciences (SPSS). The qualitative data was done by arranging the data into respective categories and analyzed by using an appropriate frequency, which was presented into table form. The research used the narrative approach for presenting the findings.

Personally, administered questionnaire surveys were used to collect the data in order to reduce misinformation biases. The respondents will be informed of the purpose of the research. The data from the questionnaires will be cleaned, coded, collated using SPSS.

3.13 ETHICAL CONSIDERATION

The researcher endeavored to seek respondents consent before administering the questionnaire and will assure them that of confidentiality of results or the discussion. The study will use codes for all transcripts and concealing of names of all respondents. Therefore, the study will be conducted with respect and concern in the interest of all informants.

3.14 CONCLUSION

This chapter has brought out the methodological approaches that have been employed in this study based on the research objectives. It has among other things highlighted such; the research design, the target population and the methodology used in collecting and analyzing the research. The chapter further highlighted ethical considerations and limitations to the study.

IV. RESULTS AND DISCUSSION

The data collection for this study was done basically through the usage of interviews and focus group discussions. The targeted population was 80 SMEs and the questionnaires were presented among them. Out of the 80 questionnaires circulated, 68 were returned representing about 85% of response rate, which was deemed impressive considering the short time given to these respondents. A higher response rate would have been preferred, but there were many reasons for the percentage achieved. Two of the most crucial reasons were:

- Some of the SMEs were reluctant in answering the questions because they thought the information, they will provide will in one way or the other fall in the hands of the tax authorities despite the assurance given in writing that all information given would be treated confidential
- Others also complained about the time given to them to provide answers to the questions. According to them, it was too short and as a result their inability to complete answering the questions.

In spite of these problems, the response rate of 85% for the purpose of this study is quite good.

Below are the presentations of the details of the responses. Out of the 68 respondents, 57% had their businesses registered as Limited Liability Companies. The rest are registered as Sole

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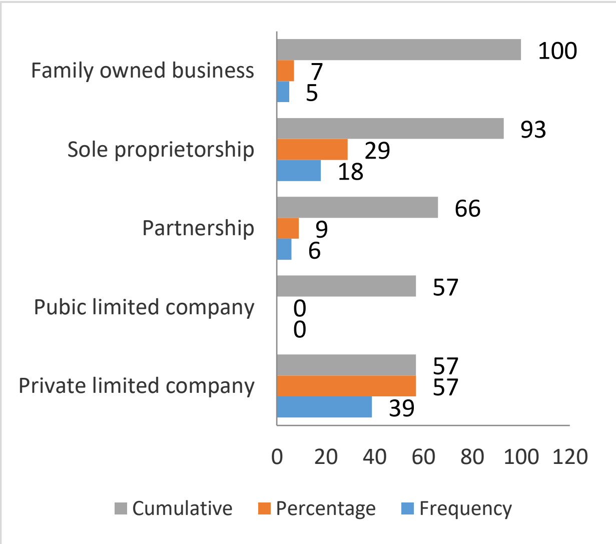
proprietorships, Partnerships and Family owned as shown in table (I).

Table 1 Partnerships and Family owned

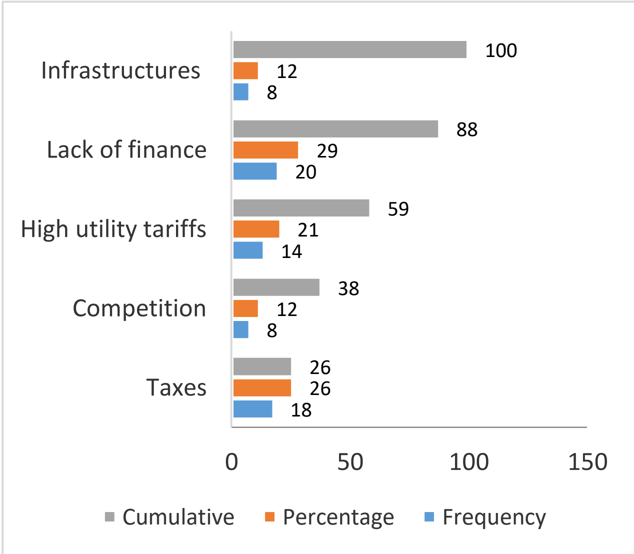


As can be seen from table I, the bulk of the respondents SMEs are registered as Private Limited Liability Companies. They accounted for 39 out of 68 respondents, representing 57%. None of the respondents were Public Limited Liability Company. 18 respondents, representing 26% were Sole Proprietorship with 6 being Partnership. The remaining 8% of the respondents SMEs were registered as family owned businesses.

SMEs Challenges

SMEs known all over the world are faced with lots of challenges in their operations and this was not different from the responses received from our target respondents. SMEs operators who took part in the study were however asked to rank the major constraint they face in operating and growing their businesses. Lack or inadequate access to finance (bank loans) were considered to be a major constraint as it recorded 20%. This means that among all the problems faced by SMEs in their operation ranging from competition, high utility tariffs, infrastructure among others, the participant SMEs saw the lack of credit facilities as the major constraint.

TABLE 2: MAJOR CHALLENGES FACED BY SMES IN LUSAKA



The table above shows participants rankings of the major problems facing the growth of their businesses in order on importance. 20 or 29% of the participant ranked lack of finance as the major constraints to the growth of their business followed by high taxes, which recorded 26%. High utility tariffs were ranked as the 3rd major constraint to the growth of SMEs with just 12% thinking that infrastructure and completion also constrained their growth. This result reinforces the theory by Cuevas et al (1993) where they indicated that access to bank credit by SMEs has been an issue and continues to be raised by numerous studies as a major constraint to growth, which was also supported by Aryeetey et al. (1993) that from the view point of private sector, problems related to finance dominate all other constraints to business expansion. These go to also indicate that finance for SMEs particularly in Ghana is still a major problem even though the number of banks operating in the country has increased tremendously since 1993 when Aryeetey et al. came out with their studies. With a total number of 25 banks (www.bog.gov.gh) and number of non-bank financial institutions operating in the country one expects that access to credit by these SMEs will greatly improve as competition becomes

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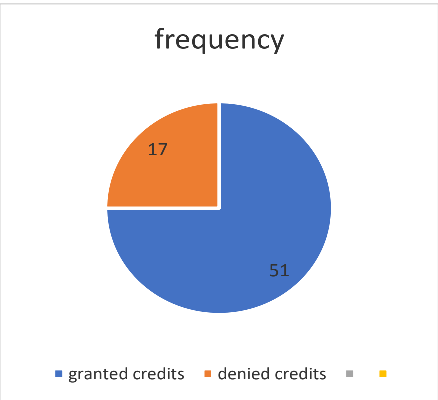
keen. But the expectation has not been met since the results confirm the numerous theories that lack of access to credit bank loans remains a key constraint that needs attention to resolve to enhance SMEs growth. This notion was also in line with Schiffer and Weder (1991), who found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms.

Factors Contributing to SMEs challenges

The inability of SMEs in Zambia to readily have access to credit from the country's financial institutions (banks) can be attributed to a lot of factors. Schiffer and Weder (1991), attributed this factor to the perceived high-risk nature of these SMEs, small portfolios of these businesses and the high transaction cost that banks go through in performing credit appraisal on them before granting credit to these SMEs. Berger and Udell (2006) in finding out factors contributing to the challenges in financing SMEs attributed some of the causes to the type of lending infrastructure of nations. For them, it affects the feasibility and profitability of using the different lending technologies in SME financing. Before revealing what, this study came out with, the study first tested the possibilities of these SMEs being denied credit from the country's banks. That can be referenced from the result below:

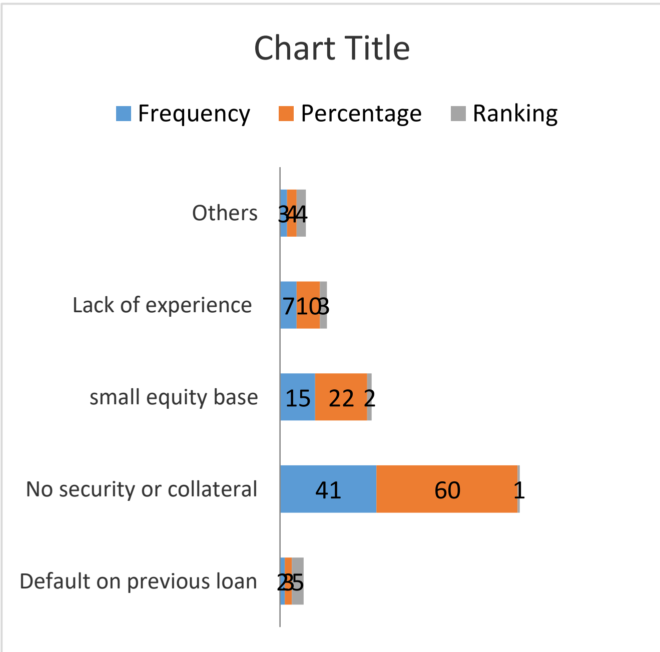
CHART 1: TOTAL NUMBER OF PARTICIPANT SMES GRANTED OR DENIED ACCESS TO CREDIT



The above pie chart shows a number of participant SMEs who in one way or the other has been granted or denied access to credit from financial institutions. From the chart above, 75% (51) of the total respondents say they have been denied access to credit, whilst 25% (17) of them responded No to the same question. Out of the 68 respondents sampled, 60% of them attributed their lack of access to bank loans or credit to their inability to provide the required security or collateral for the loans or credit being requested for and in situations where they are able to provide, it ends up to be inadequate, which accentuate the opinion of Binks et al., 1992. For them, they attributed this factor to the inability of the SMEs to provide collateral and in some cases where they do, they are inadequate and also the SMEs asset-backed collateral are usually rated at "carcass value" thereby making it difficult for these SMEs to get access to the credit they want.

BAR CHART

FREQUENCY DISTRIBUTION OF FACTORS THAT HINDERS PARTICIPANTS SMES ACCESS TO CREDIT



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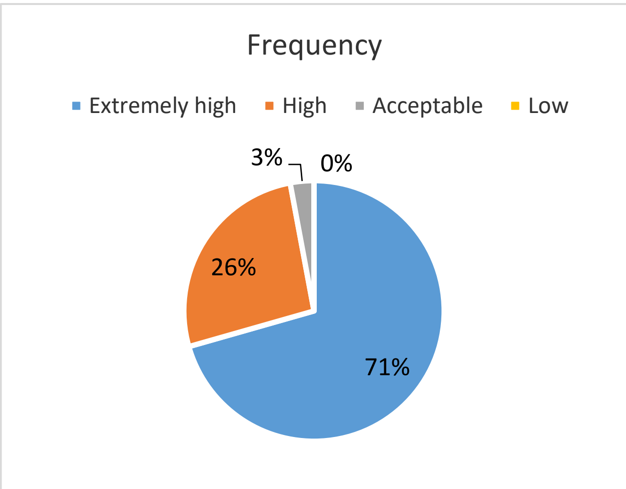
60% representing 41 of the total respondents of 68 ranked lack of collateral as the major factor preventing them from accessing loans from the financial institutions. 15 or 22% ranked small equity base as factor affecting their access to credit. Lack of experience management was the opinion of 7 or 10% of the respondents with 4% thinking that other factors such as 40 the inability to provide audited financial statement are preventing them from accessing credit with 3% relating their inability to access credit to default on previous loan. Again, apart from the collateral issues and other factors as indicated above, which makes it very difficult for SMEs to access the maximum amount needed for various expansion projects, the interest rates charges on the loan facilities by the various banks are outrageous and also unattractive for most SMEs to access these credits. Almost all the respondents expressed an opinion on the level of interest rates charged by financial institutions on facilities received, to be extremely high whiles others also say the rates are just high. Table below shows the figures:

CHART 2

FREQUENCY DISTRIBUTION OF THE LEVEL OF INTEREST RATES ON LOANS.



The above table shows the opinion of respondents on the level of interest rates charges on loans from the bank and non-bank financial institutions. 48 out of the 68 responses received from participants saw the interest rates on loans to be extremely high. This represented 71% of the total responses. 18 or 26% of the total respondent think the rates are high with just 3% saying the rates are manageable. One significant thing is that among the respondents, none saw the interest rates charged on loans by the financial institutions to be low. The extremely high interest rate group numbering about 48 out of the total respondents of 68 pays interest between 31% and 40% per annum. 26% of the respondents, which indicated that the rates charged by the financial institution are high, also pay interest of 21% to 30% per annum, with just 3%, which we will term the "fortunate" ones servicing their loans at an interest of less than 20% per annum. This makes their businesses unprofitable as the profits made are eroded by the huge finance cost. 41 This high interest rate demanded from the SME sector by the banks is due to the high-risk nature of this sector, resulting from the high default rates associated with SMEs financing. The high default was also linked by the respondent SMEs to the delay in receiving payments for their goods and services rendered. This was revealed in the answers given in one of the questions, which sort to find out the causes of high default on the part of SMEs in honoring their loan obligation. One shocking revelation was that about 85% of the total respondents linked the problem to delays in receipts of debtors' payments. These delays, affect their cash flow considerably making it difficult for them to meet their loans repayment dates leading to them bearing extra cost in financing loan contracted in respect of additional fees to the already high interest charge on the loan's facility.

V. CONCLUSION AND RECOMENDAION

5.1 CONCLUSION

The theme of this study which is "Exploring operational challenges faced by SMEs in Lusaka" sort to highlight difficulties faced by these SMEs in accessing credit from the financial institution to operate and grow their businesses. In achieving this, the study sort to answer the following questions:

- What are the problems SMEs face during everyday operations?
- What are some of the other factors hindering SMEs in accessing credits?
- What are the effects of interest rates on accessibility of loans by SMEs?

According the questionnaires circulated, it became evident that SMEs in Lusaka like most SMEs in other countries are faced with major challenges in accessing credit. These challenges were revealed by the study to include, the inability of SMEs to provide collateral and other information needed by banks such as audited financial statement couple with the high cost of loan in terms of high interest rates make it extremely difficult to access bank loans. The above also support the result of Aryeetey et al. (1993), which concluded that 75 percent of sampled firms that need loans under the study conducted on the demand supply of finance for small enterprises in Lusaka, among those that had their application rejected, lack of adequate collateral were the main reason given by the bank. Because of these constraints, which relate to access to bank loans and the difficulties SMEs have in managing their receivables, mainly due to delays in receiving payment for goods and services rendered, SMEs in Lusaka are not able to mobilize cash as quickly enough to grow and expand in a way that they are supposed to. They still remain small without expanding their businesses to the other regions of the country, even though SMEs have expressed the desire to do so when they have the financial assistance required.

In urging banks to take "reasonable risk", we suggest that government should institute some form of tax incentives to banks involved in SME lending. This will encourage others to consider the option of lending to this sector. Also, banks (that are not into SME financing) could consider setting up an SME division or department to provide specialized services to SMEs. Specially trained SMEs credit officers could manage such unit in the bank. For large financial institutions that already have such division, they are usually perceived to be less important compared to other corporate lending 49 divisions. Elevating the importance or status of SME divisions would encourage greater interest and focus on the SME sector. SMEs should also reduce the reliance on banks and take advantage of institutions set up by the state to assist them in terms of finance and training needs. Institution such as Micro Finance and Small Loans Centre (MASLOC) are viable options in terms of loans availability to SMEs in Zambia.

5.2 RECOMMENDATIONS

Based on the findings as revealed by the study, it is believed that when the following recommendations are well implemented will help free up credit/capital to the SME sector. Establishing of Factoring services by banks and non-bank financial services. Most SMEs are finding it difficult in maintaining a good cash flow position to meet their operational needs and also their financial obligation in respect of servicing their loans as expected.

Borrowers without access to collateral have been constrained in accessing credit. Credit information sharing will enable borrowers build a track record that can be used in accessing credit. As banks are unwilling to extend credit without the assurance that SMEs are creditworthy and that it will be possible for them to pay back, the establishment of more of these bureaus and the commitment of the government to make it obligated for banks to disclose such information to these bureaus will bring some transparency to the credit market, which will also go a long way to improve access to credit as a whole and to SMEs in particular. Provisions of

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incentives for banks' lending to SMEs even though banks may be faced with constraints, Aryeetey et al. (1994) suggest that they do active banking by mobilizing resources and distributing them to needy SMEs. Sowah (2003) further suggests that bank should be urged to take "reasonable risk" in examining loan applications from small and medium enterprises, especially for business ventures in new areas and technology.

The study concludes with some recommendations to help the Commission improve its operations in the disbursement of loans to SMEs. The following are the recommendations: The Commission should relax collateral requirements and charge lower interest rates; scale down standard requirements before loans are disbursed and increase Public Awareness. The government should provide adequate financial resources to CEEC and increase the independence and autonomy of the Commissioners. Furthermore, the following should be taken into consideration: Development of social capital through networks, Policy framework, enhancing information management in SMEs, improving management skills, offer better education and skills training

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