

DETERMINING WHETHER GOOD FINANCIAL POLICIES CAN SUPPORT GROWTH OF SMALL AND MEDIUM ENTERPRISES IN PETAUKE:

A CASE STUDY NATSAVE BANK, PETAUKE

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ABSTRACT

This study aimed was at determining whether good financial policies can support the growth of small and medium enterprise (SMEs) in the country.

Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities. As a result, they are unable to publish the same quality of financial information as those big firms and such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from financial institution. A questionnaire was divided into sections was distributed to small business owners and financial institutions.

The responses of the participants were analysed using the spread sheet. The study found that financial institutions have little influence on SMEs financing because most of SME owners or managers frequently used retained earnings or profit (self-financing) and funds from relatives/friends to finance their business as a source of finance.

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 & nonbanks) 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 same.

DECLARATION

This research paper is my own original work. It has not been published in any other University. All the materials contained in this paper which are from other sources are duly acknowledged.

DEDICATION

To my departed parents Mrs. Rosemary Mulenga and Mr. Edward Mulenga. I owe you a lot and I shall always remember you.

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There many people to whom I owe my gratitude and indebtedness for the assistance encouragement, guidance and moral support rendered to me during the period of study.

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CHAPTER 1

1.0 Introduction

This section of the study focuses on elaborating the detailed background of the problem at hand. It further outlines the statement of the problem, its objectives, research questions and significance of the study.

1.1 Background of the study

The mode and means of doing business today has become a talk for most if not everywhere among small business units, which has led to most small scale entrepreneurs to search for most effective stimulating means for sources of start-up capital for businesses.

There is no doubt that most African countries depend on their Micro, small and medium enterprise (SMEs) in driving their economies forward. However, most of these SMEs receive lukewarm support from their governments. Nevertheless, a few competitive SMEs are thriving and contributing to the economic growth, employment creation and local developing in combating poverty.

Street vendors, sole traders, small shop owners and other small business expertise are currently trying to assess the financial policies that will favour their operations as small and medium sized-enterprises (SMEs) for them to attain growth.

The effective operation of small medium entrepreneurs requires the execution of well-defined financial fiscal policies measures that the government should provide.

These include structural adjustments, downsizing government and privatisation of state owned enterprises which protect rules of peaceful participation and completion in the market place (Costantinos, 2014).

To address the above problem, the Government of the Republic of Zambia took the initiative to restructure major banks and financial institutions in 1996, which included the restructuring and downsizing of the National Savings and Credit Bank and the recapitalization of the Co-operative and Rural Development Bank through selling of shares to the general public as well as introduction of new local and foreign banks in which competition has been enhanced, resulting into improvement of quality and quantity of financial services and products offered. The government has also established the National Micro-finance Policy in 2000, the Co-operative Societies Act in 2003 and the National

Economic Empowerment policy in 2004. All these initiatives were met to enhance growth and development of SMEs

Therefore, the purpose of this study is to determine whether good financial policies can support the growth of small and medium-sized enterprises (SMEs).

1.2 Choice and interest of the topic.

The main choice and interest of choosing the topic is to determine whether good financial policies can support the growth of small and medium sized-enterprise (SMEs).

1.2.1 Choice of the topic

Looking at the current situation of the small and medium sized-enterprise (SMEs) I considered the topic to be of greater importance.

1.2.2 Interest of the topic

The main interest of the topic is because it relates to my Master of Arts in Economics and also to have a vast knowledge and understanding how good financial policies can lender support to small and sized-medium enterprises given the overwhelming response by entrepreneurs to undertake business.

1.2.2.1 Personal interest

It has always been my aspiration to understand whether good financial policies can support the growth of small and medium-sized enterprise (SMEs), therefore I considered this as my best opportunity to undertake this exercise.

1.2.2.2 Practical interest

In ensuring a clear understanding how good financial policies can support the growth in small and medium-sized enterprise (SMEs), I have considered it to be my practical experience in gathering and collecting information related to fiscal financial policies and small and medium-sized enterprises.

1.2.2.3 Scientific and academic interest.

As per university regulation and for the requirement of the awarding Master of Arts in Economics and I considered it to be of relevance choosing this topic for research purposes considering that it is aligning with my program.

1.3 Delimitation of the topic

The topic will have limitations in order to provide a clear picture of it.

1.3.1 Spatial delimitation

This study will be limited to Natsave Bank, Petauke Branch with its physical address: situated along main Boma road, P.O Box 56002, near Petauke police station, eastern province, Zambia. The study was focused on Natsave bank in Petauke district because of the influx number of small and medium enterprises found in the district. Furthermore the study was confined to Natsave Bank, Petauke branch because of time and financial constraints.

1.3.2. Time delimitation

My work will be limited to the period between 2015 to 2017.

1.3.3 Research delimitation

My research will critically focus on whether good financial policies (fiscal policies) can support the growth of small and medium-sized enterprise (SMEs) and strategies that will provide the platform for small and medium enterprises to access funds from financial institution for them to attain growth in their operations.

1.4 Problem statement

The overall research problem addressed in this study is that despite the potential the SMEs have in unlocking the economy in any country whether in the developed or developing countries, little has been done to analyse the necessary strategies to be employed to boost the state of operation for small and medium sized enterprise (SMEs). The financial constraints they face in their operations are daunting and this has had a negative impact on their development and also limited their potential to drive the economy without the requisite infrastructure and technology to attract big businesses in large numbers. Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities. As a result, they are unable to publish the same quality of financial information as those big firms and such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from financial institution. This buttressed by the statement that privately held firms do not publish the same quantity or quality of financial information that publicly held by firms are required to produce. As a result, information on their conditions, earnings, and earning prospect may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are credit worthy but unable to report their results (Coleman, 2000).

Another issue 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 the 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 as SMEs assets- backed collateral are usually rated at ‘carcass 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 (Binks et al., 1992).

1.5 Hypothesis

The concern is lay down in the problem statement can be handled by analysing and encouraging the government to address issues that constraints SMEs from performing at frontiers to avoid cross disadvantage to occur that may affect all key players in the country and the industry as a whole. Despite challenges involved in conducting business as small and medium entrepreneurs.

The effective operation of small medium entrepreneurs requires the execution of well-defined financial fiscal policies measures that the government should provide.

These include structural adjustments, downsizing government and privatisation of state owned enterprises which protect rules of peaceful participation and completion in the market place (Costantinos, 2014).

1.6 OBJECTIVES OF THE STUDY

1.6.1 The Global objective of the study

To analyse the financial policies that will support an increase in SMEs and also appropriate strategies to be put in place to strengthen financial worth of SMEs in Zambia.

1.6.2 The specific objectives of the study include the following:

1. To analyse suitable policies that can support growth of SMEs.
2. To determine challenges faced by Citizen economic empowerment commission (CEEC) in financing SMEs.
3. To assess challenges faced by financial policy makers for SMEs to grow
4. To examine the factors that inhibits SMEs from accessing loans in Petauke District.

1.7 Research questions

1. What suitable policies can support the growth of SMEs?
2. What challenges are faced by Citizen economic empowerment commission (CEEC) in financing SMEs?
3. What challenges are faced by financial policy makers for SME's to grow?
4. What factors inhibits SME's from accessing loans in Petauke?

1.8 Organisation of the study

This work is divided into five chapters

Chapter 1 of the will introduce the choice and interest of the study, the chapter also discusses among other issues in the problem statement, the objective of the study. The second chapter talks about the literature review about financial policies and how it can support the increase in SMEs. Whilst in chapter 3 talks about the methods and techniques which I have used in order to gather the information, analyse and interpretation of the information.

The fourth (4) chapter compares what was written in the literature review and what are found in Natsave, Petauke branch.

The fifth (5) chapter is the conclusion and suggestion or recommendation made after analysis and interpretation of the results.

The figure 1 below shows the structure of the study:

Figure 1-structure of work

Chapter 1	Introduction
Chapter 2	Theoretical framework and Literature review
Chapter 3	Methodology
Chapter 4	Data analysis, Presentation and discussion of findings
Chapter 5	Conclusion and Recommendation

1.9 Interest of Study

Studying why SMEs in Petauke district have difficulty in accessing credit or funding from financial institution (Natsave Bank) from the perspective of the operators of these SMEs is crucial since it would present the problem from the perspective of the SMEs there by making it a base line study for policy interventions by state agencies, development partners and non-governmental organisation with missions to develop the SME sector.

CHAPTER 2 LITERATURE REVIEW

2.0 Introduction

Chapter 2 is concerned with the review of the literature and other publications particularly on how good financial policies can support the growth of small medium sized enterprise (SMEs) within our country Zambia. It also presents conceptual definitions of financial institutions and small medium sized enterprise, also policies to be put in place to foster the competitive operation of SMEs in aiding our economy.

2.1 Theoretical Framework:

Many theories have raised the issue on the financial gap for small and medium enterprises (SMEs), meaning that there are a good number of SMEs when given access to credit could sue profitably to grow their businesses but cannot obtain credit from formal financial system (bank), 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 (bank) and SMEs operators.

- This study will be guided by the theory of Financial Inclusion as advocated by Chakrabarty and Robinson.
- Robinson's theory is more refined, it argues that for any economic success, political institutions must be sufficiently centralized to provide basic public services including justice, the enforcement of contracts, and education. Given that these functions are carried out, inclusive institutions enable innovative energies to emerge and lead to continuing growth as exemplified by the Industrial Revolution.
- Chakrabarty, Financial inclusion is defined as the availability and equality of opportunities to access financial services. The availability of financial services that meet the specific needs of users without discrimination is a key objective of financial inclusion. The United Nations defines the goals of financial inclusion as follows:
 - Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.

- Sound and safe institutions governed by clear regulation and industry performance standards.
- Financial and institutional sustainability, to ensure continuity and certainty of investment.
- Competition to ensure choice and affordability for clients

2.1.1 The Financial Institutions (Banks)

Most literature states the differences in the financial institution structure and lending infrastructure affect the availability of the funds of SMEs (A.N, Berg & G.F Udell, 2004). These differences may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions may employ the different lending technologies (be it transition lending or relationship lending) in which they have comparative advantage to provide funds to different businesses. Transaction lending technologies are primarily based on ‘hard’ quantitative data such as financial ratios calculated from certified audited financial statement among others. Relationship lending on the other hand is based on ‘soft’ qualitative information gathered through contact overtime with SMEs. This soft information may include the character and reliability of the SMEs owner on direct contact overtime by the financial institution.

Also by lending infrastructure, they were talking about the rules and conditions set up mostly by governments that affect financial institutions and their abilities to lend to different potential borrowers.

2.1.2 The SME Operators

Paul Derreumaux, Chairman and CEO of Bank of Africa, 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.

2.1.3 Historical background of SME

Historically businesses located in favourable geographic locations tend to survive and grow. Furthermore, the fertility of land plays a crucial role as well. Businesses established in favourable environments where mortality rates are low tend to grow and prosper over time. Demographics is also a determining factor. In areas where there are ethnic fractionalizations SMEs are negatively affected since this introduces political instability. As part of demographics religion play a role in the growth and development of SMEs. For example, in Muslim countries there are a lot of SMEs but operate in the unregistered economy.

Legal system is another determinant of the SME development. For example, common law vs. French or German or Socialist law has an institutional advantage over the development of SMEs. In countries practicing common law SMEs tend to flourish more quickly and success in the long run.

2.2 Overview of SMEs

The literature review describes aspect connected to the study of the challenges faced by SMEs obtaining credit in Zambia. It therefore follows a particular layout. First, some definitions relating to SMEs are given, which is followed by looking at the characteristics and roles of SMEs. This paves the way for discussion of their contribution to the economic development and the growth and also looked at the literature on the constraints SMEs faces in accessing credit. Attention will then focus on the type of finance available to these SMEs without forgetting to also look at the sources of credit/finance for these SMEs. Also the policies governing the operation of small medium sized enterprises (SMEs) as well as the impact of SMEs in developed countries and developing countries and also challenges faced by Citizen economic empowerment commission(CEEC) in assisting small and medium enterprises in accessing financial assistance to use to grow their operations. In final sub-sections, we will delve into how SME can be promoted and the importance of financial institutions (banks) in helping the development of these SMEs.

2.2.1 Definition of Small and medium enterprise (SME)

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, World Bank defines SMEs as having no more than 500 employees, others consider the annual turnover of the business or better still the start-up capital of the business involved.

2.2.2 Conceptual Definitions

Entrepreneurs: are people undertaking economic risk to create a new organisation that will apply new technology or innovative process to generate value to others (Schramm, 2006).

Financial institutions (FIs): are businesses whose principal assets are financial assets or claims, inventories, bonds and loans of fixed assets such as fixture and fittings, buildings etc. (Saunders, 1994).

2.2.3 Critical Review on the Theories Based on the FIs Growth and Success of SMEs

Development analysts and practitioners have long been interested in the contribution of development of the financial institutions, growth and success of SMEs.

Among the early contributors to the theory is Joan Robinson (1952) who argues that “where enterprise leads finance follows meaning that finance does not cause growth but rather, it responds to demands from the real sector. Robert Lucas (1988) also dismisses finance as an “over-stressed” determinant of economic growth. On the other hand, Merton Miller (1988) argues “that the financial markets contribute to economic growth is a proposition too obvious for serious discussions.” Goldsmith (1969) and McKinnon (1973) all saw the importance of the finance growth nexus in understanding economic growth. Finance has a prominent role in the endogenous growth theory, through its positive impact on the levels of capital accumulation and savings Romer (1986).

However, recent literature suggests the emergence of a consensus on the vital importance of financial institutions development in facilitating and sustaining growth. The last two decades have witnessed an explosion of empirical studies testing the finance growth nexus using cross-country and other data and new econometric tools. Despite the absence of complete unanimity of results, a number of observations, backed by empirical evidence, have emerged. Levine (2004) summarizes as follows; countries with better functioning banks and financial markets grow faster because it enables the external financing constraints that impede SMEs expansion to be reduced, in so doing creates an environment for SMEs’ success or growth.

2.3 Historical backgrounds of SMEs in Zambia

It is widely recognised that while in the developed countries Small and Medium Enterprises (SMEs) play an important role in many sectors of the economy, in Less Developed Countries such as Zambia, they constitute the fabric on which social and economic stability depends upon. In these Countries, SMEs constitute more than 90 percent of all firms and hence play an important role in economic development, job creation and poverty reduction.

As early as 1981, the government formally recognised the importance of the SMEs sector and its contributions to the urban and rural economy. With the same token, the government recognised the challenges that the sector was facing and through the Small Industries Development Organisation (SIDO) Act of 1981 made an attempt to enhance the contribution of the sector to the national economy by addressing the inherent sector challenges. Further attempt for policy support to the sector was made in the Fourth National Development Plan (1988 to 1993) which set the objectives as follows:

- a) Identify and promote SMEs that have potential for output expansion and employment generation in a manner that structurally integrates such activities to complement the large scale enterprises sector,
- b) Upgrade production, managerial, organizational and marketing capabilities of entrepreneurs particularly among the youth;
- c) Identify training schemes for youth in engaged in SMEs that have potential for production expansion, income and employment generation,
- d) Provide the necessary infrastructure for the operation of SMEs,
- e) Promote, where possible, accessible credit facilities for SMEs that have potential for growth in output, incomes and employment; and,
- f) Improve and expand production of the SMEs, particularly that of subsistence farmers and self-employed workers, in order to increase their levels of incomes.

The plan outlined **five** strategies to achieve the above-stated objectives. These were:

- i). Provision of collective services, infrastructure, and specialized tools and equipment for common use of related activities that have been identified as having relatively higher potential for increasing efficiency and productivity and for generating higher incomes and employment;

- ii). Establish innovative institutionalized credit facilities that are appropriately tailored to meeting the needs of SMEs engaged in potentially productive and dynamic activities, especially with respect to the purchase of input requirements;
- iii). Promote the use of appropriate technology and of available local resources;
- iv). Encourage the formation of small cooperative unions or mutual assistance organizations for the bulk purchase of inputs, the sale and distribution of output, and the joint use of tools and equipment for which considerations of cost or efficiency demand a larger scale of production or more intensive utilization; and,
- v). Promote the upgrading of skills through formalized training schemes in terms of extension advisory service

During the implementation of the Plan, emphasis was placed on collective enterprise rather than individual ownership. Private enterprises were not encouraged. The resources that the Government allocated to the small enterprises sector were reported to be inadequate and the role of public institutions such as the Small Industries Development Organization (SIDO), the Development Bank of Zambia and the Village Industries Services (VIS)), which were the primary source of small enterprises support was not defined, except in the broadest terms. Moreover, these organizations faced serious financial and organizational constraints even at that time.

After 1991, the environment became more business friendly, particularly towards small enterprises. This is demonstrated by the establishment of the Industrial, Commercial and Trade Policy in December 1994 with pronouncements that:

- a) Government considers the development of small-scale enterprises as an important component of its Industrial, and Commercial policy. Its aim is to devise a strategy, with the participation of the private sector, to encourage the growth of small-scale enterprises;
- b) Government will encourage local governments to review their infrastructure services and licensing regulations so as to support small enterprises;
- c) Government will provide legislation and incentives that promote the rapid growth of the sector;
- d) Government will decentralize business registration to enable the sector to operate efficiently and have access to incentives; and
- e) Government will set out to review and harmonize all existing laws and regulations with a view to identifying and removing impediments to the operations of the sector.

The development of the Industrial, Commercial and Trade Policy in 1994 was subsequently followed by the establishment of the Small Enterprises Development (SED) Act of 1996 as successor to the Small Industries Development Act of 1981. Among the salient features of the incentives in the Act included the following:

- a) Exemption from payment of tax on income for the first three to five years,
- b) Operating a manufacturing enterprise for the first five years without a manufacturing licence required for such an enterprise under any law.
- c) Exemption from the payment of licensing fees required for such an enterprise under any law.
- d) Exemption from Trading Licence for an enterprise registered under the SED Act.
- e) Exemption from payment of tax on income received from rentals on buildings or premises for use by micro and small enterprises.
- f) Exemption from the payment of rates on factory premises.
- g) Exemption from payment of tax on income or interest payable by any financial institution providing loan, or other financial relief or facilities to registered micro and small enterprises carrying on manufacturing activities.
- h) Such institutions shall be allowed to maintain concessionary core liquid asset ratios and reserve requirements.
- i) Expenditure incurred on training staff that specialise in small-scale enterprise financing shall be treated as tax deductible for tax purposes. (GRZ SED Act 1996).

However, as in the past, these policies and their derivative regulations have remained public pronouncements, with little effort to implement them.

2.4 Characteristics and Roles of SMEs

The SMEs sector is broadly characterised by the activity of enterprises engaged in the production of goods and services with the primary objective of generating employment and income to persons concerned.

Further, the SMEs are concentrated in the traditional economic sectors characterised by use of low technology, rely largely on social networks and inter-firm cooperation, and are oriented towards the local and less affluent segments of the market.

Most SMEs and especially the micro-sized have the characteristics of household enterprises. They are operated mostly by a single person with or without the help of family members, and usually not licensed with a government agency. Their business activities are largely in trading, and simple manufacturing and only a small portion are engaged in service related businesses. The range of activities is usually in the production of consumer goods. Among their manufactured products include textile products, carpentry & other wood products, light engineering and metal fabrication, food processing, leather products, handicrafts and ceramics. The services sector include restaurants and food preparation, hair salons and barbershops, passenger and goods transport, building construction, telecommunication services, business Centre services and cleaning services. The trading sector is largely concentrated in consumable products, industrial products, and agricultural inputs and produce. One of the characteristic elements of the Zambian economy is the existence and growth of SME activities. Since the introduction of structural economic reforms and the country's transition to a market economy in 1991, there has been increased activity in the SMEs sector. The existence of a large SMEs sector, 98 percent of which is informal has implications on the macroeconomic policy and the functioning of the economy.

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).

In Tanzania, SMEs have played a big role in the social and economic transformation of the country since its transition from a command economy to a market economy and they contribute about 60 percent to the gross national product (Echengreen and Tong, 2005; Pyke et al., 2000).

In the Tanzanian consideration, an SME is viewed as one that employs at least 4 persons and with a capital of TZ shillings 5 million and the majority of the SMEs fall in the informal sector. It is however possible that you find some SMEs with capital of between 200-800 million employing above 49 employees (Hamisi, 2011). From such examples, Zambia as a country would look for ways of improving the SMEs market since it is evident from these studies, that they are can be a good source of jobs creation, taxes for the government among other benefits.

According to UNIDO (2006), there is a strong relationship between existence of SMEs and contribution to a country's GDP and in the case of Tanzania they contribute about 35 percent and this would have been better if the SMEs are operating efficiently and a full friendly business environment (Calcopietro and Massawe, 1999). It is vital to understand how SMEs can function economically and with efficacy to increase their chances of survival in the competitive business environment. Governments can play a pivotal role in setting policies to protect SMEs by for example securing markets for the goods and services produced and offered by these companies, setting up of specialized financial institutions that deal with micro financing. This is a big area that the government of Zambia should explore to make it possible for the operation of SMEs in the country. This research should reveal the current standing of the SMEs in the country and how the situation can be made better given the advantages that can be realized from this market.

Clearly, SMEs in the South African economies have been the backbone of social economic development and this is the same for many other Sub Saharan African economies. They have played a big role in Jobs creation for example in the informal sector which has the majority of SMEs for example in Kenya, SMEs employ more than 5.1 million people, in South Africa, SMEs employ 50-60 percent of the work force (Kromberg, 2005; Tshuma & Jari, 2013). The Informal sector which harbors most of the SMEs alongside the formal sector and in most situations the incomes realized in the informal sector is spent in the formal sector and this is to say that they contribute a lot in the social economic development of countries.

However, there is scanty information regarding the SMEs sector activities and as such, it is difficult to estimate the size of the private sector in totality, as data from the Central Statistics Office (CSO) do not disaggregate national output in relation to enterprise size. Based on the 1996 Baseline Survey on the micro and small enterprises, the sector consisted of approximately 97 percent of all enterprises and employed 18 per cent of the labour force of whom 47 percent were women. Women owned 46 per cent of these enterprises although they tended to be concentrated in low return activities and employed fewer workers (Parker, 1996).

The study further revealed that the sector in Zambia is dominated by enterprises with a workforce of less than 10 employees. About 46 per cent of all enterprises represented those in self-employment while 52 percent of all activities were based in rural areas. Manufacturing accounted for 41.3 per cent of the sector activities, while commerce accounted for 48.5 per cent, and services for 10.2 per cent.

Against these contributions to the national economy, Zambian SMEs have been reported to be facing a horde of business constraints that include inaccessible markets, shortage of inputs, inaccessible finance, poor transport facilities and lack of appropriate tools/machinery, anti SMEs government regulatory barriers, lack of skilled labour, shortage of shop/rental, Space, unavailable utility services, and technical problems. Working conditions are also usually poor as certain production areas are considered health hazards.

Further, workers are subjected to long working hours, and unstable income. According to a World Bank Report of 1997, Zambian firms of all sizes identified the lack of access to credit, excessive competition from imports, insufficient demand and infrastructural weaknesses as their most pressing constraints. (Parker 1996) All these business constraints are manifestations of market failures which appear to be endemic in the SMEs sector and which justify government intervention by way of relevant policies.

2.4.1 The Role of SMEs

Improvements in the cost reducing industries, changes in the industrial structure and development of new markets renewed interest in the small and medium size enterprises (SME) as engines of growth and employment. Industrial development earlier believed to occur with large enterprises undertaking large investments and creating scale economies. Even Schumpeter proclaimed that the future growth would come from large enterprises.

However, starting in the late 70s and early 80s, SMEs started to become more innovative and were flexible in terms of reducing costs. Thus, they started providing intermediate goods more efficiently than large enterprises. Furthermore, due to the increases in education levels, business skills and reduction in job security, entrepreneurial activities increased worldwide. While SME growth occurred due to relaxation of labour laws, and incentives in most developed and emerging markets, in transition countries SME development was as a result of the break up large enterprises and the privatization of state-owned enterprises. However, it should be noted that there were some experiments in the 1980s in the form of establishment of business cooperatives.

It should also be noted that SME development remained less than expected in transition countries until the end of 1990s.

However, SMEs are also criticized for their high rate of bankruptcy. While they SMEs create many jobs, they also destroy a lot of jobs. Furthermore, they were criticized on the grounds that they provide

low value added goods and services and have short life. In developed countries, SME growth depends on the business cycles. When the economy is booming the number of new firms is larger than the number of dying firms. However, in emerging markets SME growth depends on crisis cycles.

2.4.2 SME and Development

SMEs official or unregistered (shadow economy) have become significant sources in providing employment as well as value added among others which has sprung up in wide benefits. One can highlight the long-term economic effects of SMEs as:

- As per capital income increases contribution of SMEs to GDP and employment increases.
- As per capital income increases contribution of the unregistered economy decreases.
- Registered and unregistered SMEs together contribute about 60%-70% to GDP on average.
- However, as GDP increases share of the unregistered economy decreases

SME development depends on a number of factors. In broad terms they can be outlined as: Macroeconomic factors, Business environment, Growth opportunities and Historical determinants

Macroeconomic Factors

Among the main macroeconomic factors that contribute to the growth of SMEs are the government expenditures. Government procurement assists the development of registered SMEs while discouraging the unregistered SMEs. Due to the legal requirements of government contracts, SMEs hiring unreported labour and evading taxes would not be able to participate in bids for procurement contracts issued by the government.

Low inflation economic environment help the growth of registered SMEs while high inflation moves businesses to operate in the unregistered economy. So, monetary policy plays a crucial role in the development and organization of SMEs. Furthermore, a stable exchange rate is very important for SMEs for they may make most of their contracts in more stable currencies exposing themselves to exchange rate risk. The level and quality of education in a country is also important in the development of registered SMEs. SMEs operating in the unregistered economy tend to use less productive labour with lesser skills.

An increasingly important factor in the development of SMEs is the private credit market. Access to credit for investment and working capital allows registered SMEs to grow while discouraging unregistered SMEs at the same time. A banking sector providing loans at low cost is probably the most important factor in the development of SMEs. Furthermore, the size of the black market premium is

also important for SME development. Large premiums in the form of illegal economic rents encourage small enterprises to operate in the shadow economy.

Business Environment

Cost of entry, that is start-up costs including registration, license fees and the processing time, is very important for the development of SMEs for these are sunk costs that cannot be recovered during the operations of the businesses.

Contract enforcement and the protection of property rights at low cost are very important for SMEs to start and survive. If contract enforcement costs are too high SMEs may prefer to operate in the unregistered economy rather than engage in economic activities legally. Existence of credit registries can help SMEs to establish credible financial history. This way they can seek funds as well as defend their property rights at low cost. So, an equitable and efficient judicial system is essential for SME growth. Existence of a sound judicial system would also discourage corruption which is a burden on SMEs.

The level of regulatory environment is another factor contributing to the development of SMEs because it provides certainty for businesses operating in their respective industries. In particular, labour market regulations play a significant role in the cost structure of SMEs. Strict labour laws on the hiring and firing decisions of the firm can make it costly for the SMEs and encourage them to employ workers without proper registration.

SMEs Growth Opportunities

SMEs at their early stages of activity are subject to bankruptcy risks. Survival rates of SMEs are not high particularly after the first year. So, it is essential for SMEs to obtain sufficient financing at their early stages of growth. SMEs, often lacking their own funds, have to resort to borrowing. So, for long-term growth they have to rely on the banking sector to obtain funds for investment purposes at reasonable costs.

A sufficiently well-functioning infrastructure in terms of providing services such as policing, power is another factor that contributes to SME growth. SMEs cannot be expected to provide basic services privately unlike large enterprises because it would be too expensive.

Political stability is essential for entrepreneurs to commit their funds as well as their human capital into their businesses. SMEs expect stability for future development for their investments are highly illiquid with a very shallow secondary market.

High crime rates in a country SMEs would increase the cost of protection and discourage SMEs from expanding further eventually leading to their demise. So, good public safety enforcement provides a safe environment for SMEs to establish and grow.

Taxes while not a major factor can deter SMEs from growth and encourage them to operate in the unregistered economy. In particular, transaction taxes and high tax rates and accounting requirements can discourage SMEs to grow.

2.4.3 SMEs Contribution to Economic Development and Growth

The private sector is the engine of growth of the economy therefore they must be given the necessary tools to increase their growth. (Anyima-Ackah, 2006) Economic development is a process of economic transition involving the structural transformation of an economy through industrialization, rising GNP, and income per head.

Economic growth on the other hand, contributes to the prosperity of the economy and is desirable because it enables the economy to consume and contribute to more goods and services by increasing investment, increase in labour force, efficient use of inputs to expand output, and technological progressiveness. Any nation that experiences economic development and growth will benefit from improvement in the living standards especially if the Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (Pass et al. 1993)

Small and medium enterprises (SMEs) are considered the backbone of an economy, whether we are referring to a random state, or if we are talking globally. These companies represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries, just like they do in emergent economies and in development. The main argument for this is that SMEs are the dominant form of business organization, representing roughly 95 – 99% of all companies. According to the Organization for Economic Cooperation and Development (OECD), SMEs represent more than 95% of enterprises and ensure 60-70% of the jobs.

Small enterprises are very important in promoting competitiveness and to bring new products or technics to the market. SMEs increase their productivity mostly through finance.

Investments provide access to technologies and helps expand the business, thus ensuring the competitiveness of a company and, by extrapolating, the one of a nation as a whole. It's fair to say that the performances and the development level of a national economy depends a lot on the capacity to create a good environment for SMEs, which can supply quality services and competitive products at a low cost and in quantities that are adjusted to the market.

In 132 of covered economies, there are 125 million SMEs. From these, 89 million are located in countries in the developing world.

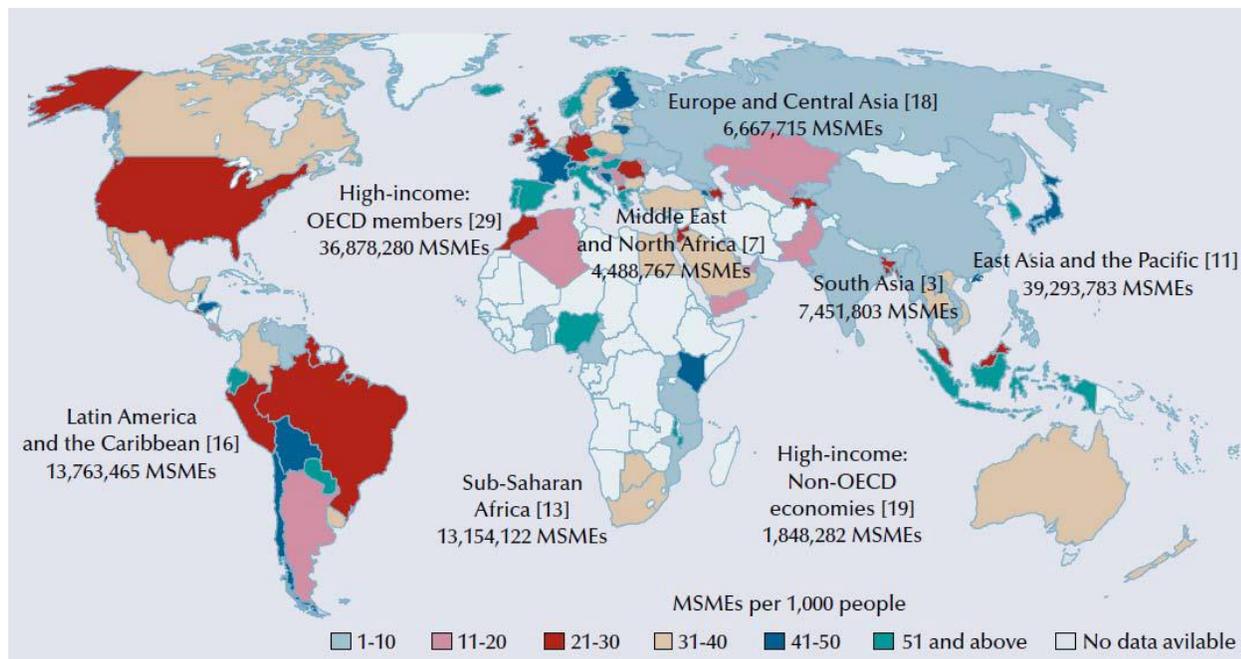


Figure 1. SMEs density around the globe.

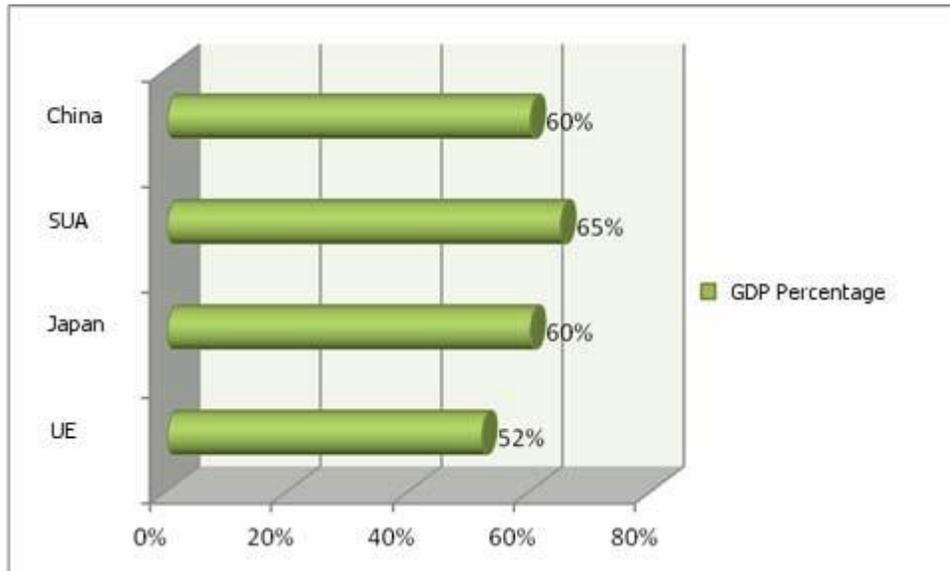


Figure 1.2. Contribution of SMEs to GDP of EU, Japan, SUA and China

SMEs are the biggest contributors to the gross domestic product. In countries like Japan or China 60% of GDP comes from SMEs, in the USA that percentage goes up to 65%, and in the UE SMEs generate 52% of GDP.

Small and medium enterprises are the biggest contributors to the employment of labour from a country. A study (Meghana et al., 2011) made on 47745 firms from 99 countries during 2006- 2010 proved this. On average, the firms with 5 to 250 employees engage 66.76% of the active population of a state. We have to take into consideration the fact that this study does not take into account micro enterprises that have up to 5 employees. Other than the fact that they employ a large number of people, the SMEs from this category are also responsible for new employment. These generate approximately 86.01% of new jobs.

The contribution of small and medium enterprises to GDP is not restricted to export sector alone for example (Omari, 1997) observed that 75% of the households in Zambia depend on small scale informal businesses. Moreover in domestic consumer sector, we witness a wide range of products produced in the country. These includes soap, domestic appliances, pharmaceutical products ,electrical appliances, animal feeds, human food items like packaged maize meal and rice ,soft drinks ,artisan products like metal works and agricultural farm implements. Therefore it is observed that within the manufacturing

sector small and medium enterprises have the potential to become pillars of industrialization (Bhalla, 1991).

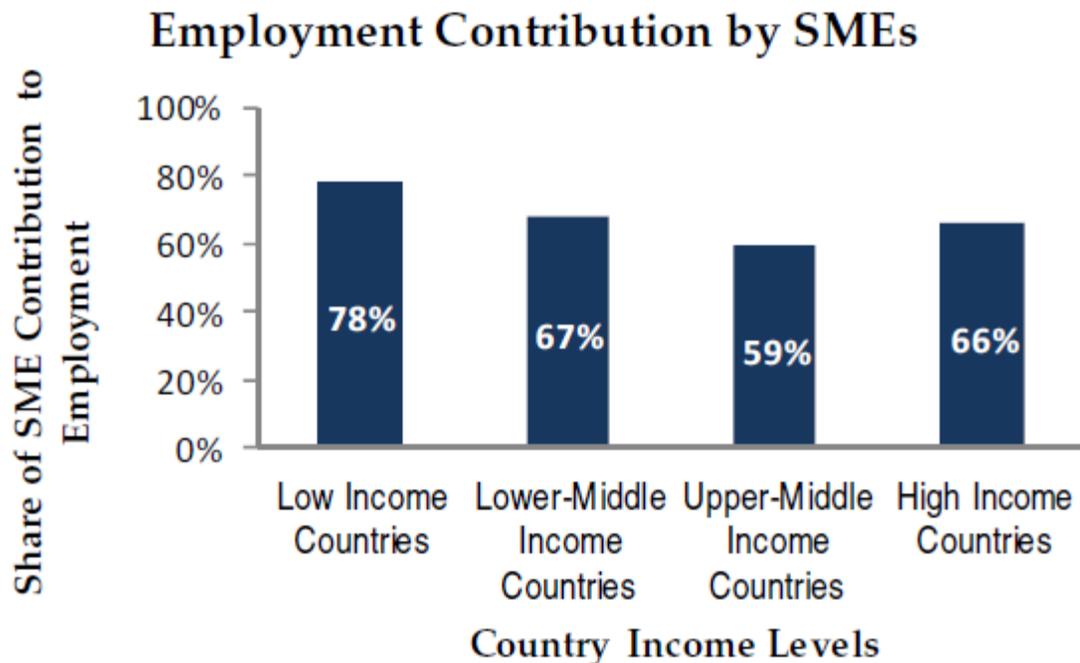


Figure 1.3 The contribution of SMEs to employment rate

In the countries with a lower income per capita, SMEs have a higher impact on the employment level, about 78%, compared to countries with a larger income, where the percentage goes down to 59%.

In 2010 the degree of employment generated by SMEs in EU was 67%. Micro companies contribute to approximately 30% of that percentage, small enterprises with approximately 20% and middle companies with 17%. You can observe a growth of the employment and labour litigation since 2007 when the value of that indicator was 60% in EU (Wymenga et al., 2011). In 2007, in Japan, the degree of employment litigation relative to SMEs was 69%, while in the U.S. of 57, 9%

(Economist Intelligence Unit, 2010). Later reports have presented larger values of this indicator, pointing us to one conclusion: the growth of SMEs numbers globally has had a positive impact through creating new jobs and lowering unemployment.

The challenge of the 21st century for SME-s is global competitiveness. This means that customers need to be provided with constant and reliable products and services of a recognized quality, while the market environment is characterized by global competition.

2.4.4 Challenges faced by Small and medium enterprise (SMEs)

The small and medium enterprise (SMEs) despite their potential to unlock the economy of a country they face challenges in accessing funds leading to slow their contribution in spearheading the economy because of stringent measures/requirements bordering accessing of funds from financial institutions.

2.4.4.1 Constraints faced by SMEs in Accessing Credit

Finance is the lifeblood of every business, without it a business is dead. It is critical to establish the amount and timing of finance for a business. Research findings are that more businesses have failed due to lack of finance than for any other factor. Lack of finance can seriously hamper the operations of small business and considerably increase the cost of operations. ‘Cash is King’

According to Cuevas et al. (1993) indicates that access to bank credit by SMEs has been an issue repeatedly raised by numerous studies as a major constraint to industrial growth. A common explanation for the alleged lack of access to bank loan by SMEs is their inability to pledge acceptable collateral.

SMEs face more challenges in doing business than large enterprises because of the difficulties in financing start-up and expansion. Schiffer and Weder (1991) found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms. In most countries, especially developing nations, lending to small businesses and entrepreneurs remain limited because financial intermediaries are apprehensive about supplying credit to businesses due to their high risk, small portfolios, and high transaction cost.

The lack of access to finance was identified as one of the most severe constraint by small and medium size enterprises in Zambia. It was ranked the highest constraint by most established local and foreign entrepreneurs. It inhibited their capacity to expand technologically and upgrade their business (Rugumamu, 1997). Undoubtedly, this constraint signaled the presence of critical bottlenecks in Zambia’s formal financial system and these financial institutions are considered were not entrepreneur new friendly since they tended to discriminate against the private sector. Private entrepreneurs in Zambia resorted to financing their operations from their own savings, support from members, short

term credit provide by supplies, advances offered by buyers or loans from informal community based financial intermediaries (Hyuha et al, 1990). Similar studies in this area have shown that private entrepreneur in Zambia during the 1970s and 1980s generated most of their investible capital sector from outside the formal banking sector. For those who continued to apply for loans from the formal financial institutions it was always a nightmare. Loan applicants were required to provide fixed property as collateral and the loan applied had to be at least equal to the value of declared assets. Also (Rajab, 1996) revealed that SME sector usually does not have credit history. This criterion poses an insurmountable barrier to all small enterprises to acquire loan from banks and financial institutions.

2.4.4.2 Constraints to Financing SMEs

Financial support to SMEs has remained limited, due to a number of factors, hindering their ability to grow and contribute meaningfully to the economic recovery of the nation. These factors include the following:

Problems Associated with Banks

- a) **Limited branch network:** The high costs associated with establishing conventional banking services in remote areas has resulted in banks shunning these areas. Resultantly, remote areas where a large number of SMEs are located are unbanked or under banked.
- b) **Banks' risk-averse behaviour:** Banks are reluctant to lend to SMEs which are perceived to be high risk due to high rates of business failure. The absence of robust credit reference bureaus for tracking defaulters has compounded the risk-averse behaviour of banks as most SMEs, particularly start-ups, lack borrowing history.
- c) **Lack of understanding of SME needs:** Inadequate understanding by banks of the nature and operations of SMEs hampers their ability to assess business viability and financing needs of SMEs. Resultantly, banking institutions fail to offer appropriate banking products to suit SME needs.
- d) **Cumbersome administrative procedures:** The relatively large of SMEs and the small loan amounts required make SME financing cumbersome and expensive to administer.
- e) **High lending rates:** Due to the high risk associated with SMEs, banking institutions levy a risk premium, resulting in high borrowing costs. The high interest rates levied by MFIs are also not conducive to the development of SMEs.

Problems Associated with SMEs

a) **Lack of suitable collateral:** Due to the perceived risk associated with SMEs, banking institutions demand collateral which most SMEs, particularly start-ups are unable to avail. On the other hand, microfinance institutions which conventionally are expected to place less reliance on collateral, are also demanding security from the SMEs. As a result many SMEs are left to rely on informal sources of funds such as family, friends, supplier credit and customer advances because the formal banking sector prefer selected customers such as large corporations with collateral, thus crowding out SMEs.

As in most developing countries, the SME sector in Zambia forms a significant part of the economic activities. Nevertheless, they face a number of problems, including limited access to finance from formal sources as highlighted in following points;

Inadequate financial records

Many of SME enterprises are owner-or family-operated. As a result, they do not keep business and personal finance separate. Further, many SMEs do not have adequate skills to ensure compilation of financial records and accounts. This is compounded by the lack of investment in information technology and accounting system.

Inconsistency in Product/Service delivery:

Most SMEs lack adequate skills and technology to ensure production of standardized quality products and/or services. In addition, SMEs fail to establish forward and backward integration with key stakeholders such as suppliers and their markets. This limits their chances of survival, particularly in the face of fierce competition

Informalisation of Operations:

Many SMEs have weak corporate governance systems resulting in lack of professionalism. In addition, most SMEs do not have adequate succession planning structures which are required for sustainable business operations.

Weak Managerial Capacity:

Many SMEs lack skilled manpower and managerial capacity. This results in limited ability to manage the operating environment in a sustainable manner

Diversification of Funds:

SMEs often divert funds from the intended business purpose resulting in high default rates. As such SMEs are perceived to have a poor debt repayment culture. Due to the relatively high incidence of non-performing assets in the SME sector, banks become too cautious to lend to the sector

Undercapitalization:

Most SMEs lack capital to start up or grow projects to sustainable levels.

Highly-fragmented sector:

The SME sector is characterized by small business enterprises. The absence of vibrant industry associations results in inadequate representation on matters affecting the sector.

Marketing Services

There must be a market of sufficient size available before one can consider starting up a business venture. Market research and intelligence is needed to quantify the market variables and establish the critical success factors. The golden rule is that: if you can't sell it, don't make it. Correctly establishing the market opportunities for the product and services is one of the critical activities to be completed before the decision is made to commence a business venture.

Marketing is critical to success of enterprises; the inability to develop markets outside their immediate locality and to compete is one of the most serious impediment to the performance of SMEs. Lack of market opportunities is a key constraint for SMEs in expanding employment and improving the quality of the job (ILO, 2001). Access to markets for SMEs operator is a serious problem particularly in SMEs areas where seasonal products flood the market during harvesting time. Most operators rely on local (neighbourhood) market that often the provision of marketing services (marketing research, marketing intermediation, facilitation of sub-contracting arrangements) to sector is still quite limited. Since a few private SMEs and NGOs such as finance and enterprises development agency (FEDA), Private sector initiatives (PSI) and Techno serve provide marketing research services. They carry out market studies in Tanzania as well as abroad for SMEs or their associations. These services however reach a very tiny proportion of SMEs.

There are also a few marketing agencies such as the Board of External Trade (BET), Tanzania Chambers of Commerce Industries and Agriculture (TCCIA), and Tanzania Gatsby Trust (TGT). They organize local and international fairs as well as sponsoring SMEs to participate to areas where there are

very few service providers active in this field and their outreach is also quite small relative to the need for their services.

2.4.4 Types of Credit (finance) available to SMEs

According to Boom et al. (1983) and Longenecker et al. (1994), two basic types of financing SMEs could be identified. These avenues are equity and debt financing;

2.4.4.1 Debt financing

According to Hisrich and Peters (1995); and Anderson and Dunkelberg (1993) debt financing is the money that has been credited to a borrower to be resettled on a later date with an added interest rate on the principal amount. The principal and the interest on the credit facility are to be settled by the schedule duration. Default by the debtor normally end up in payment of penalty, thus the facility ought to be settled based on the agreement and not when the facility yields returns.

2.4.4.2 Equity financing

Equity financing could be said to be the contribution or financing that are received from partners or individual who wish to become owners or shareholders in the organisations. These contribution made are tied to the profit that the firm might generate in return on its operations. Thus a failure of the firm to make a profit or break even deprive the owner or the shareholder of the returns on the contribution or investment made.

It must be noted that equity financing are long-term financing whole that of debt usually are short to medium or long-term financing.

2.4.4.3 Applying Equity or Debt financing in SMEs operations.

In financing SMEs the choice to use either debt or equity normally depends on the intentions the funds are meant for. Funds acquired for long-term purpose should not be applied in the short term projects as it is never a prudent venture. Again, short-term debts should not be applied in financing a long term projects as the facility will need to be resettled within the stipulated time in order to avoid unnecessary default.

2.4.4.4 Leverage and Owner's Equity

Borrowing usually brings financial leverage as interest payment is noted for leads to high cost of financing. Therefore a proportion increase on revenue before interest and tax of an enterprise leads to a proportionate jump in the net revenue of the institution. This situation will benefit the owner as more gains in equity would arise. The same situation could make the owner equity diminishing if there is appreciable decrease in revenue before interest and tax leading to a proportionate decrease on net earnings. The instability nature of debt financing does not augur well for financing an enterprise (Brealey and Myers, 1996; Wert and Henderson, 1979).

2.4.4.5 Riskiness

Apart from the increased risk to earnings and owner's equity, debt financing poses another risk. A firm could be in a precarious situation financially that particular entity is not able to keep to it financial obligation in settling its debt. Whenever a particular enterprise firm's debt-to-equity ratio jumps to another height, that particular institution could be experience a financial distress. The best way to tackle this is for firms to do away with excessive borrowing or debt as this situation is costly to endure. Usually financial distress makes an enterprise to lose business opportunities as investors will avoid investing in those firms, trustworthiness of the will wane, suppliers taking strange position against the firm and a possible bankruptcy ensuing (Wert and Henderson, 1979).

2.4.4.6 Flexibility

According to Wert and Henderson (1979) have said that firms need to be flexible enough through maintaining a good balance of capital mix in order to avoid an undesirable financial situation. More debt will ultimately leads to very high interest rate as the credit rating of the firm will be downgraded. Thus it is essential for the firm to be flexible in its operations in order to be able to adapt to the changing conditions within the business environment.

2.5 The impact of access to finance on SMEs

Access to finance is necessary to create an economic environment that enables firms to grow and prosper. SMEs in developing countries, however, face significant barriers to finance. Financial constraints are higher in developing countries in general, but SMEs are particularly constrained by gaps

in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Increased access to finance for SMEs can improve economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth.

The World Bank has found that SMEs are less likely to be able to access finance, other things being equal, where several circumstances exist: the banking sector is highly concentrated and competition limited; bank regulatory policies are inadequate; property rights protection is weak; legal systems are ineffective or rigid; or credit information is weak. On the aggregate level, there is a positive and significant relationship between financial development and job creation in developing countries.

One study found that financial development helps reduce the effect of financing obstacles on firm growth, with a disproportionately beneficial effect for SMEs and for industries naturally composed of more small firms (Beck and others 2008). There is evidence that better access to finance can help firms enter the market, formalize, survive, and grow, as well as organize more efficiently. There is also an interaction of investment climate reforms with firm financing – for example, stronger property rights and better contract enforcement have been linked to easier access to credit. There is evidence that long-term institution building, including contractual and (credit) information frameworks, helps ease SMEs' financing constraints (see, for example, Beck, Demirgüç-Kunt, Laeven, and Maksimovic 2006, 2008; Beck, Demirgüç-Kunt, Laeven, and Levine 2008). Nonetheless, access to finance is only sometimes a leading SME priority, although it is a leading microenterprise priority far more often.

Access to finance is identified by about 16 percent of firms globally as their “biggest obstacle.” Globally, when comparing all the constraints on a common rating scheme, access to finance is not among the top five. Globally, enterprises with fewer than 10 employees (these are microenterprises under IFC definition) include access to finance as a leading constraint, but not firms of any larger size category. In low-income countries, but not middle-income countries, SMEs identify access to finance as a leading constraint. This suggests the need to adapt interventions to support SMEs to country conditions and enterprise priorities. Although finance can be a very real constraint, complementary measures may be needed to ensure that relaxing the financing constraint for SMEs does not lead firms directly into some other binding constraint to growth.

Study on Economic Environment

Numerous studies highlight access to finance as one of the driving factors of an enabling economic environment. The World Bank and the International Finance Cooperation (IFC) rank economies according to their ease of doing business; in this framework, the ability for business to get credit is an important criterion. The Global Entrepreneurship Monitor (GEM) Entrepreneurship Framework Condition also highlights entrepreneurial finance, defined as the availability of financial resources for SMEs in the form of debt and equity, as one of the key factors for stimulating and supporting entrepreneurial activity.

Access to finance helps all firms to grow and prosper. The Investment Climate Surveys of the World Bank show that access to finance improves firm performance. It not only facilitates market entry, growth of companies and risk reduction, but also promotes innovation and entrepreneurial activity.

Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities. In other words, aggregate economic performance will be improved by increasing the access to capital.

2.6 Government Policies on SMEs

The government of the republic of Zambia realises the role the entrepreneurship i.e. the small and medium enterprise in the development of the economy and to this end, it has put in place a lot of policies, programmes and incentives to prop up entrepreneurs. The following are good examples of government efforts;

Agriculture sector

The government under the ministry of Agriculture runs a program called Farmers input support programme (FISP). Under this programme farmers are given inputs in form of fertilizers, and other technical services. In the 2015-2016, farming season , farmers were being ten (10) kg of maize seed, two (2) bags of top dressing urea fertilizer and two(2) bags D-compound fertilizer. They were required to make a contribution of K400 only. This was done through e-voucher system where farmers were given cards from banks. The average price of a bag was about K400 and maize seed was about K250. The Government equally supported the small scaled farmer by buying through Food Reserve Agency (FRA).

Youth Empowerment Programme

The Government through the ministry of youth, support and Child Development operates a Youth empowerment scheme. This scheme allows youth under the age of 35 to access loans up to K50, 000 without collateral. All the youths need is to have a registered business or association, community referee, national registration cards, and a sound business plan. The loans range from three (3) months to Thirty-six (36) months.

Civil Servants Empowerment Programme

Government, through ministry of finance, established the Public Service Micro Finance Company (PSMFC) in 2013. The PSMFC lends small persons loans to civil servants at five percent, and since its inception, over 5,700 public service workers in 84 districts of the country have benefited from Microfinance Company, with a total disbursement amounting to about K120 million.

The PSMFC would in near future extend its services to all employees of quasi-government institution.

Tax Policies and Regulations

SMEs cannot generate economies of scale as a result, their transaction costs as share of total costs or revenues are higher relative to large businesses. Government policies aimed at reducing transaction costs can stimulate growth of SMEs.

Government policies in support of SMEs should focus on creating positive externalities for SMEs as discussed earlier in the form of level credit markets, security, competition and a low-cost equitable legal system. These policies can be implemented in the long run and their impact would also be in the long run. However, most government policies in the past focused on different set of incentives.

Government policies focus on investment and tax incentives. However, these policies are not effective in the long run and do not meet the expectations of the businesses. Such efforts tend to support unprofitable activities and are inefficient. On the other hand, governments can create an environment which will be effective in the long run such as improving education, training and development of SME clusters.

Zambia Development Agency

The formation of the Zambia Development Agency (ZDA) and the Citizen Economic Empowerment Commission (CEEC) has been a huge milestone in the development and promotion of entrepreneurship and entrepreneurs. The Zambia Development Agency (ZDA) was established in 2006 by an Act of Parliament and became operational in January 2007 after the amalgamation of five statutory bodies that hitherto operated independently to foster economic growth and development by promoting trade and investment through an efficient, effective and coordinated private sector led economic development strategy. These institutions were the Zambia Investment Centre (ZIC), Zambia Privatisation Agency (ZPA), Export Board of Zambia (EBZ), Small Enterprise Development Board (SEDB) and Zambia Export Processing Zones Authority (ZEPZA). The Act gives powers to the ZDA in key areas of trade development, investment promotion, enterprise restructuring, development of green fields' projects, small and enterprise development, trade and industry fund management, and contributing to skills training development.

The Citizen Economic Empowerment Commission (CEEC)

The Citizens Economic Empowerment Commission was established by the Zambian Government through an act of Parliament Act No. 9 of 2006 with a mandate to implement various economic empowerment programmes across the country. The rationale of the CEEC is to promote the empowerment of citizens that have been marginalized or disadvantaged and whose access to economic resources and development capacity has been constrained due to various factors such as race, sex, educational background, status and disability. In executing its mandate, the CEEC has anchored its programs and activities around the nine pillars of empowerment which include equity ownership management and control of companies. Citizen Economic Empowerment Commission implements a policy of preferential treatment to encourage local entrepreneurship through citizens-influenced companies (5 to 25 per cent ownership), citizen empowered (25 to 50 per cent ownership) and citizen motherland owned (50 plus one percent). Preferential Procurement, as provided for in the Citizens Economic Empowerment (CEE) Act number 9 of 2006, is a measure designed to broaden market access of the local enterprises so as to integrate them into the mainstream economy. Preferential procurement is a key component in empowering the Zambian Citizens. It is noted that government procurement accounts for about 15% of the Gross Domestic Product (GDP). Both the private and public sectors spend a lot of money on procurement of goods and services in the course of their

business activity, citizens have been constrained to effectively and meaningfully participate due to large of support.

2.7 Importance of Financial Institutions in the Development SME

“Finance is the oil for growth. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. Faulty vessels prevent the life-blood from reaching essential parts of the economic system”. (Sowah N.K., 2003).

Commercial Banks

For example Standard Chartered Bank has continued to advance its role in empowering Small Medium Enterprises (SMEs) in the country with its financial envelop reaching K300 million to date. Standard Chartered Bank chief executive officer Andrew Okai said the financial institution was a keen driver of growth in the SMEs sector, hence the disbursement of the more than K300million to render support for their development in Zambia.

According to BFI Act 1991 commercial banks have established microfinance oriented products. In Zambia the main commercial banks serving SMEs include Zambia National Commercial Bank, Standard Chartered Bank, National Savings and Credit Bank. (Satta, 2002). These banks have the most explicit orientation towards micro finance. They have well defined strategies to expand their operations in this market (Randhawa and Gallardo J, 2003). It is obvious that these banks do not use the famous commercial lending models like the credit scoring models neither do they use the micro finance models like the Grameen models. They have their own perspective of serving this segment. Commercial banks are seen to be very important for serving this segment because they have a wide branch network that can reach most micro enterprises. They also operate accounts, which make it possible to monitor their clients closely. Although there are limitations that commercial bank encountered for example; most of them are located in urban areas thus making it difficult to provide services to those enterprises located in rural areas. Other limitations of commercial bank lending to the SME sector in Zambia are the lack of appropriate savings instruments to mobilize savings to the SMEs and the restrictions on withdrawals, which discourages savers who would like frequent access to their savings. Their location away from many enterprises also implies high transaction costs (National Microfinance Policy, 2000).

Savings and Credits Cooperatives Societies (SACCOs)

SACCOs are supervised by Cooperative department of the Ministry of Cooperative and Marketing. According to a survey done by BOZ in 2005 there were about 1620 SACCOs registered in Ministry country wide <http://en.wikipedia.org/wiki/Microfinance> It is therefore the largest group of MFIs providing financial services to SMEs (Silvanus,2001).

Among of the distinctive characteristics of SACCOs are; the highest potential of reaching the most people, SACCOs are relatively easy to establish and they have simple joining procedures less stringent Savings and loan conditions , dealing with people of well-known to them and lastly SACCOs have weaknesses in operating and administrative management, especially in the area of accounting and internal control systems. (Silvanus, 2001).

Llewellyn (1997) argues that financial system play a crucial role in development through the reduction of information and transactions cost and its efficiency in reducing those cost influences savings rates, investment decisions, technological innovation and long run growth rates. Patrick (1966) stated in his work that financial institutions play a major role in promoting economic growth by ensuring the availability of cash flow cost credit to potential investors.

Likewise, King and Levine (1993) agree with the above that countries with better financial systems have superior economic growth while Arestis and Demetriades (1996) add that this varies across countries. Goldsmith (1969) and Gerschenkron (1962) argued that in the early stages of economic development suppressed interest rates, credit policies and institution building provided the financial impetus necessary for economic development.

It is in the interest of financial institutions to ensure that the economy is growing efficiently by playing an intermediary role between suppliers and lenders of funds in any economy by gathering surplus funds in the economy and then lending these funds to those who need them.

According to Mishkin (2001), banks are the most important source of external funds especially for loans. This suggests that bank play an important role in financing business activities especially in developing countries.

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 suggest that bank should be urged to take “reasonable risk” in vetting loan applications rom small and medium enterprises, especially for business ventures in new areas and technology.

CHAPTER 3 RESEARCH METHODOLOGY

3.0 Introduction

This chapter looks at how data of the research was gathered, the research method employed in the study, the data collection techniques used and the target population, the sample size and sampling techniques as well as the data analysis method employed. It finally looks at the procedures and the limitations faced in gathering these evidence.

3.1 Study Area

The research conducted involved Petauke Branch Natsave Bank. The study was carried out in Petauke district because it is has larger number of businesses or small and medium enterprises; also it is easy to access information from targeted segment population.

3.2 Research Design

To achieve the proposed research objective of highlighting the specific challenges that SMEs face in accessing loans/funds in Zambia the study used both quantitative and qualitative techniques in data collection. The reason to use qualitative technique was because it needed descriptions and other oral evidences from the respondents. Besides, this was to accommodate other respondents with low of education backgrounds On the other hand, quantitative data collection method (questionnaires) which often is most effective and cost-effective research method (Gerhardt,2004) and was designed to give me the insights of the role of financial institutions on success of small and medium enterprises.

3.4.1 Sources of data

The study utilized both primary and secondary data. For the purpose of making analysis researcher employed the following methods

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Conducting depth Interviews

In order to analyse the subject on whether good financial policies can support growth of Small and medium enterprise and also the role of financial institution on success of SMEs the researcher performed several interviews from the respondents on subject matter.

When deciding conducting interviews between course of action. The researcher could either visit candidates or call over the phone for convenience.

Documentary review

The study reviewed different journals, articles, published and unpublished materials, magazines, statistical reports, catalogues and the like that reflects the challenges that small and mediums sized enterprises encountered in gaining access to finance. The documentary reviewed again highlighted the role of financial institutions in resolving the problem. The documentary also assisted researcher to understand different theories and empirical studies from related field.

3.5 Data Processing and Analysis

The data collected was coded and entered into Microsoft excel. After completed to insert questionnaires into excel. The package used to determine frequencies in order to analyse the number of respondents belonging to each variable. The same excel package was then used to estimate the values of unknown parameters of the population. This package therefore took into consideration the analyses of data to determine frequency and percentages of the respondents and finally guide researcher to draw tabulation and graphs. Moreover, both quantitative and qualitative methods of data analysis have been employed for purpose of clear understanding of the research problems under investigations.

Research Methods and Approaches Used

A simple random sampling was engaged in the selection of the sample for the study. A sampling frame of each of all the members of the NATSAVE Bank, and four SME sub-groups each with 20 members was developed by assigning a number to each member of the four groups. The assigned numbers were well shuffled and a sample drawn from each group one at a time without replacement.

The methodology employed in this research also entailed a combination of questionnaire, personal interview, and library and desk research. The researcher constructed two sets of questionnaires. One set was for Microfinance institutions that are expected to fund the SMEs.

A pilot survey was conducted in order to ascertain and detect any ambiguities, questions that were not easily understood or poorly constructed and even those that were irrelevant or scary to the respondents. From the responses, remarks and comments received on the pilot survey, the entire questionnaire was refined and improved upon to take care of the observed shortcomings, enhance the validity, and make the questions easier to answer and more response-friendly. The respondents were even given the option of putting down their names or not in order to ensure objectivity and frankness in their responses.

From the pilot survey, desk research and discussions with key operators of SMEs the researcher discovered that there were well over twenty identified problems and challenges facing SMEs. It became also very glaring that many of these problems and challenges were either closely related or essentially meant the same thing but expressed in different words or forms. For example, respondents used various phrases like irregular electricity supply, low voltage” and “frequent load shedding to express the fact that they experience irregular power supply for their operations. Similarly expressions like Lack of Good Roads. These and other problems relating to the availability of water for use in their (SMEs) works were all grouped under Infrastructure in the questionnaire.

Along the same line of reasoning, problems relating to non-empowerment of staff, concentration of power in the owner/chairman, lack of business plan or corporate strategy, no budgets, no organisation structure or defined lines of command, no training or development of staff, poorly educated work force, lack of motivated staff, interference by family members, non-separation of family finances from business finances, lack of goal setting, lack of measurement criteria for measuring performance and rewarding the same, poor communication, loose or inconsistent policies, pilfering, lack of entrepreneurial skills and drive, lack of trust or reliability on staff and all other human related problems in the management of SMEs were all grouped under Management Problems.

Given the avalanche of closely related identified challenges and problems of the SMEs the researcher decided to collate, streamline and group them into ten major problem areas such that any identified or

expressed challenge would certainly fit into one of the ten headings. Aside from ease of analysis he also felt that this approach would enhance and facilitate quick responses from the respondents.

The ten key major problem areas identified included the following:

1. Infrastructure
2. Management problems
3. Access to Finance
4. Inconsistent Government Policies & Bureaucracy
5. Environment related problems (factors)
6. Multiplicity of Taxes and Levies
7. Unfair Competition and dumping
8. Marketing related Problems
9. Lack of Access to Modern Technology
10. Non availability of raw materials

Each of these problems was elaborately defined and explained in the questionnaire as follows:

NOTE/EXPLANATION:

- i. Infrastructure relates to poor or non-existence of access road, water, electric power, low voltage, load shedding, irregular power supply, etc.
- ii. Management relates to poor leadership, family interference, no training, no succession plan, no strategic plan, no management meeting, record keeping, power concentration, no empowerment, lack of entrepreneurial skills, poorly educated workforce, lack of motivated staff, no business plan, etc.
- iii. Access to Finance/Capital – covers lack of support by banks, no collateral, no money to pay for feasibility study, high interest rate, banks involvement in management of SME, non-availability of long term capital, no financial plan, etc.
- iv. Policy Inconsistencies & bureaucracy – too many government agencies at the ports, midway policy reversals by government, etc

- v.Environmental factors – Area boys menace, harassment by Local Government officials, insecurity of lives and property, under the table payments, bribery & corruption.
- vi.Multiple Taxes & Levies – includes unauthorized levies and taxes, tax clearance certificates.
- vii.Access to Modern Technology includes lack of current information, no preservation or storage facilities for fresh fruits, foods, poor quality products, modern processing facilities, etc.
- viii.Unfair Competition – includes dumping of fake, substandard goods, unfavourable tariff structure for finished goods, smuggling.
- ix.Marketing Problems – relates to non-patronage of locally produced goods by government agencies and departments, lack of access to export market and market information.
- x.Non-availability of raw materials locally – high dependence on imported raw materials, foreign exchange costs.

The respondents were requested to rank these problem areas in the questionnaire by ticking one (1) to the problem areas (he/she) considered the least challenging.

The respondents were coded and their responses were keyed into the computer and analysed manually.

Library and Desk Research:

The researcher visited some libraries in order to read up some materials on SMEs' roles, contributions and place in economic development and growth of many countries, both developed and developing. Many books, publications, journals, magazines, International Labour Organisations (ILO) and United Nations Development Programme (UNDP) reports and newspapers were massively read, relied on and utilized in the course of this research especially during the literature review. These sources helped a great deal in providing relevant information and data regarding developments in the SME sub-sector.

These also aided the researcher in constructing the questionnaire. The libraries of Trade Associations and Chambers of Commerce as well as that of International Labour Organisation were particularly helpful.

Justification of the methods

The use of SRS method in the selection of participant SMEs used in the study was a sure way to reduce bias to the barest minimum. This approach was also used in order to ensure that the sample used in the study was a true and fair representative of the population of SMEs in Nigeria.

The relatively precise and concise questions in the questionnaires employed in the study were carefully crafted in order to reduce boredom, fatigue and demand on the target participants so that they do not exhaust their energy, time and effort in answering the questions. The researcher believed that this approach is bound to elicit the best responses from the participants in terms of objectivity, frankness, originality, pointedness on key issues and promptness of response. The rationale for using two forms of questionnaires was to cater for the peculiarities, differences and viewpoints between the two main groups of respondents, (banks on one hand and SME owners/operators on the other hand) in terms of functions, operations, perspectives and roles as regards the SME sub-sector's challenges, problems and operations.

The open-endedness of some questions in the questionnaires provided ample opportunity and leverage for respondents who wished to elaborate or write at length on some pertinent issues relating to the SMEs. This further served as a means of validating some earlier answered questions and the respondent's consistency also. A few questions were also constructed in order to confirm the validity of the answers to some questions stated earlier in the questionnaire.

The personal interviews represented excellent media for close interaction and rapport between the researcher and the respondents, which enabled the former to elicit more pertinent information and data, which the questionnaire neither captured nor provided for. The personal interviews in addition provided a source of presenting the researcher to the search light of the respondents' personality, composure and psychology and vice versa. This interaction was deeply appreciated by many respondents who lamented that this type of study was long overdue as the government had most of the time paid lip service to the SME sub-sector. It created a lot of excitement and interest in many of the respondents.

The researcher relied on library and desk research, study of various books, magazines, journals, reports, newspapers and publications on the subject matter and related topics for the secondary data. Vast

literature (in scattered form) exists on the subject matter even though the researcher was not able to identify or locate any past formal similar study on the subject matter. This notwithstanding, copious literature exists which facilitated the researcher's literature review.

The combination of the questionnaire and personal interviews complemented by desk research significantly contributed in ensuring that the researcher got to the root of the challenges and draw backs of the SMEs in Petauke. The piloting of the questionnaires proved very useful in the crafting of a comprehensive, easy to understand and respond-to final version that was used in the research. The wholesome responses from the majority of the participants were encouraging and made the data collection simple. The enthusiasm, which many respondents exhibited during the personal interviews was also motivating and certainly could be a pointer to the fact that the SMEs have been longing for succor, help and relief from the government.

There were however a few participants who though interested in the study confessed that they did not have the time to respond promptly. For this group the researcher had to invest his time and efforts to be able to collect back the completed questionnaires.

Instruments/Tools Used

The instruments used in the collection and gathering of data include questionnaires, personal interviews, and library and desk research while the Spreadsheet was used in the analysis of the data collected.

Questionnaires:

A carefully crafted but wide-ranging questionnaire aimed at eliciting right responses was constructed and piloted in order to detect any ambiguities or inherent problems. From the comments and remarks from the pilot questionnaire respondents, the entire questionnaire was revamped and improved on. While some questions were open-ended a few were in a "Yes" or

"No" answer format. One set of the questionnaire designed for SME operators, owners, services providers and professionals in the SME sub-sector had 20 questions to which the participants

responded. The questionnaire was designed to capture detailed profile of the respondents in addition to what they consider as the major problems (in order of intensity, beginning with the worst) of SMEs.

The questionnaire also provided for inputs on the respondent's expectations from the government as well as what should be done to alleviate the challenges confronting the SMEs. Many questions focused on issues relating to leadership and management of their respective SMEs (both in depth, qualification and experience) including succession plan, decision-making process, managerial capacity, as well as strategic thinking and business planning among others.

The second set of questionnaires was for banks alone. The rationale for this special 10 questions questionnaire for banks hinged on the fact that banks are not only being indicted by a group of SME operators but are also being accused of not having the requisite skills to manage the SMEs and ensure efficient and effective utilization of resources. The set of questionnaires for the banks were targeted at eliciting from the banks, their own perspectives and explanation as to why there is low patronage of the SMEs funds.

Personal Interviews:

The interviews were basically focused on the reasons why the Zambian SMEs have performed below expectations and hence have failed to significantly contribute to the country's economic growth and development. Their views and opinions were also elicited on the following: How the SME sub-sector can be resuscitated and energized.

Limitation of the study

Due to time constraint, a relatively small sample size of SMEs was employed and as such it limits the extent to which we can generalise the issues raise. It was also very difficult in getting information from the selected SMEs because of fear that the information given would one way or the other get to the tax authorities as most of them do not fulfil their tax obligation despite the assurance the researchers have given them.

The absence of SME business owners in their business areas were impediment for conducting interviews in this study, lack of enough researches done about financing on SMEs in Zambia, despite all challenges incurred the researcher was able to obtain information by making return visits and

assuring the respondent that information will be treated with utmost confidentiality as this was only research work for academic purposes and not in any way intended to cause or alter anything to their operations.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Presentation of Petauke District

Petauke district is a district in eastern province of Zambia. The provincial headquarters of eastern province is Chipata, and very recently Chipata was confirmed a town by his excellent the president of the republic of Zambia: Edgar Chagwa Lungu.

The district host quiet a number of business and entrepreneurial activities attracting locals to participate in performance.

Petauke is 400 km from the capital city Lusaka. The main spoken language of the 14000 residents is Nsenga.

Most telecommunication is by two radio station; Radio PASME, 91.3 and Radio Explorers, 88.3 FM which cover up to 120 km mainly used by political leaders and chiefs of course including interested publics for business and entertainments.

The town is situated in an agriculture area; famers produce maize, sunflower, cotton, soya beans, millers, breweries including traders.

4.2 Findings on Management

Management is key to resource application and realisation of profitable results. Considering that in many SMEs, management is a big challenge, therefore drastic measures need to be taken to consideration. Training of entrepreneurs can salve as solution to many of management problem.

4.3 Findings on Access to finance

Many SMEs find it difficult to access loans or funds due to conditions attached and as a result of lack of knowledge.

4.4 Findings on Policy inconsistency

Much was not s0aid about it, but a call to have a strong policy to govern Small Medium Enterprises (SMEs).

4.5 Findings on Unfair competition and Marketing problems.

Business completion is high in certain industry, but most of the industry it's very uncompetitive.

Unfair business competition was found to be as a result of the Environmental in which the business operates.

4.6 Findings on Taxation systems

Tax is very fair and it is aimed at increasing SMEs growth in the country. Tax authority understand the importance of lower tax in boosting SMEs in the country and for Economic Development and Growth

4.7 Findings on Institution Boosting SMEs growth.

The formation of the Zambia Development Agency (ZDA) and the Citizen Economic Empowerment Commission (CEEC) has been a huge milestone in the development and promotion of entrepreneurship and entrepreneurs. The Act gives powers to the ZDA in key areas of trade development, investment

promotion, enterprise restructuring, development of green fields' projects, small and enterprise development, trade and industry fund management, and contributing to skills training development.

4.8 Analytical tables

The following table represent forms of participation of Small Medium Enterprises.

Frequency Table of Forms of Participant SMEs

Nature	Frequency	Percentage
1	Private Limited Company	84
2	Public Limited Company	0.3
3	Partnership	2.9
4	Sole Trader	7.5
5	Family Owned	4
6	Non-governmental organization	1
7	Others	0.3

As can be seen from table above the bulk of the respondents, specifically 253 out of 300 are private limited liability companies while only 1 is publicly limited companies (PLCs). The private limited companies represented 84% of the entire participants while public limited companies accounted for only 0.3%. Partnership and sole proprietorship companies among the respondents were eight and twenty representing 2.9% and 8.5% respectively. Family owned is 4% of them were family owned business while a mere 1% or three were Non-government Organizations and the likes.

The following table shows main problems faced by Small Medium Enterprises.

Ranking of Problem Areas of SMEs

Ranking		Percentage
1	Management	16 %
2	Access to finance	15 %,
3	Policy inconsistency	5%,
4	Unfair competition	30%,
5	Marketing problems	20%,
6	Environmental factors	10%

7	Taxation systems	4%
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Problem ranking areas mainly faced by the SMEs are classified in different sections that affect the operations of Small Medium Enterprises as follows: Management, Access to finance, Policy inconsistency, Unfair competition, Marketing problems, Environmental factors, and the Taxation systems.

The above tabular representation and interpretation of the pie chart clearly depicts the relative gravities of the problem areas. Management with a rank of one 16 % representing the greatest. Access to finance 15 %, Policy inconsistency 5%, unfair competition 30%, marketing problems 20%, Environmental factors 10% and the Taxation systems 4%.

The rankings of the rest of the problem areas as depicted by the chart. The rankings show that the problems facing SMEs in Petauke in their randomly order of gravity.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

As it has been seen from the study that SMEs have greater potential to unlock the economy of any country, it is vital to provide valuable support and interventions in order to have robust operation of these exiting firms for a foreseeable future.

Our country Zambia, just like any other developing nations like Ghana, Tanzania etc. has earmarked on series of economic reforms to favour small and medium enterprises (SMEs).

The government has been instrumental in setting enabling business environment for SMEs to operate. It has set out initiatives through the small industries development organization (SIDO) which was renamed which later was known as small enterprise development board –SEDB (Kingombe, 2004; APF, 2014; ZDA, 2015). These initiatives and others are very instrumental in creating a good environment for SMEs and such should be encouraged and supported by the government. Over 90 percent of the SMEs operate in the informal sector according to the research findings. This is not health as planning for enterprises by the government become a challenge.

Furthermore, the Government of the Republic of Zambia took the initiative to restructure major banks and financial institutions in 1996, which included the restructuring and downsizing of the National Savings and Credit Bank and the recapitalization of the Co-operative and Rural Development Bank through selling of shares to the general public as well as introduction of new local and foreign banks in which competition has been enhanced, resulting into improvement of quality and quantity of financial services and products offered. The government has also established the National Micro-finance Policy in 2000, the Co-operative Societies Act in 2003 and the National Economic Empowerment policy in 2004. All these initiatives were met to enhance growth and development of SMEs.

Despite of challenges facing most of small and medium enterprises as outlined in the literature review also access to finance in this study concluded to be most critical problem as it comprises lack of collateral, securities, audited financial statements coupled with high interest rates and other supportive requisite documents makes it very difficult to access loans from banks. These constraint have continue to be barrier to the prospect of growth and development of SMEs.

Finally, the study concluded on putting in place favourable policies to be adopted in order to improve accessibility to finance of Small and medium enterprise such as reduction of interest rates, solidarity creation of information database for SMEs, to operate an SME financing window, increase credit outreach strategy, innovative credit guarantees scheme and introduction of entrepreneurship trainings to borrowers for them to be competitive.

The SMEs inability to meet the stringent requirements of these institutions make these sources unviable unless there is a total change in the financial institutions lending methodologies, which will relax the criteria of these institutions to allow SMEs easy access to loans. Also commercial banks and financial

institution should be in position not deter SMEs from financial support because of lack ‘‘credit scoring’’ which measures the borrowing history of a borrower.

5.2 Recommendations

Challenges as they say are part of life and at every point man will have to deal with them. In as much as the challenges facing SMEs cannot be completely, they can be minimized to create a more friendly business atmosphere. The following are some recommendations we came up with;

5.2.1 Government Interventions

The government can for instance introduce free registration with patents and companies registration agency (**PACRA**), tax holidays, tax exemptions for SMEs employing at least 3-5 employees etc. Such initiatives can become acceptable by the SMEs sub sector players. Considering the data on SMEs for the period 1993-2006, SMEs had created total employment of 214,527 in different SMEs. Agriculture sector provided 36.7 percent followed by manufacturing with 34.3 percent. Initiatives by the sector players to prop up SMEs in a country would develop the Zambian economy at a fast pace. It would be difficult to attain the growth of the sector without dedicated initiatives for providing micro finance facilities to entrepreneurs. Business start-ups do require seed capital and this can be provided through grants, personal savings and or loans. The sector needs to be made attractive for the micro finance institutions; this could mean that government should allow MFIs operations to be governed by the forces of demand and supply in a market economy.

5.2.2 Infrastructure

Open up the country by providing social amenities such as roads, rails, as well as electricity and portable water to increase access to markets, this easy their operations with much stability because of the infrastructures which lead to the market and support their operation.

5.2.3 Networking

Networking; this can be achieved by organizing SME forums that would build networks and foster synergies between the different stakeholders with an interest in SME development

5.2.4 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. Factoring as is well known will help SMEs breath in some air when it comes to the management of their account receivable because it has numerous benefits as indicated on www.grayco-factorlocators.com. Some of which includes:

- **Tap into unlimited cash:** Factoring as known is the only source of business financing that grows with sales. As sales increase, more money becomes immediately available. Unlike the transitional bank financing, factoring has no maximum limit to restrict growth.
- **Easy process to setup:** Account receivable financing does not require the documents that are generally needed to secure bank loans. Factoring account receivable gives one immediate access to cash.

Presently none of the financial institutions in the country offer such services which we believe when it is up and running, the country's SMEs can discount their invoices for immediate cash that currently takes up to 30 days to have them settled. This will also enable them to embark on any growth projects they may have.

5.2.5 Small and Medium Enterprises (SMEs)

People going into business should study the relevant processes and procedures before starting a business. It is recommendation of this study that Small and medium scale business entrepreneurs should constantly engage in capacity building, training, research and development.

Furthermore, proper financial records should be kept and clear accounting standards should be adhered to in order to ensure their competencies in managing and sustaining SMEs development.

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APPENDICES 1: QUESTIONNAIRE QUESTIONNAIRE ON SMALL AND MEDIUM ENTERPRISES (SMEs)

Dear Respondent,

The bearer of this questionnaire is a Student of Information Communications University. This is an academic research questionnaire and he is required to write a report which is aimed at determining whether good financial policies can support the growth of small and medium enterprise (SMEs), identifying and collecting data about the challenges faced by small and medium enterprises (SMEs) in accessing finance/ credit from the financial institution.

Your kind and objective response will significantly highlight these challenges from your perspective and contribute to finding practical solution to this problem.

This is purely academic exercise and any information given would not be disclosed.

Section A: General information of the company

1. Name of organization/Enterprise:

2. Nature of Organization. (Please tick as appropriate)

- i Private Limited Company
- ii. Public Limited Company
- iii. Partnership
- iv. Sole Proprietor
- v. Family Owned Business
- vi. Others (please specify).....

3. Nature/Kind of organization (please tick as appropriate)

- i. Retail trading
- ii. Export
- iii. Manufacturing
- iv. Services
- v. Real Estate
- vi. Farming

1. Other (specify)

4. For how long has your company been in operations (please tick as appropriate)
 - i. Less than one (1) year
 - ii. Between 1 and 5 years
 - iii. Between 6 and 10 years
 - iv. Between 11 and 15 years
 - v. Over 15 years
5. How many people are employed by your company
6. Do you have professionals in managerial positions in your company? Yes / No
7. What is the qualification of your management team?
 - i. Senior High School certificates
 - ii. Junior level
 - iii. First Degree
 - iv. MBA
 - v. Other (Specify).....
8. Does your organization have an existing business plan? Yes / No
9. What is the average monthly turnover of your business?
 - i. Less than ZMW 15,000.00
 - ii. ZMW 15,000.00 – ZMW 25, 000.00
 - iii. ZMW 25,000.00 –ZMW 35,000.00
 - iv. Others (specify) ZMW.....

Section B.

The following questions relate to the financing issues of your company: the difficulty in accessing credit, options your company is resulting to and future of your business.

10. Has your company ever applied for credit from a Bank? Yes / No
11. If No, why not?
 - (i) Do not like Bank Loan
 - (ii) Interest Rate too high
 - (iii) No collateral to pledge
 - (iv) Others (specify)

12. How do you rate your relationship with your bankers?
- i. Excellent
 - ii. Good
 - iii. Average
 - iv. Poor
13. Have you ever been refused or denied credit from a bank? Yes / No
14. What was the main reason your Bankers refused offering you loan?
- (i) Default on previous loan
 - (ii) No Security to pledge
 - (iii) Too small equity base
 - (iv) Lack of experienced Management
 - (v) Others (Please specify)
15. What was the highest amount your company ever borrowed from a Bank?
- i. Less than ZMW 30, 000
 - ii. ZMW 30, 000 to ZMW 80, 000
 - iii. ZMW 80, 000 to ZMW 130, 000
 - iv. Above 130,000
16. What was the purpose of the loan?
- i. Start-up capital
 - ii. Working capital
 - iii. Expansion of business
 - iv. Other (specify).....
17. What information did your bank asked for? (Tick all that apply)
- i. Collateral
 - ii. Cash flow statement
 - iii. Total Assets
 - iv. Audited financial statement (account)
 - v. Business plan
 - vi. Other (specify).....

18. Have you ever had problem repaying a Bank loan? Yes / No
19. If yes, what created the problem?
- i. Short duration
 - ii. High monthly repayment amount
 - iii. High interest rate
 - iv. Low turnover
 - v. Others (specify)
20. What was the maturity period of the loan?
- i. Up to 1 year
 - ii. Up to 2 years
 - iii. Up to 3 years
 - iv. Other (specify).....
21. How did you find the lending rates?
- i. Extremely High
 - ii. High
 - iii. Acceptable
 - iv. Low
22. What percentage of interest is on the loan?
- i. Less than 20%
 - ii. 21 – 30%
 - iii. 31-40%
 - iv. Above 40%
23. How did you finance the start-up of the business?
- i. Personal Savings
 - ii. Bank credit
 - iii. Friends & Relations
 - iv. Others (Specify).....
24. What are your sources of funding for the business? (Tick all that apply)
- i. Bank loan

- ii. Personal savings
- iii. Retained profits
- iv. Private institutions
- v. Trade credit
- vi. Family/friends
- vi. Other (specify).....

25. In your opinion, what are the major constraint to the growth of your company? (Tick all that apply)

- i. Lack of finance
- ii. Competition
- iii. High interest on bank loans
- iv. Taxes
- v. Other (specify).....

26. Have you accessed credit from other sources other than a bank? YES / NO

27. If Yes, Where?

- i. Microfinance institution
- ii. Village Banks
- iii Others (Specify).....

28. Would you say the nature of requirements demanded by these institutions is less stringent? YES / NO

29. What information was requested? (Tick all that apply)

- vii. Collateral
- viii. Cash flow statement
- ix. Total Assets
- x. Audited financial statement (account)
- xi. Business plan
(specify).....

30 After a completion of repayment of first loan did you opt to continue for second loan? (Please tick appropriate answer)

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(a).Yes ()

(b) No. ()

If No give reasons

i.....

ii.....

iii.....