MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCEDEPARTMENT OF ACCOUNTING

Financing Constraint on SMEs' Success in the Manufacturing Sector (Case of Cool Ice (Pvt) Limited))

By

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MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

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APPROVAL FORM

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Dedication

I dedicate this research project to my late father, Mr Tavatose, who inspired me to pursue the Accounting Career right from the early stages of my life.

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My deepest gratitude goes to the Midlands State University which has provided me this valueless opportunity to undergo a four year study of the Bachelor of Commerce Accounting Honours degree Programme under the mentorship of highly qualified lecturers and support staff. I have acquired great knowledge and professional experience as a student that i hope will be highly influential throughout my career. Profound appreciation goes to Mr Noko, my mentor throughout this research project, whose relentless effort, endurance, care and commitment proved to be valueless for the completion of this project.

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Abstract

This research sought to unearth the role of financing in the sudden downturn in the operational cycle of Cool Ice Private Limited and its overall effect on SMEs' viability in the manufacturing sector of Jaggers, Msasa, Harare Industrial Area. Literature was reviewed on the views of different writers on SME financing and linked to the Case study. The literature cited high borrowing costs, lack of collateral and high risk profile as the major constraints on SMEs financing. Various efforts by different stakeholders to address the problem of SME financing were drawn from different authors. Research was conducted at Cool Ice and other randomly selected firms in the Case Study area through sampling, making use of questionnaires, interviews and analysis of various Cool Ice Documents. Research findings were described, tabulated and presented in a pie chart, bar graph or line graph for trend analysis. The research findings linkage with literature was conducted. The major observation noted was the extremely low investment level, and a series of related problems, which were attributed to lack of financing by the majority of the firms. The research noted that SMEs are making use of personal savings, borrowings from relatives and friends as well as internally generated funds to finance their projects which proved to be highly inadequate as noted from the problems encountered. Conclusions were drawn from these research findings, recommendations were made and suggestions for further areas of study were given.

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List of Acronyms and Abbreviations

AIM	Alternative Investment Market (London)
GDP	Gross Domestic Product
GEM	Growth Enterprises Market (Hong Kong)
IFC	International Finance Corporation
OECD	Organisation for Economic Cooperation and Development
PPE	Property, Plant and Equipment
RBZ	Reserve Bank of Zimbabwe
SME	Small and Medium Enterprises
WACC	Weighted Average Cost of Capital
ZIMSTAT	Zimbabwe Statistics

Appendices

Appendix A	Research Approval Letter
Appendix B	Questionnaire for SMEs
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CHAPTER 1

BACKGROUND OF THE STUDY

1.0 Introduction

This chapter describes an exploratory study of the impact of financing constraintupon business growth, survival and financial performance outcomes amongst small and medium-sized enterprises (SMEs) engaged in manufacturing in Zimbabwe. The chapter is composed of the background to the study, statement of the problem, research objectives, research questions as well as limitations and delimitations of the study. Of broad concern is how and the extent to which financing appears to cripple investment and the overall effect on enhanced business growth and performance in the SMEs.

1.1 Background of the Problem

Cool Ice Private Limited has been registering substantial profits during the years 2009 to 2010. Since then, the financial performance has been declining mainly due to the escalating operating costs and declining revenue. A significant observation made from the study in this regard has been the trend of repairs and maintenance expenditure over the last four financial years. For some years, there has been very insignificant investment in new items of Property, Plant and Equipment owing to financing constraint. The Plant and machinery as well as delivery vehicles are getting old hence a substantial percentage of the total expenses relate to repairs and maintenance.

COMPONENT	2009	2010	2011	2012
Revenue	$356,568	$347,295	$304,588	$266,973
Total Operating Expenses	$86,542	$90,254	$115,663	$125,468
Repairs and Maintenance	$15,264	$17,856	$25,768	$37,266
%ge of Repairs and Maintenance to Total Operating Expenses	17%	19%	22%	29%
Net profit /(Loss)	$35,411	$22,560	($12,123)	($28,976)

Table 1.1: ***Cool Ice (Pvt) Ltd Extracts from the Statement of Comprehensive Income for the Years Ended 31 December 2009 to 2012***

The extract in Fig 1 shows the trend in the revenue and expenditure for the company since 2009 and the continuous decline in revenue and escalating expenditure (repairs and maintenance for property, plant and equipment) which resulted in successive losses in the 2011 and 2012 financial years. A major area of concern to the directors is to unearth the root cause of these financial woes affecting the company.

This project focuses on research being conducted in the Small and Medium Enterprises (SMEs) in the manufacturing sector of the Zimbabwean economy. The study is conducted in the manufacturing firms in Msasa, Harare. The idea is to come up with a detailed research into the investment restrictions faced by SMEs in the Zimbabwe primary industry as a result limited finance.

Small and Medium Enterprises (SMEs) play an important role in the economic growth and sustainable development of every nation. The government of Zimbabwe has identified entrepreneurship development as a major policy thrust to achieve economic development. This is evidenced by a number of institutions established by the government to provide funding and improve operational efficiency in the SMEs sector, (Reserve Bank of Zimbabwe, 2009). The major advantages to any economy of developing SMEs have been identified as sources of innovation and business.

The development and growth of SMEs in Zimbabwe can provide solutions to the problem of high unemployment facing the country because these entities have low start-up costs, low risk and can exploit untapped knowledge bases of creativity in the population for new product development. There is an approximation of about 40 000 manufacturing entities in Zimbabwe, most of which are SMEs that account for the employment of at least 57% of the Zimbabwe population. It is also estimated that there are about 609 SMEs in the manufacturing sector of Harare.

This research is meant to investigate the role of financing of long term investments in the financial performance, growth and survival of Small and Medium Enterprises (SMEs) in the manufacturing sector of Zimbabwe. To achieve this objective, the research is dwelling on the analysis of lack of adequate funding andits contribution to the poor financial performance of SMEs in the manufacturing sector of Zimbabwe.

1.2 Problem Statement

The Small and medium enterprises in the manufacturing sector, despite the fact that they are critical to the survival of the Zimbabwean economy of recent, have been struggling for healthy survival due to poor financial performance. The researcher noticed that SMEs in the manufacturing sector are struggling to offset the trend of recurring financial losses although they keep surviving under difficult conditions.

The research project will focus on inadequate financing as the major hindrance thwarting investment, profitability, growth and survival of SMEs in the manufacturing sector.

1.3 Research Objectives

- To investigate the force behind the trend of declining revenue, escalating costs and recurring losses in SMEs in the manufacturing sector.
- To identify the available sources of financing to SMEs in the manufacturing sector in Zimbabwe
- To establish the difficulties faced by SMEs to access finance through these sources
- To conduct an analysis of the overall effect of lack of adequate long term financing to the plight of SMEs in the manufacturing sector.
- To identify any efforts made so far by various stakeholders in the SMEs sector in connection with the problem.
- To identify the most appropriate solutions to the financial woes of SMEs in Zimbabwe as a result of lack of adequate financing.

1.4 Main Research Question

- Assess the role of financing on the financial performance, long term investments, growth and survival of SMEs in the manufacturing sector of , Zimbabwe

1.5 Sub-Research Questions

- Why are SMEs in the manufacturing sector failing to offset recurring trends of financial difficulties and losses?
- Why are SMEs in the Zimbabwe manufacturing sector failing to make long term investment projects to enhance growth, survival and competitiveness?
- What are the available sources of finance for long term investments to SMEs in the manufacturing sector of Zimbabwe?
- How readily are these sources available to SMEs and how easily are they accessing them?

- ❖ What drawbacks have SMEs in the manufacturing sector faced as a result of inadequate financing?
- ❖ What are the solutions to the problem of financing to SMEs in the manufacturing sector?

1.6 Justification of the Study

1.6.1 To The Researcher

This research is a great opportunity to build a strong foundation under professional supervision from the academic supervisors. The researcher also benefited from the study by acquiring problem identification and solving skills through the research.

1.6.2 To The Midlands State University

The research will benefit the University and the community in general as it strengthens the relationship between the University and the corporate world.Furthermore, the research project may be useful for learning purposes by other generations of students to come.

1.6.3 To The Firm

The student intends to produce a piece of research that will be a reference point for the Small and medium Enterprises in the manufacturing sector in the implementation of programmes to boost turnover, market share, pioneer growth, profitability, financial stability and recovery from financial difficulties.

1.7 Limitations of the Study

1.7.1 Resources

Financial resources limitations are encountered as the researcher is travelling gathering data now and then. Some of the research is being carried out through telephone interviews with various stakeholders in the SMEs sector as well as questionnaire distributions which also add to the costs. The University library has limited resources therefore data collection will be very imperative at this stage.

1.7.2 Time

The study is carried out while the student is doing other school work. Currently, i am working on three more modules in addition to the dissertation hence the need to strike a balance on all course requirements limits the time spent on the research activities and the project as a whole.

1.8 Delimitation of the Study

- The research is restricted to SMEs in the manufacturing sector in Harare, Zimbabwe.
- The research is dwelling on the role of financing to thefinancial performance, growth and survival of Small and Medium Enterprises in the manufacturing sector of Zimbabwe.
- The research shall cover the 4 year period from 1 January 2009 to 31 December 2012.

1.9 Summary

This chapterintroduced the study and showed the problem statement and the background of the study. It revealed the importance of the study and the objectives which came up with questions to be answered by the results of the study. It also outlined the focus of the whole study, the limitations and the delimitations of this research project.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter will cover a review of literature regarding the research objectives mentioned in Chapter One. The review will be dwelling on the investigation of the force behind the trends of declining revenue, escalating costs and recurring losses (poor financial performance) in SMEs in the manufacturing sector. The review tries to identify the available sources of financing to SMEs, the difficulties faced by SMEs to access financing through different sources and the overall effect of lack of adequate financing to the financial viability of SMEs. This chapter will also highlight the various efforts that have been made by different stakeholders to address the problem of SME financing. The definition and concept of Small and Medium Enterprises will be given before any progress into the details of the literature review is made.

2.1 The Definition and concept of SMEs

Abor and Quartey (2010) made mention of the controversy surrounding the determination of what constitutes an SME labelling it a major concern in literature. Various authors have come up with different definitions of SMEs. Grouping and defining firms by size differs from one researcher to the other. Some have adopted the concept of capital assets when others have classified them in terms of skill of labour and levels of turnover. Some tend to classify SMEs based on their legal status and production methods. Storey (2009) reveals the danger of defining the status of a firm by size reiterating that in some economies, all firms may be regarded as small whilst in some economies no firms could possibly be regarded as small.

The Bolton Committee came up with two distinct definitions of a small firm. The first was an "economic" definition under which a firm should have a relatively small share of the market, being managed by owners or part owners personally and not through a formal management structure and it has to be a standalone firm independent from one or more large enterprises for it to be considered small. Secondly, the "statistical" definition covered aspects involving the firm's contribution to Gross Domestic Product, employment, exports and the overall economic contributions of the firm over time.

The Bolton Committee used varying defining criteria for SMEs in different sectors of the economy. Primary industry firms, particularly manufacturing, mining and construction were defined based on the total number of people employed where 200 or less would qualify a firm to be small. Retail and wholesale firms were classified in terms of monetary turnover and firms in the road transport industry would be considered small if they have 5 or fewer vehicles.

The European Commission gave the definition of SMEs based on the number of employees as follows: 0 to 9 employees are Micro Firms, 10 to 99 employees are Small Firms and 100 to 499 employees constitute a Medium Enterprise. In general, the European commission reiterated that the SME sector comprises of firm employing less than 500 employees. Storey, 2009, supported the use of 100 employees by the European Commission as the upper limit for a small firm owing to the increase in the firms' productivity over time.

The European Commission definition happens to be too broad to be applied to different countries. It would have been more appropriate if they had come up with definitions more specific to a target group. Storey emphasised that debates on bases of defining firms turn out to be sterile, unless size of the firm would have some influences on performance.

In South Africa, authors have come up with different definitions for this category. The most common definition adopted is a registered firm with no more than 250 employees (IFC, 2009). The official South African Definition of an SME according to the National Small Business Amendments Act is, "a business entity that is separate and distinct, in the form of co-operatives, nongovernmental organisations, owner managed together with its subsidiaries, if any and is actively conducted in an economic sector mentioned in Column 1 of Schedule 14..."

According to Weston and Copeland (2008) defining the size of a firm lacks universal applicability since firms can be perceived in various terms. And different contexts such as number of workers, periodic turnover, ownership and management as well as the capital structure of the firm.

With regards to the afore mentioned definitions of enterprises, the British Department of Trade and Industry considers the description of a small firm given by the Bolton committee in its 2009 Report on Small Firms to be the best where it was stated that a small firm is an independent business managed by the owners personally or part owners without formal management and having a small market share {Department of Trade and Industry, 2009).

In the case of Zimbabwe, in the monetary policy statement dated 31 January 2013, The Reserve Bank Governor, Dr Gideon Gono, defined SMEs based on three main characteristics as shown in Fig 2 below

Factor	**Indicator**
Asset Base	$10000 to $2m
Employment	5 to 20 Employees
Annual Turnover	$30000 to $5m

Table 2.1; ***Characteristics of SMEs, Monetary Policy Statement by RBZ Governor, Dr Gideon Gono, 31 January 2013.***

Based on the above definitions, Cool Ice (Pvt) Ltd would qualify to fall under the category of Small and Medium Enterprises. Using the Bolton Committee "economic" definition, the company qualifies since it is managed by owners who are personally involved in the day to day activities of the company without a formal management structure. It also qualifies under the "statistical" definitions on the grounds that the company's contribution to GDP and economic activity is too insignificant to warrant the status of a large firm. On the basis of the number of employees as propounded by the Bolton Committee, the European Commission and the Reserve Bank of Zimbabwe, Cool Ice (Pvt) Limited, with a total workforce of around 20 employees also qualifies it to fall under the SMEs category.

In conclusion, there is no a general consensus over the definition of what constitutes an SME. These would vary from country to country and across industries. The idea is to bring a general awareness on what is meant by the concept of SMEs before proceeding to the exploration of the aspect of financing in SMEs.

2.2Theoretical Framework to SME Financing-What Does Access to Finance Mean?

The World Bank (2008) defined access to finance as the absence of price and non-price barriers in acquiring financial services. Any measures put in place to improve access to financing involve raising the degree to which financing is accessed at fair price. Various sources are considered for the financing of SMEs. These sources fall either under debt or equity financing. Equity has been given little consideration in literature as a source of financing for SMEs. Despite many authors emphasising on fostering access to debt, Churchill and Frankiewicz (2009) dismissed credit to be a sufficient developmental tool. Therefore other sources such as equity financing, particularly venture capital, should be considered.

Furthermore, of importance is the issue of optimal financing structures for SMEs. This issue is surrounded with controversy with Correia et al. 2008 describing it as the debt-equity ratio adopted by the company which brings its Weighted Average Cost (WACC) to its lowest point. A number of theories have been developed over time to clarify the relevance of capital structure as confirmed by Correia et al.(2008). However, Modigliani and Miller, as cited by Correia et al. (2008) made an analysis based on the argument that an optimal capital structure does not exist. Their basis of this argument came from the fact that regardless of the gearing levels, the Weighted Cost of Capital will not change.

Little attention has been given to the issue of capital structure in SMEs in Zimbabwe. However, this research is focusing on access to financing for SMEs regardless of it being equity or debt finance. SMEs in Zimbabwe face constraints in accessing both equity and debt financing. In theory and practically, a financing problem arises in a situation where a firm needs funds for an investment project that warrants financing and access to external financing is impeded due to the gaps existing between suppliers of external financing and demand for finance.

The two directors of Cool Ice (Pvt) Limited are the sole shareholders of the company. No more equity capital has been raised through the issue of shares after the initial issue in 2003 when the company was incorporated. Much of the investments were being financed from internally generated profits. There were no problems encountered during the years 2003 to 2010 since much of the Property, Plant and Equipment was at its best in terms of operating capacity and substantial profits were recognised during this period and any investment project were readily financed. The years 2011 and 2012 witnessed the erosion of all retained earnings and big losses being realised which signalled an urgent need for investment in new equipment in the form of a second Ice manufacturing Plant and new Delivery Trucks but until this date, external financing has eluded the company.

2.3Sources of SME Financing

There are various financiers that can be exploited by SMEs to access financing services. Regardless of the various names given to these sources, they fall under either debt or equity financing. Literature has paid little attention to equity as an important source of finance for SMEs and turned to emphasize more on debt financing although Churchill and Frankiewicz (2009) argued over the sufficiency of debt finance as a developmental tool. Their suggestion was that SMEs have to exploit other sources of financing particularly the consideration of equity financing in the form of venture capital. Brealey et al 2009; Gitman 2008 gave a description of capital structure as a combination of debt and equity that a firm employs to fund its activities.

For start-up, most SMEs consider borrowed funds either from friends or from the bank. According to Van De Gucht (2009), SMEs largely rely on borrowed funds for start-up but financial institutions always require repayment over very short notices which make it very difficult for SMEs to make use of borrowings from banks.

Cool Ice (Pvt) Limited has employed equity capital at the time of incorporation in the form of ordinary shares. Most of the investment projects were financed from retained earnings. Some long term borrowings have been obtained previously in the form of Directors' loans to the company. Of recent, these funds have proved to be highly insufficient calling for the urgent need for external financing from banks and other financial institutions for investments in new items of Property, Plant and Equipment. The Company cannot issue shares publicly and the shareholders, who are the current directors, are unwilling to make any further ordinary share issues.

2.4 Constraints on SME Access to Finance

The financing gap comes up as a result of various reasons. It is the difference between the demand and supply of funds by SMEs. Park et al.(2008) argued that critical causes of SMEs' constrained access to finance is found in their peculiar features, while other authors are of the opinion that financing gaps affect SMEs due to market imperfections on the supply side. Park et al. (2008) is of the opinion that these financing gaps arise from the combined effect of both supply and demand sides. The supply side is made up of financial institutions and investors that provide financing to SMEs whereas the demand side consists of SMEs and other firms that seek financing from these financial institutions and investors.

Many authors and researchers have paid attention to the analysis of the financial gap but a few of them have attempted to come up with solutions for closing the gap. Stiglitz and Weiss (2009) came up with the credit rationing theory in their analysis of the financing gap. They suggested that it is mainly issues to do with agency problems and information asymmetries that result in SMEs' constrained access to financing. According to Stiglitz and Weiss (2009), there arises a conflict of interest between management (agents) and the owners of the organisation. Their argument on information asymmetries was that only SMEs know their real internal affairs, investment projects they intend to undertake and their strengths and intentions to repay debts effectively. Since firms have superior private information, bank managers make their decisions based on asymmetric information. At times financial institutions make use of government subsidies as collateral against some SMEs' projects.

Various authors on SME financing have identified the main constraints to finding adequate financing for SMEs to be either informational asymmetries or higher risk associated with SMEs activities or higher transaction costs involved in financing SMEs. Lack of collateral is another constraint often cited under SMEs financing.

2.4.1 *Informational Asymmetry*

Huyghehaert and Van de Gucht (2009), mentioned that if problems associated with SME information and incentives are seemingly large, financiers become unwilling to extend large portion of debt to SMEs. Deakins et al (2008) also argued that at an early stage of the business, information is not always transparent given that a great deal of knowledge is known exclusively by the founder. Such information asymmetries discourage financiers from extending debt to SMEs for start-up.

The concept of informational asymmetry is ever inherent in every financing transaction. This arises from the fact that enterprises possess crucial information about their operations that may not be easily available to prospective lenders and external investors. For this reason, two problems arise; Firstly, financiers may find it difficult to distinguish between companies and projects and that makes it difficult to make use of price variables (interest rates) as screening devices since high borrowing costs may lead to an excessively risky portfolio (the "adverse selection' problem).

Secondly, investors and lenders may find it difficult to make an assessment of the utilization of funds by the borrowing firm so as to ensure that the funds are being used in appropriate way (the 'moral hazard' problem). The precautionary measures that have been adopted by lenders and bankers to address these problems include demanding collateral security to bind upon such financing transactions. Alternatively, these lenders will simply reject the financing requests from SMEs ("credit rationing') leaving them in financial trouble.

2.4.2 *Risk Profile*

Foxcroft et al (2011) conducted a study in 2010 to assess the role of various factors in restricting SMEs from accessing financing and it was observed that high SMEs lending risk alone accounted for 32.7% of the total loan application failures. There are quite a number of reasons why financiers consider SMEs as more risky to provide funds.

Firstly, SMEs are operating under more uncertain circumstances than larger firms. Their rates of return and failure are frequently fluctuating at undesirably higher levels. Secondly, they lack the necessary equipment, in the form of human and capital resources, to persist under tough economic conditions. Thirdly, there is the unavailability of sound and reliable accounting systems in SMEs that can generate reliable information about the profitability and repayment capacity of the firm. In Zimbabwe, a fourth problem exists in the form of the volatility of the operating environment which adversely affect the security levels of financing transactions. Investors and lenders feel very unsecure that they may not be repaid or even that assets provided for collateral are not adequately registered.

2.4.3 *Transaction Costs*

Saito and Villanueva (2011) cited the situation in the Philippine lenders where the costs of processing loan transactions to SMEs are associated with interest rates of 5% to 7 % higher than those charged to larger companies. Despite the presence of informational asymmetries and high risk in SME financing, handling SME financing is relatively expensive. There are fixed costs involved in the form of administrative costs, legal fees and expenses incurred during information acquisition such as buying credit profiles from specialised agencies which prove to be irrecoverable in cases of smaller loans and investments. These costs are worsened in developing countries by the lack of sound management information systems in financial institutions and the poor state of some public services such as property registration titles and collaterals.

2.4.4 *Lack of Collateral*

The most cited constraint encountered by SMEs in accessing financing is lack of collateral security to cover up the risk related to the "moral hazard". In their report, Foxcroft et al (2011) emphasised on lack of collateral as the biggest constraint on SME access to financing. According to them, from a study conducted in South Africa, of the total failed loan applications made by SMEs in 2010, 11% were blacklisted , 45% lacked collateral and 32,7% appeared to be high risk borrowers.

SMEs may find it tough to provide collateral for various reasons. Some maybe new and others may not be strongly established to the extent that they can afford to provide the collateral needed. Moreover, financiers may feel the collateral is not sufficient in relation to the loan required by the firm. This may come as a result of some tendencies by managers or directors in SMEs of siphoning resources from the company for their personal uses. The problem of collateral is related to the problem of high risk aforementioned.

2.5 SME Financing on SME Financial Performance

Da Silva et al.2009 put forward that SMEs experience investment funds shortages which in turn impact growth as a result of obstacles on access to external financing. Olutunla et al, 2008 supported this argument by emphasizing the need for both internal and external sources of financing for the stimulation of SMEs profitability which in turn accelerates business expansion and stability in the long run. Borrowed funds can be used to acquire additional assets by SMEs to invest in profitable projects and generate additional assets that would be collateral in future borrowings for the firm. Fig 3 illustrates diagrammatically how SME performance can be affected by constrained access to financing.

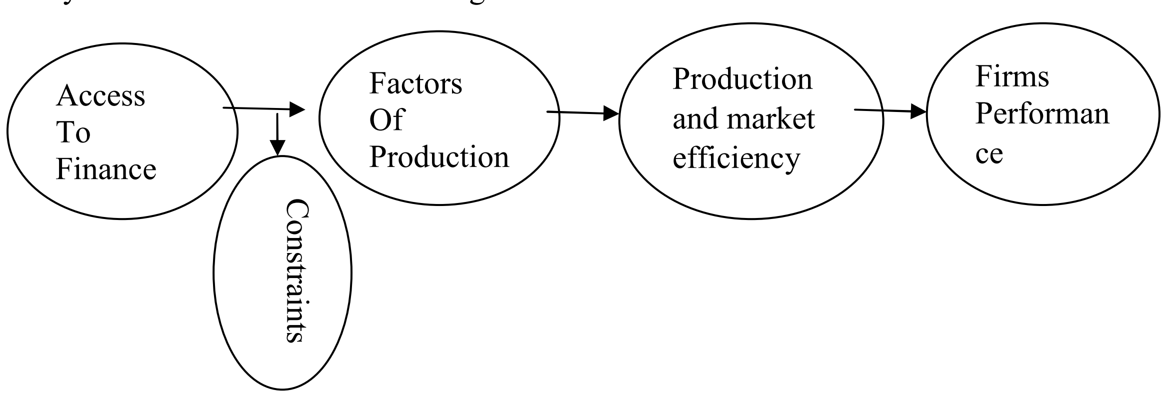

Fig2.1. ***Diagrammatic model representation on how access to finance impact firm's performance (International Journal of Business and Management Volume 7. No 24. 2012)***

Information depicted in Fig 3 illustrates that access to financing affects the ownership and control of the factors of production in SMEs. Thus capital, land and labour are constrained as a result of inadequate financing due to the constraints of asymmetric information and high cost of capital. For example, a rise in wages and salaries tend to raise production costs and this is inversely related to profitability and growth of the firm. Holding other things constant, developing the factors of production quantitatively or qualitatively, employing new technology, machinery, qualified and skilled workforce, increase SMEs productivity and in turn it improves the firm's performance and growth.

Therefore financing enables the firm to get productive assets thereby improving productivity, reducing unit production cost; hence economies of scale are enjoyed by the firm. A decrease in unit cost of production will simultaneously result in an increase in profitability. Olutunla and Obamuyi (2008) clarified that desirable financial performance is achieved in the form of higher earnings, increased sales revenue, more employment creation and wealth maximization. However this level of performance is highly unattainable in the SMEs sector in the manufacturing sector in Zimbabwe due to failure to access debt financing to support their investment opportunities.

With regards to Cool Ice (Pvt) Limited, financial performance has been adversely affected due to lack of investments. The symptoms appeared from the year 2010 onwards when the recorded profits began to decline and then losses were realised for the years ended 31 December 2011 and 2013. Lack of investment in new items of PPE has resulted in ever-increasing expenditure on repairs and maintenance. Some delivery vehicles have been grounded and only four are in good working condition. The problem facing the company is to meet all the orders on time given the condition of the current delivery fleet. This has forced some customers to find other suppliers and revenue has been declining of recent due to these trends.

The purchase of a second Ice Manufacturing Plant has been on the agenda of various meetings held since 2008 to improve productivity to meet the ever increasing demand for ice products at that time but due to financing constraints, until this date, the plant has not been imported. The current plant production capacity has been declining with prolonged waits between harvests and this has prompted high operating expenditure on repairs and maintenance. This has contributed to the trend of rising losses for the years ended 31 December 2011 and 2012.

2.6 Various Efforts Made to Address SME financing problem

The Government of South Africa, through the Department of trade and Industries, has established several institutions which are meant to assist SMEs' access to financing for start up and long term investment projects. The success of these measures remains an area of controversy according to Rogerson. (2008) since SMEs are still finding it hard to access financing adequately. It remains to be seen whether there is a necessity for the government to intervene over financing challenges facing SMEs or their fate should be left to be determined by market forces since several measures have been implemented but the financing challenge to SMEs remains unresolved

The South African Department of Trade and Industries, introduced a guarantee scheme under Khula Enterprise Finance Limited. This was a government initiative meant to provide solutions to this problem of SME financing. Malhotra et al. (2009) stated that lenders (commercial banks) have developed strategies for lending and pricing which provide a compensation for high transaction costs associated with SME loans processing. The adoption of management strategies by these commercial banks has managed to address the problem of high risk associated with SME risk profiles. These strategies involved giving small loans to SMEs for their working capital requirements without any collateral bondage. SMEs were then promised more and larger loans based on their repayment compliances. SMEs were also granted access to small savings accounts that were safe and convenient in terms of withdrawal transactions.

In the case of Government intervention in Pakistan cited by Zia (2007), it was discovered that small non-listed companies and non-group firms experience a decline in their sales immediately after becoming ineligible to receive subsidised export credit. Furthermore, according to the

Financial Inclusion Exports Group (2010), the establishment of SME stock markets goes a long way in addressing SMEs financing problems. The examples of the stock markets established include the Alternative Investment Market (AIM) in London, the Growth Enterprises Market (GEM) in Hong Kong, the Mothers Market in Japan and Shenzhen SE in China.

Factor Constraining SME Financing	**Financiers Innovations to Address the Problem**
Financiers assign a great risk to SME lending owing to lower asset base and low capital, exposure to high uncertainty as a result of market fluctuations and high termination rates.	Information asymmetry for SMEs and high risk profile can be reduced by: • Using external information providers. • Use of credit scoring systems • Risk self assessment for the SMEs • Pricing as per risk levels • Engaging 3rd parties in sharing risk • Making use of covenants • Special support units for high risk customers.
Information asymmetry arising from SMEs due to the following: • Inadequate accounting records • Insufficient financial statements • Insufficient business plans	Lending costs can be reduced by: • Using latest information technologies • Simplifying the lending process • Developing products suited to SME needs. • Training Bank staff to improve financial services for SMEs • SME customers segmentation
• High administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business	• Cooperating with SMEs and other business development agents to eliminate risks and costs and bring together financial with non-financial services.

Table 2.2;*SMEs Constraints to Access Financing and the Financial Innovations to Address the Problem (*Organisation for Economic Cooperation and Development, 2006. The SMEs Financing Gap Volume 1)

Fig 4 shows the innovations that have been implemented by commercial Banks in the OECD economies to address the problem of SME financing. These measures have registered remarkable success but the infrastructure and the capacity needed to implement them in developing countries is still lacking.

The Reserve Bank Governor, Dr Gideon Gono, pledged support to SMEs' financing in the monetary policy statement dated 31 January 2013. The RBZ requested banking institutions to reorient their portfolios so that loans to the SME sector would constitute at least 30% of the total loan book. In this regard, the RBZ would conduct monthly assessments to monitor compliance by the various banking institutions and any bank that would be found acting to the contrary will be penalised (Reserve Bank of Zimbabwe Governor, Monetary Policy Statement, 31 January 2013).

In the Monetary Policy Statement, the RBZ Governor clarified that given the current banking sector loans of $3.5 Billion as at 31 December 2012, if 30% of this was to be allocated to SMEs, they would have benefited by a total amount of $1.05 billion. On the assumption that $40000 would be granted to each SME borrower, a total of 25000 to 30000 SMEs were going to benefit from the funds and more than 500000 jobs would be created from the financial viability in the SME sector. The governor predicted a boom in the SME sector in terms of financial performance, growth and more employment opportunities as the loans increase with the passage of time.

2.7 Summary

Chapter two covered the review of literature regarding the research objectives mentioned in Chapter One. The review provided a definition and concept of Small and Medium Enterprises and covered a detailed investigation of the forces behind the trends of declining revenue, escalating costs and recurring losses (poor financial performance) in SMEs in the manufacturing sector. The review tries to identify the available sources of financing to SMEs, the difficulties faced by SMEs to access financing through different sources and the overall effect of lack of adequate financing to the financial viability of SMEs. Also highlighted in the chapter, are the various efforts that have been made by different stakeholders to address the problem of SMEs' financing.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

The frame of this research project covers areas mainly to do with the philosophy of the research adopted, the research strategy exploited as well as the various research instruments employed by the researcher to provide answers to the research questions raised in chapter one. The goal of the research is to achieve the research objective.

3.1 Research Design

The research was conducted in the form of a case study. Great attention has been laid on Cool Ice (Pvt) Limited together with other Small to Medium Enterprises in the light industrial area of Jaggers, Msasa, Harare. Therefore all the data and conclusions pertaining to SMEs were gathered from this research area.

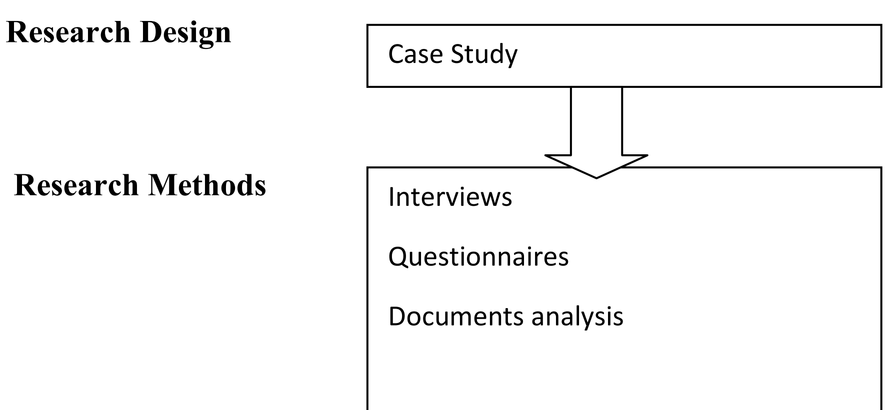

Fig 3.1; ***Link between Research Design and the Data Collection methods employed***

3.2 Justification of the Case Study Approach Adopted

Various definitions have been given by different authors for a case study. One mainly adopted definition is that of a study that makes an analysis of an aspect in a natural set up using different methods to gather data and obtain information from people, groups or firms and organisations. The researcher adopted the case study approach due to the following reasons:

- The case study approach enabled the research to be conducted in the natural set up.
- The researcher got the opportunity to ask probing questions over certain issues that may have required clarification bringing light to complexities arising during the research and:
- Research was carried out in new areas where few studies have been done before, if any.

The case study required the employment of various research methods and the research has accordingly employed the following among others during the research project

- Use of questionnaires drafted for both SMEs and Financial Institutions.
- Interviews were conducted at Cool Ice and other SMEs.
- Documents such as the asset register, financial statements, loan application records, management and directors' meetings minutes were analysed at Cool Ice (Pvt) Limited for further information pertaining the research objective.

3.3 Research Sampling

Sampling was employed during the selection of respondents for questionnaires and interview questions. There was a total population of about 100 SMEs in Msasa, Jaggers light industrial area with 40 SMEs conducting manufacturing activities as per data obtained from ZIMSTATS. From these, the researcher settled for a sample size of 20 manufacturing firms including Cool Ice

Private Limited. After removing Cool Ice from the list, every 2nd SME on the list was selected to complete the sample of 20 SMEs.

	Total SMEs	Manufacturing Sector
Total Population	100	60
Sample Population	40	20
Percentage of Sample	40%	50%

Table 3.1: ***Sample selection for SMEs***

The researcher also carried out sampling over financial institutions that would fall under the study. Therefore, a list of 16 Commercial Banks in the Country was obtained from ZIMSTAT offices in Harare. Here, a sample of 8 Financiers was obtained on the basis of judgemental sampling where the researcher made use of individuals who had a better understanding of the operations of financial institutions to come up with the sample. The idea was to get a sample of Financial Institutions which at least had some specific sections and functions dealing specifically with the affairs of SMEs.

Total Population	16
Sample Population	8
SamplePercentage	50%

Table 3.2: ***Sample selection for Financial Institutions***

The sample size of 50% received support from Kitambara (2013) in his article entitled "A comparison of Simple Random Sampling and Stratified Sampling". Kitambara argued that with proper knowledge of the population, a sample size of 50% can give a perfect representation which is a "mirror image" of the population. Therefore, based on the knowledge and familiarity with the population and assistance from individuals who had a better understanding of the population, samples of 50% selected for both SMEs and Financial Institutions are believed to be mirror images of the population.

3.3.1 Convenience Sampling

As the name implies, it involved the selection of readily available or convenient items of a population for observation. The researcher employed this method by selecting respondents from Msasa Jaggers Light industrial Area since the research has been designed as a case study, much of the data was gathered from Cool Ice and surrounding SMEs in the Jaggers, Msasa industrial area.

3.3.1.1 Justification of Convenience Sampling

Convenience sampling was found to be less expensive and it was less time consuming. Although some may argue that convenience sampling may bring about results that are highly unrepresentative of the total population, the results obtained were highly satisfactory and convincing.

3.3.2 Systematic Random Sampling

Random sampling gave all elements in the population an equal chance of being selected. After obtaining the list for SMEs in Msasa as well as the list of Commercial banks in the Country, systematic random sampling was employed by selecting every 10^{th} and 2^{nd} items for SMEs and commercial banks respectively until the sample was obtained.

3.3.2.1 Justification of Systematic Random Sampling

A high representation of the population was achievedgiven that all members of the population had been incorporated into the list even though on the other hand, obtaining the list proved to be a tedious and time consuming process since the student had to visit ZIMSTATs offices for reliable data and lists of SMEs and Financial Institutions under study.

3.4 Sources of Data

3.4.1 Primary Data

Primary data refers to the raw data that was gathered from the field during the research. Primary data used in this research was gathered in the form of interviews, questionnaires completed by SMEs and financial institutions regarding SMEs financing. Analysis was also made on company documents that the researcher felt could provide relevant information regarding the research objective.

3.4.1.1 Advantages of Primary Data

- Primary data proved to be highly reliable and dependable
- Recent and relevant data was obtained which was not outdated
- The accuracy of the data could be ascertained

3.4.1.2 Disadvantages of Primary Data

- Primary data gathering proved to be costly and a lot of effort and skills had to be executed during the process.
- Collection of primary data was found to be time consuming

3.4.2 Secondary Data

This was obtained in the form literatures on SMEs financing around the globe as well as publications of statistics by regulatory authorities such as the Reserve Bank of Zimbabwe and ZIMSTATs about SMEs. Secondary Data refers to the data that had already been gathered and was readily accessible from other sources. Secondary data was found to be easier and cheaper to obtain than primary data. For secondary data to be useful in the research project, it had to meet the following four criteria;

- *Availability*- Secondary data had to be available at the time when it was needed, otherwise primary data was gathered.
- *Relevance*- Secondary data, by its nature and quality, had to address the problem under research. For this reason, units of measurement and concepts had to agree with the research objective.
- *Accuracy*- Secondary data used had to specify the methodology used to gather it. An assessment of this together with the examination of the margin of error as well as the dependability of the source would then shed more light on the level of accuracy of the secondary data.
- *Sufficiency*- Secondary data had to be adequately available

3.4.2.1 Advantages of Secondary Data

- Secondary data saved costs and effort

- Time was saved
- Analysis of secondary data enlightened on specific areas to concentrate on during primary data collection through the identification of deficiencies.
- Secondary Data assisted in providing a better understanding of the problem under study
- Secondary data gave the researcher a basis for comparison for primary data

3.4.2.2 Disadvantages of Secondary Data

- The researcher could not ascertain the accuracy of secondary data.
- At times secondary data was found to be outdated.

3.5 Research Instruments

Research instruments are the various methods that have been employed during data collection. These include interviews, questionnaires and documents analysis. The following factors were taken into account during the selection of the appropriate research instruments employed during the study;

- Appropriateness of the research method in relation to the research objective
- Ability to generate data that could address the research questions
- The practicability of the method given the research context as well as resources constraints factors
- It had to be adequately tried and proven before
- The method had to be sound ethically
- Should have received the consent of the supervisor
- The method had to be comfortable to the researcher.

3.5.1 Questionnaires

This method is one of the most widely used by the researcher. It was based on the compilation of a series of questions addressing the issue under research which were send for filling to those whom the researcher was aware that they may have some information being sought. Responses to the questionnaires were provided on a likert scale ranging from strongly agrees to strongly disagree. In this case, 20 questionnaires were filled by SMEs and 8 were meant for financial institutions.

3.5.1.1 Advantages of Questionnaires

- Questionnaires proved to be practical
- A cost effective way was employed to collect information from many people in a short space of time
- The researcher or any number of people could conduct them without much effect to the validity and reliability
- Questionnaire results were found to be easily quantified by the researcher.

3.5.1.2 Disadvantages of Questionnaires

- They were found wanting to adequately understand different forms of information such as human behaviour, feelings and changes in emotions.
- Questionnaires could not reveal whether the respondents were being truthful or not.
- At times, respondents would forget or fail to comprehend the context of the situation.
- Some respondents interpreted the questions differently at times failing to understand them in the way intended by the researcher

3.5.2 Interviews

An interview refers to a planned and purposeful discussion between the interviewer and the interviewee. Interviews were conducted in finance departments of Cool Ice and other randomly selected SMEs in the manufacturing sector of Msasa, Harare.

3.5.2.1 Advantages

- They were found to be motivational hence they inspired respondents to take questions seriously. Most people preferred talking to writing.
- They provided flexibility in a conversation in terms of the sequence, wording and direction of the conversation. The researcher had the chance to paraphrase and clarify questions
- Additional information and comprehension was obtained through the interpretation of non verbal behaviour.

3.5.2.2 Disadvantages

- Conducting interviews proved to be time consuming and costly
- Confidentiality of respondents was compromised
- The interviewer would at times influence, misinterpret or distort responses by interviewees consciously or unconsciously.
- Some respondents were affected by the interviewer's characteristics such as sex, age, background, dress and speech patterns.

3.6 Reliability and Validity

Reliability is mainly used to refer to the level of consistency exhibited by the various methods employed in the study. Due caution was exercised to ensure that respondents did not fill questionnaires absent minded. Questionnaires were completed in the researcher's presence giving clarification where it was necessary. Data was collected during convenient business hours when the respondents were neither busy nor in a rush. Most of the respondents were either directors of the SMEs, owner managers or senior officials in the Finance Department who had every detail of the relevant information to the research. During interviews, due care was taken to ensure that interviewer and interviewee bias did not creep in to spoil the results.

A procedure is considered to be valid when it can measure accurately and reliably what it is intended to measure and achieve the purpose which it is designed for. In this regard the validity of the research methods and instruments employed was assessed by conducting a pilot test before the actual research was conducted. It was observed from the pilot test that the validity of the research methodology was very high.

3.7 Summary

This chapter highlighted the research philosophy adopted by the researcher. It also accounted for the various sampling methods considered during the research as well as the research instruments that were employed during the primary data collection process. This chapter paved way for chapter four which shall give an account of the findings that were observed from the data collection process from which conclusions and recommendations shall be cited in chapter five.

CHAPTER 4

RESEARCH FINDINGS AND DATA ANALYSIS

4.0 Introduction

This chapter focuses on the analysis of data gathered on SMEs' financing. It is composed of 3 sections. The first part provides an analysis of the results obtained from Small to Medium Enterprises in Jaggers, Msasa, Harare industrial area. The second part dwells on the findings from Financial Institutions whilst the third part makes an analysis of Cool Ice Documents. The data are tabulated for every response and a supporting bar graph or pie chart depicting the same data is provided.

4.1 Response Rate for SMEs

Punch (2008) rated the response rates in the following order: 50% was considered to be adequate, 60% to be good, 70% as very good and a response rate above 80% was considered excellent. Questionnaires were distributed across the sample of 20 Small and Medium Enterprises of Jaggers Industry, Msasa, Harare. 19 out the 20 questionnaires distributed were responded to, a response rate of 95% which was a resounding success on the part of the researcher on questionnaire administration and excellent according to the rating of Punch (2008). This information is tabulated in table 4.1 and the pie chart in fig 4.1 below.

Target Population	**Questionnaires Distributed**	**Questionnaires Responded to**	**Response Rate (%)**
Cool Ice and Other SMEs	20	19	95

Table 4.1*Response rate from questionnaires distributed to SMEs*

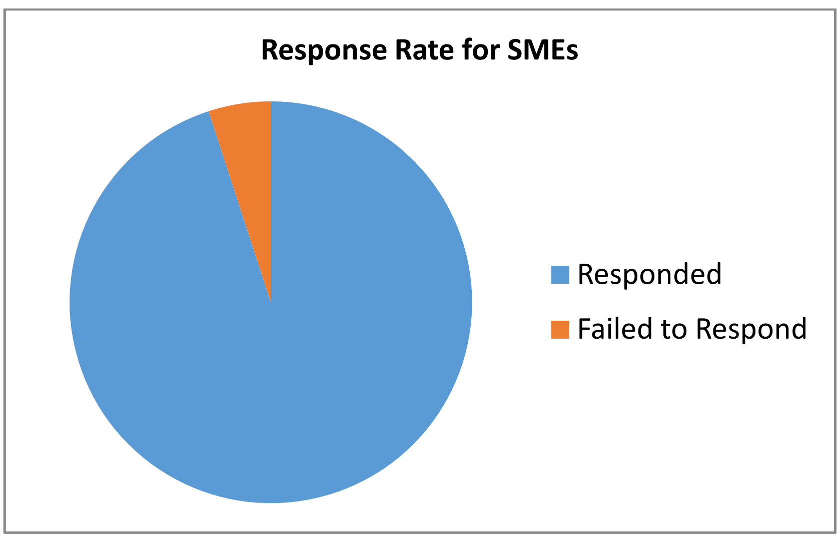

Fig 4.1: ***Response rate from questionnaires distributed to SMEs***

4.2 Industry in which respondents are operating

Of the 19 respondents to the questionnaires distributed, a total of 16 (84%) confirmed that they are operating in the manufacturing sector and the other 16% were found to be operating in both the manufacturing sector whilst conducting a bit of retailing activities as well. The results are tabulated in table 4.2 below

Industry	Manufacturing	Retailing	Transport	Total
Respondents	16	3	0	19
%ge Response	84%	16%	0%	100

Table 4.2: ***Industrial Sector of the Respondents***

The findings in table 4.2 above are illustrated in the pie chart in fig 4.2 below.

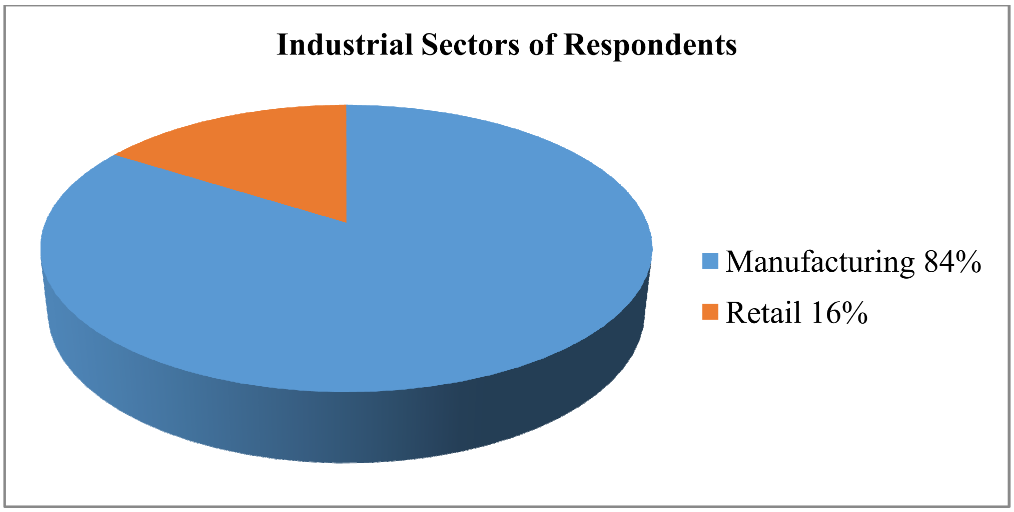

Fig 4.2: ***Industrial Sector of the Respondents***

This information confirmed that the majority of the respondents operate in the manufacturing sector, particularly the light industrial area of Msasa Jaggers, which happens to be the centre of the case study.

4.3 Number of Employees

A total of 19 responses were obtained on the question of the number of employees in the firm. 13 out of the 19 respondents agreed that their employees are less than 20, a percentage of 68% of the full sample. 5 respondents, 26% had employees falling in the range of 20 to 50 and only 1 respondent had between 50 and 100 employees. It was also observed that none of the respondents had more than 100 employees.

These findings agree with the widely accepted definitions of SMEs given by the Bolton Committee, European Commission, the South African definition given by IFC (2009) as well as the Reserve Bank of Zimbabwe that has categorised SMEs on the basis of 5 to 20 employees. The data on the number of employees is tabulated in table 4.3 below

Employee Range	**Less Than 20**	**20 to 50**	**50 to 100**	**100 +**	**Total**
Respondents	13	5	1	0	19
Percentage of Respondents	68	26	6	0	100

Table 4.3: ***Number of Respondents' Employees***

Alternatively, this information can be depicted on a graph as shown in figure 4.3

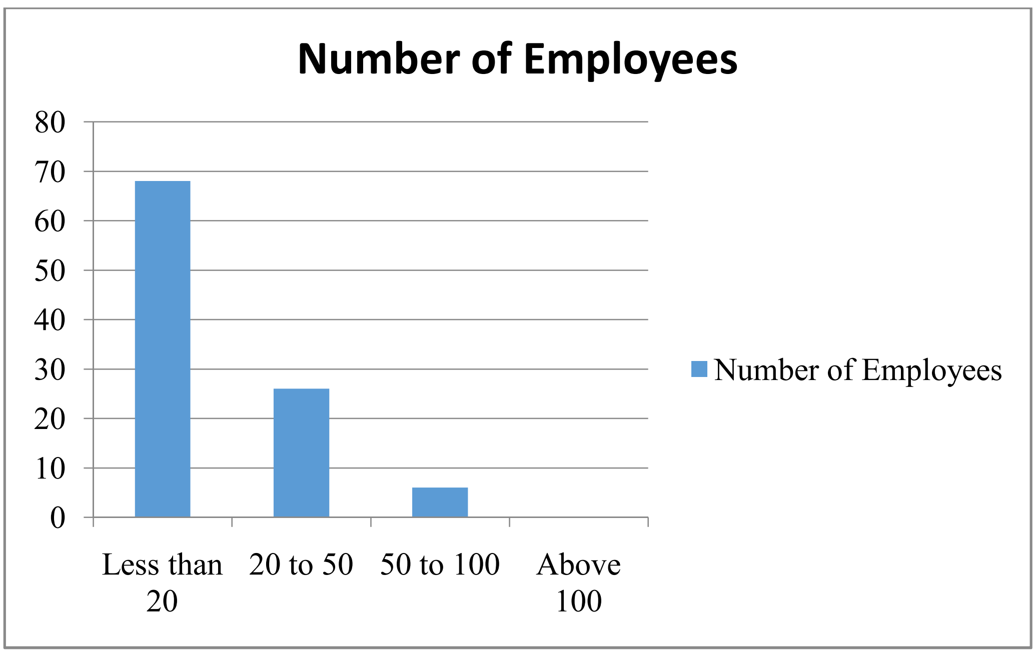

Fig 4.3: ***Number of Respondents' Employees***

4.4 Start-up capital

This question got 20 respondents. Although 19 questionnaires were answered, the 20th response was obtained in relation to a respondent who employed both Equity and Debt for financing start-up. It was observed that of the 20 responses, 10 respondents, a percentage value of 50%, made use of their personal savings to start their businesses. 6 respondents, 30% employed equity capital whereas the remaining 4 respondents, 20%, made use of long term borrowings either from the bank or from friends and relatives. The findings on this question are tabulated in table 4.4 below.

Form Of Capital Employed	**Equity Capital**	**Long Term Borrowings**	**Personal Savings**	**Total**
Number of respondents	6	4	10	20
Percentage of Respondents	30	20	50	100

Table 4.4: ***Forms of Financing employed by respondents for start up***

The result agree with the notion cited by Huyghebaert and Van de Gucht (2009) that when there exists the possibility of high information and incentive problems mostly characterising start-up firms, financiers are unwilling to avail funding to such SMEs. This explains why the majority of the SMEs had to resort to personal savings for start-up. The information can also be disclosed on a bar graph as shown by fig 4.4 below

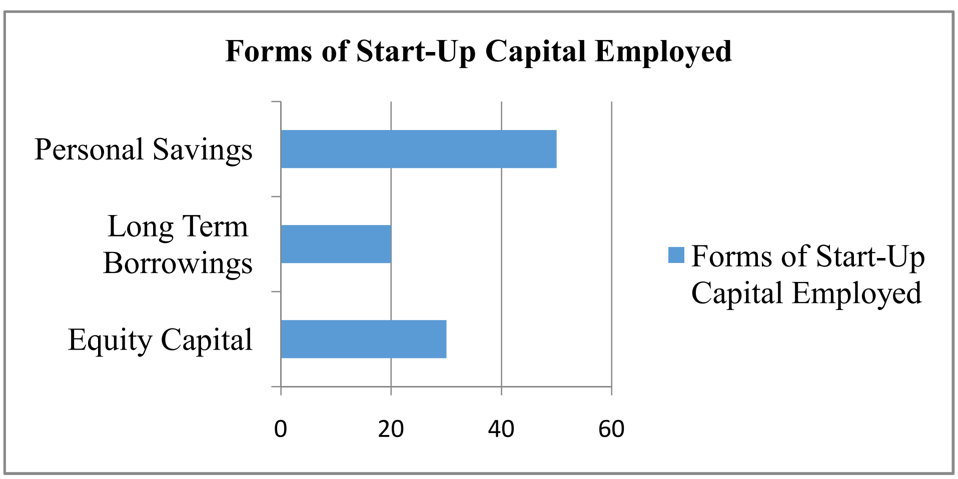

Fig 4.4: ***Forms of Financing employed by respondents for start up***

4.5 Borrowings Obtained for Financing Start-Up

Of the 4 respondents who managed to acquire long term borrowings for financing start-up, half obtained it in the form of bank loans whilst the other half managed to get borrowings from friends and relatives. It was observed that SMEs have resorted to borrowing funds from friends and relatives since it is cheaper and easily accessible to them than other forms of financing. This agrees with the demonstration by Van de Gucht (2009) that some SMEs rely on borrowed funds for start-up but the major hindrance has been the repayment over a short period since banks would be lacking confidence in the repayment capacity at such early stages of business.

4.6 Loan Application Attempts

All the 19 respondents attended the question on further applications for financing. 18 out of the 19 respondents, 95% agreed that they made further attempts to apply for financing and only 1 respondent, 5% did not apply for financing ever since the incorporation of the company. Table 4.5 below illustrate these findings

Made Further Loan Application	**Yes**	**No**	**Total**
Number of Respondents	18	1	19
Percentage of Respondents	95	5	100

Table 4.5: ***SMEs Financing Applications***

Data on loan applications made is alternatively illustrated in the pie chart in Fig 4.5 below.

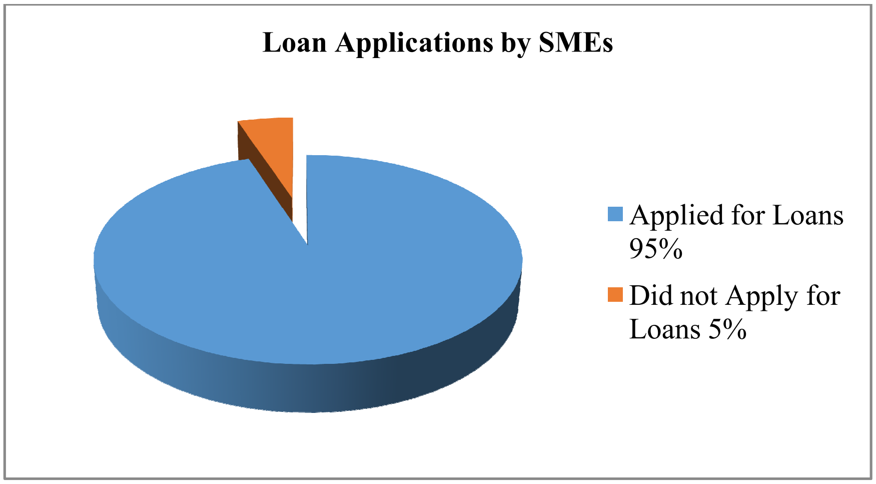

Fig 4.5: ***SMEs Financing Applications***

4.7 Forms of Financing Applied For

All the 18 respondents, 100%, who applied for further financing applied for bank loans.

4.8 Application a Success or a Flop

It was observed that of the 18 applicants cited above, 14, and 78% made unsuccessful loan applications. Only 4 respondents, 22% made successful loan applications. This supports the fact that SMEs are finding it hard to access financing from financial institutions. The reasons cited for these failures were either inadequacy of collateral, high borrowing costs and banks' high risk perception over SMEs lending. The reasons cited agree with the findings made by Foxcroft et al (2011) in their study conducted over SMEs loan access failure cited in chapter 2. The information obtained in this regard is tabulated in table 4.6 below.

Loan Application Successful	**Yes**	**No**	**Total**
Number of Respondents	4	14	18
Percentage of Respondents	22	78	100

Table 4.6: ***Success Rates of Financing Applications Made***

Alternatively, the above information can be illustrated by means of a pie chart as shown in fig 4.6 below.

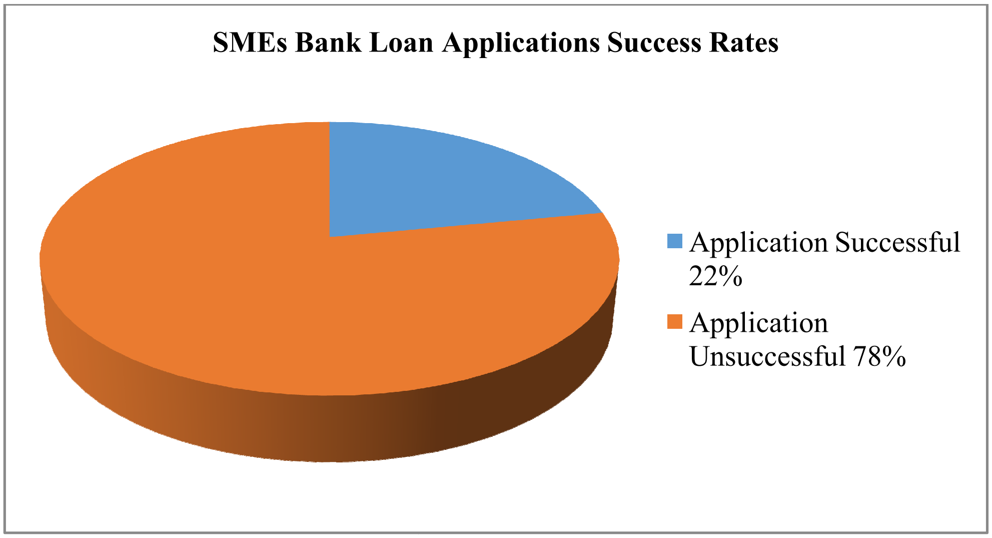

Fig 4.6: ***Success Rates of Financing Applications Made***

4.9 Challenges Faced in Applying for Financing

The question on the challenges faced by SMEs in accessing financing got 29 responses in total. It was observed that some respondents faced 2 or more challenges at the same time which they cited. As a result 11 out of the 29, 38%, respondents were constrained by high borrowing costs, 10, 34%, lacked collateral security whilst the other 8 applications, 28%, were rejected for various reasons not specified by the financial institutions.

The findings agree with observations made by Saito and Villanueva (2009) on the high borrowing costs incurred by SMEs in the Philippines, high risk profile on SME lending and lack of collateral observed by Foxcroft et al (2011) as well as information asymmetry between financiers and SMEs noted by Dekins et al (2008). The findings on the challenges faced by SMEs in accessing financing are shown in table 4.7 and the graph in fig 4.7.

Challenge Faced	**High Borrowing Costs**	**Lack of Collateral**	**Rejection for other Reasons**	**Total**
Number of Respondents	11	10	8	29

Percentage of Respondents	38	34	28	100

Table 4.7: ***Challenges faced in accessing financing.***

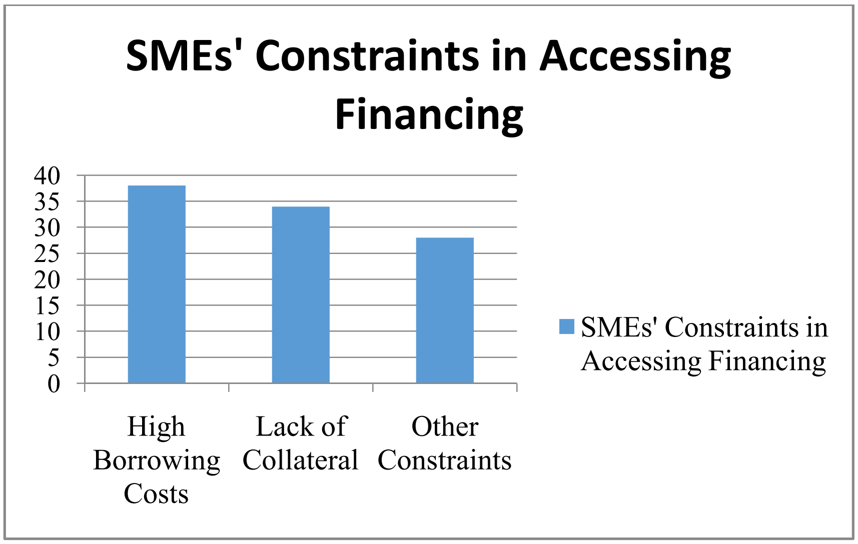

Fig 4.7: ***Challenges faced in accessing financing.***

4.10 There Has Been an Improvement on SMEs' Access to Financing

The question on whether SMEs access to financing has improved of recent got 18 responses. 14 of the respondents, 78%, disagreed that there has been an improvement in SMEs access to financing whilst the remaining 4, 22%, agreed. This result was obtained because many SMEs have attempted to obtain financing but have failed. This agrees to the conclusion drawn by Rogerson (2008) that SMEs are still finding it hard to access adequate finance despite the various measures being tried to improve the situation. Table 4.8 below summarizes this information.

Status of Respondents	**Agree**	**Disagree**	**Total**
Number of Respondents	4	14	18
Percentage of			

Respondents	22	22	100

Table 4.8: ***Respondents' Opinions on SMEs' Access to Financing***

Alternatively, the pie chart in Fig 4.8 summarises this information.

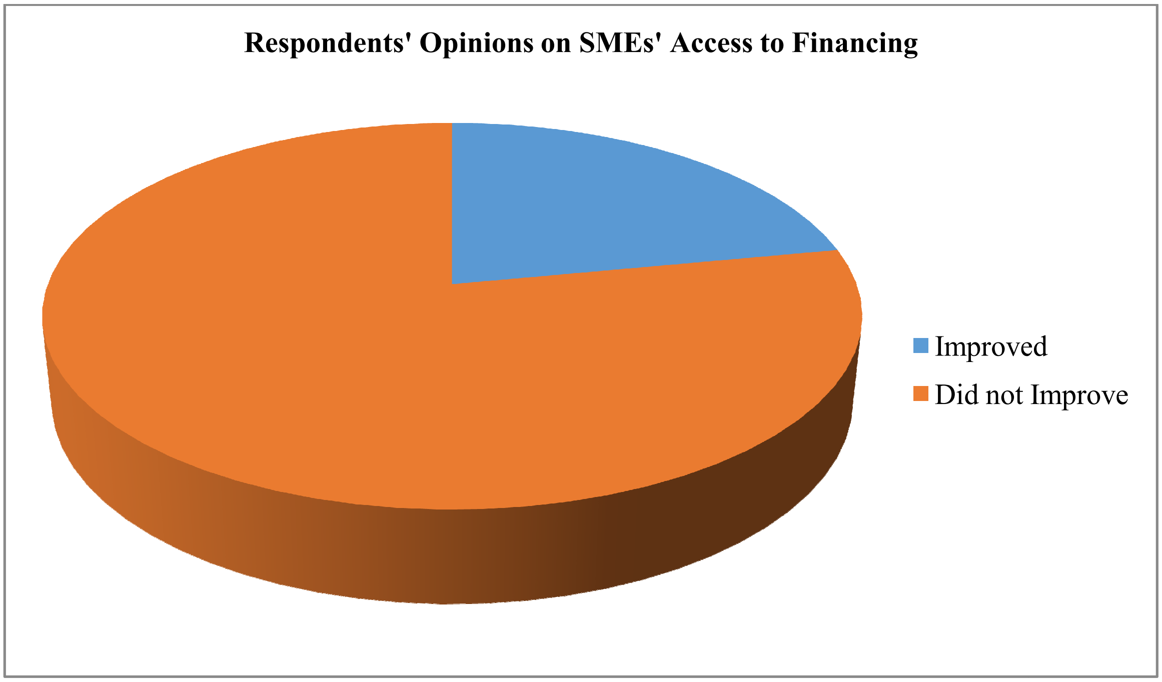

Fig 4.8: ***Respondents' Opinions on SMEs' Access to Financing***

4.11 Financial Institutions' Lack of Confidence in SMEs' Projects

18 respondents addressed this issue from the research conducted. Of the 18 respondents, 17, 94%, agreed that the financial institutions lack confidence in SMEs investment projects. Only 1 respondent disagreed with regards to this issue.

This is related to the high risk profile challenge observed by Foxcroft et al (2008) when 32.7% of SMEs who failed to access loans suffered from the perceived high risk profile associated with them. Table 4.9 and the pie chart below in fig 4.9 illustrate the responses obtained relating to Financiers' confidence in SMEs projects.

Status of Respondents	Agree	Disagree	Total

Number of Respondents	17	1	18
Percentage of Respondents	94	6	100

Table 4.9: ***Results on Financiers' Confidence in SMEs' Projects***

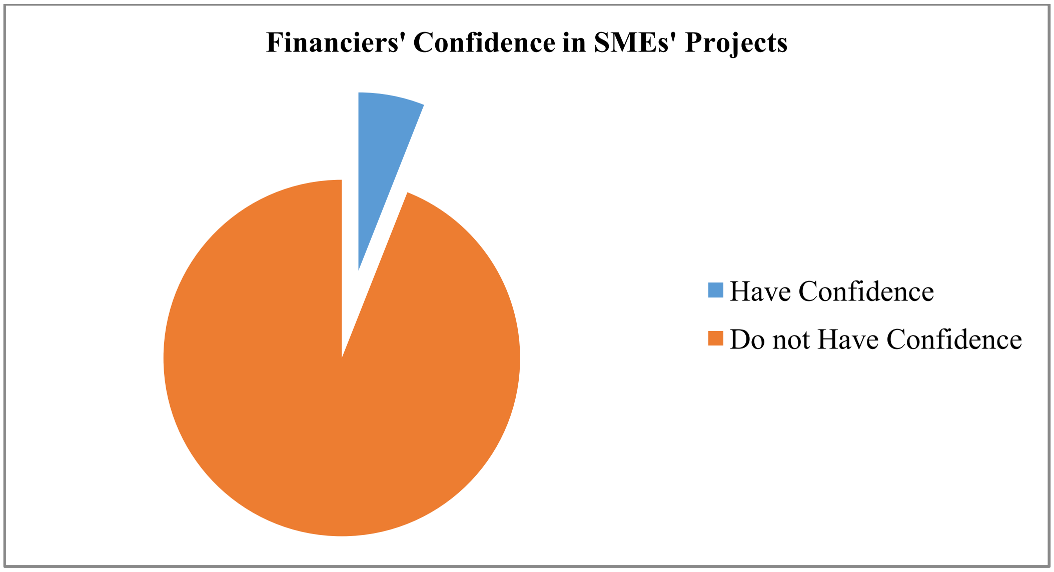

Fig 4.9: ***Results on Financiers' Confidence in SMEs' Projects***

4.12 SMEs' Failure to Avail Information to Financiers

This subject received 18 respondents. 78% of the small to medium enterprises disagreed that they are failing to furnish Financiers with the financial information they require to assess SMEs over loan applications. Only 4 out of the 18 respondents, a percentage of 22, agreed that they are failing to avail financial information needed by financial institutions.

Whilst SMEs feel that they are providing all the necessary information, financial institutions responded to the contrary because of the information asymmetry problem existing between the two parties. It is the response obtained from financial institutions that agrees with literature since Huyghehaert and Van de Gucht (2009) pointed the existence of these information asymmetries between SMEs and financial institutions. The findings on the subject are summarised in table 4.10 and the pie chart in fig 4.10.

Status of Respondents	Agree	Disagree	Total
Number of Respondents	4	14	18
Percentage of Respondents	22	78	100

Table 4.10: ***Responses on SMEs' failure to Avail Information to Financiers***

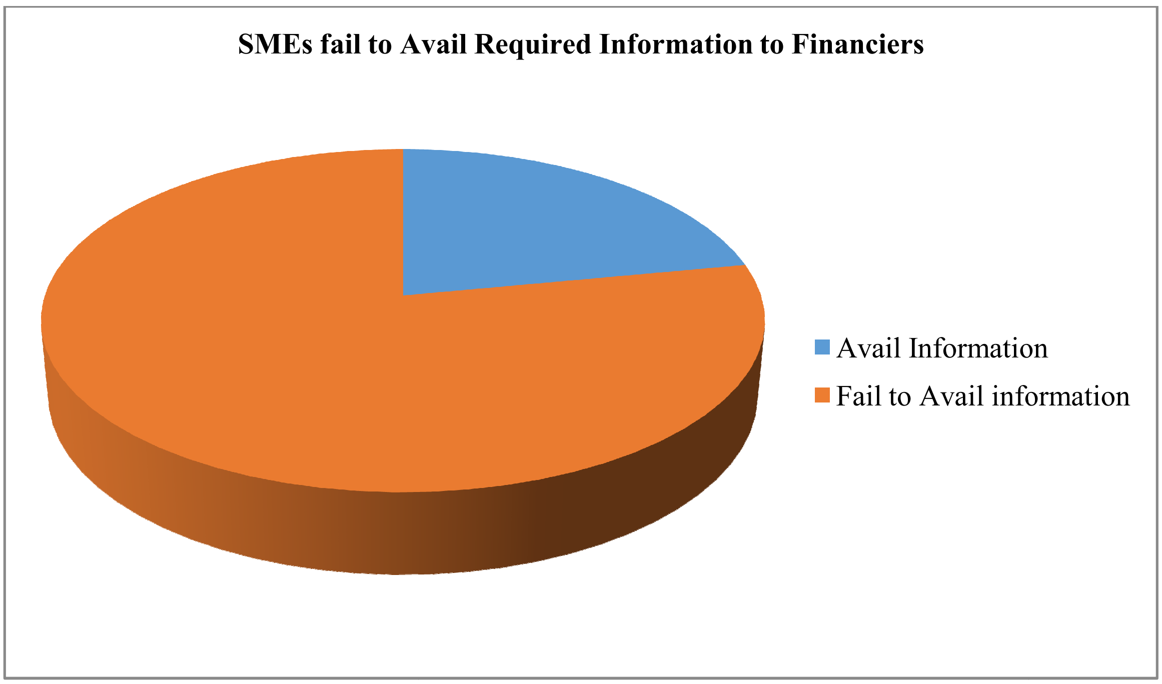

Fig 4.10: ***Responses on SMEs' failure to Avail Information to Financiers***

4.13 SMEs Find Borrowing Costs to be too high

All the 19 respondents addressed the question on borrowing costs. 17 out of 19, 89%, agreed that the borrowing costs charged by financial institutions are highly unaffordable and unbearable to SMEs. Only 11% of the respondents, 2 out of 19, disagreed in this regard.

The reasons for the high borrowing costs came from the fact that financial institutions incur high administrative/transaction costs of lending or investing small amounts together with the risk factor as cited by Gonzalez and Vega (2011) that lending to SMEs is more costly than lending to larger firms. The summary of the responses obtained is illustrated in table 4.11 and the pie chart in fig 4.11 below.

Status of Respondents	Agree	Disagree	Total
Number of Respondents	17	2	19
Percentage of respondents	89	11	100

Table 4.11 ***Responses on Borrowing Costs Being too High for SMEs***

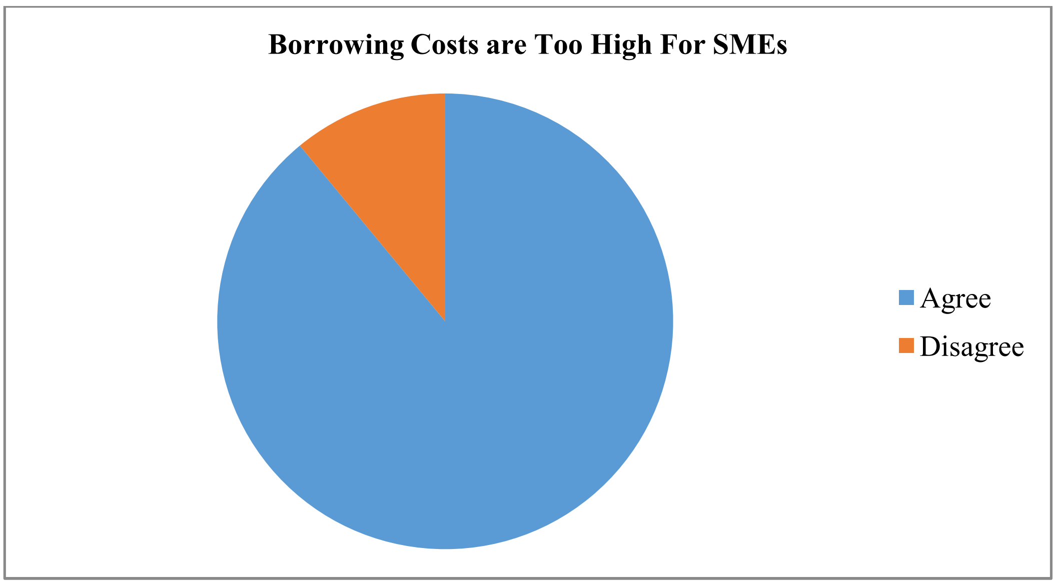

Fig 4.11: ***Responses on Borrowing Costs being too high for SMEs***

4.14 Reluctance of Financiers to Implement Policies in Favour of SMEs' Financing

All the respondents answered this question and they all agreed that financial institutions are reluctant in the implementation of schemes tailor meant to improve SME financing.

4.15 SMEs are finding it Difficult to Settle Loans and Other Long Term Obligations

Of the 19 respondents for this question, only 6, 32% acknowledged that they find it difficult to repay loans for various reasons but the rest of the respondents, 13, 68%, disagreed that SMEs fail to repay their loans and other long term obligations.

This came about because SMEs mentioned that they have not been given loans to prove themselves on their repayment abilities. The tabulated results are shown in table 4.12 below together with a graphical presentation in fig 4.12.

Status of Respondents	**Agree**	**Disagree**	**Total**
Number of Respondents	6	13	19
Percentage of Respondents	32	68	100

Table 4.12: ***Responses on SMEs' Failure to Repay Loans***

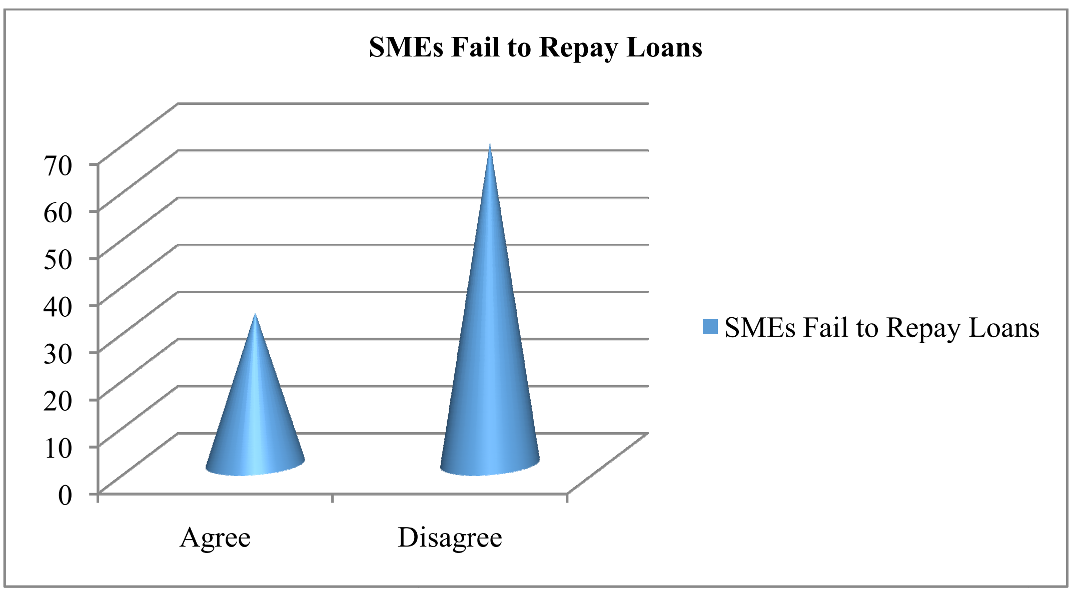

Fig 4.12: ***Responses on SMEs' Failure to Repay Loans***

4.16 SMEs' Failure to Provide Collateral Security

Of the respondents, 2 strongly agreed, 14 agreed, 1 disagreed and 2 strongly disagreed that they cannot afford to provide collateral security required by financiers. Therefore on aggregate, a total of 16 of the 19 respondents, 84% agreed whilst 3 SMEs, 16% disagreed on lack of collateral being a major blow to SMEs in accessing financing. The findings agree with the observations made by Foxcroft et al (2011), when 45% of the total loan applications from the study conducted was attributed to lack of collateral. Table 4.13 and Fig 4.13 highlights the results obtained on lack of collateral security as a major challenge facing SMEs in accessing financing.

Status of Respondents	**Agree**	**Disagree**	**Total**
Number of Respondents	16	3	19
Percentage of Respondents	84	16	100

Table 4.13: Responses on SMEs' Lack of Collateral

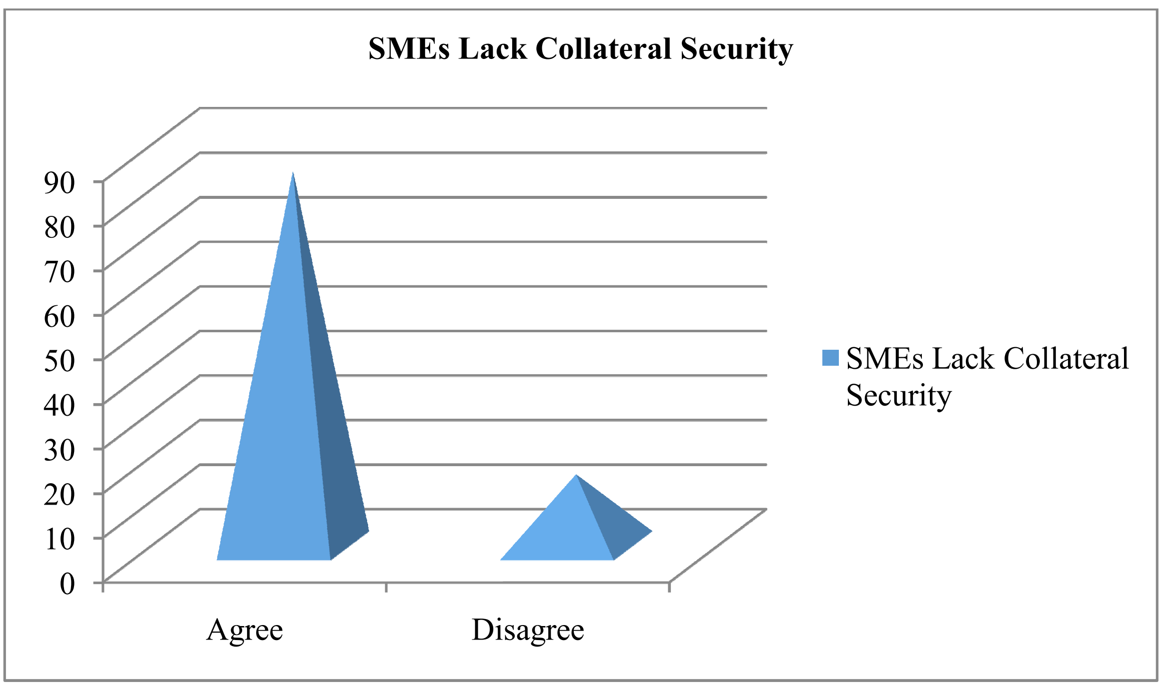

Fig 4.13: Responses on SMEs' Lack of Collateral

4.17 SMEs' Investment Projects Sidelined Due to Inadequate Financing

A total of 18 responses were obtained in this regard. Of the 18 respondents, 16, 89% acknowledged the existence of sidelined investment projects due to inadequate financing. Only 2 respondents, 11% denied any existence of unfulfilled investments owing to financing problems. The observations agree with the model extracted from the International Journal of Business and Management (Volume 7. No 24.2012) where the effect of lack of financing on investment on the factors of production is illustrated and its overall effect on the financial viability of SMEs. Table, 4.14 and the pie chart in fig 4.14 summarises these findings.

Status Of Respondents	**Yes**	**No**	**Total**
Number of Respondents	16	2	18
Percentage of Respondents	89	11	100

Table 4.14: ***Responses on Investments Sidelined Due to Inadequate Financing***

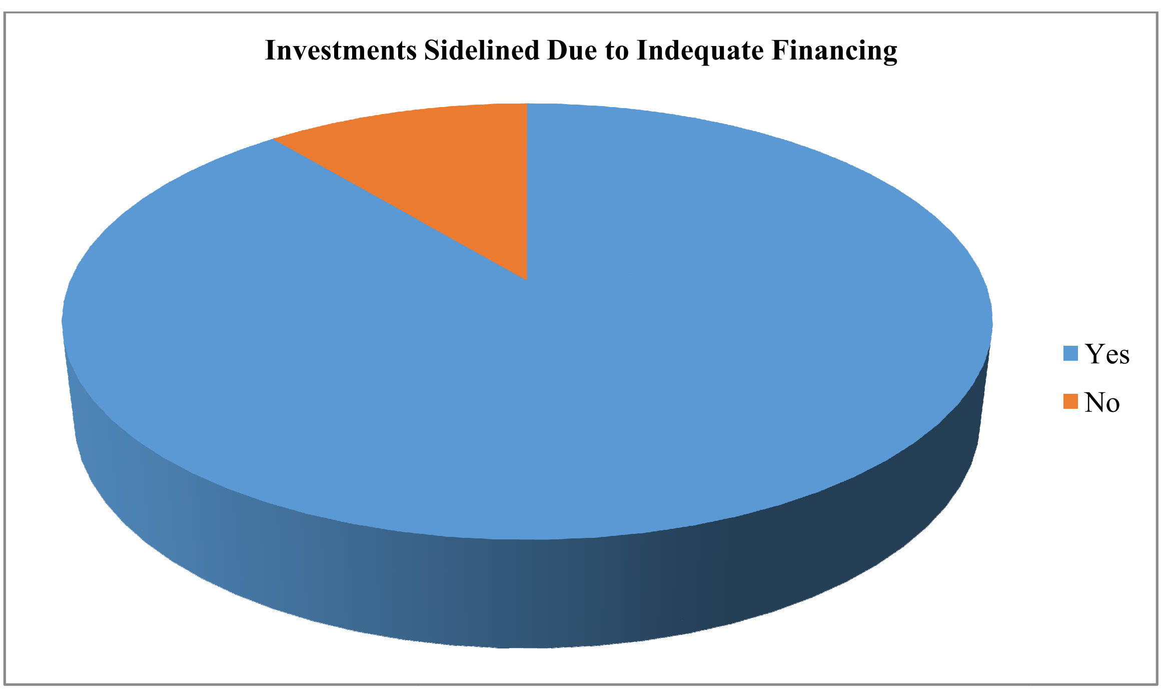

Fig 4.14: ***Responses on Investments Sidelined Due to Inadequate Financing***

4.18 Period over Which Investments Have Been Sidelined Due To Inadequate Financing

As highlighted before, 16 SMEs were found acknowledging that they have some investment projects sidelined as a result of inadequate financing. The next question requested the specification of the period over which the investment has been sidelined and the following responses were obtained. 2 respondents, 13% had investments sidelined for less than a year, 4 SMEs, 25% had their investments dormant for a period between 1 and 2 years, only 1 firm, 6% acknowledged an investment set aside for 2 to 5 years and the majority of the respondents including Cool Ice, 9, 56% had investments sidelined for a period of more than 5 years due to lack of financing.

The findings agree with the idea put forward by Da Silva et al (2009) that SMEs experience investment funds shortages which in turn impact growth. Olutunla et al, 2008 supported this argument by emphasizing the need for both internal and external sources of financing for the stimulation of SMEs profitability which in turn accelerates business expansion and stability in the long run. These findings are tabulated in table 4.15 and illustrated graphically in fig 4.15 below.

Period	**Less Than 1 Year**	**1 to 2 Years**	**2 to 5 Years**	**More than 5 years**	**Total**
Number of Respondents	2	4	1	9	16
Percentage of Responses	13	25	6	56	100

Table 4.15: ***Responses on Period over which SMEs Sidelined Projects over Financing***

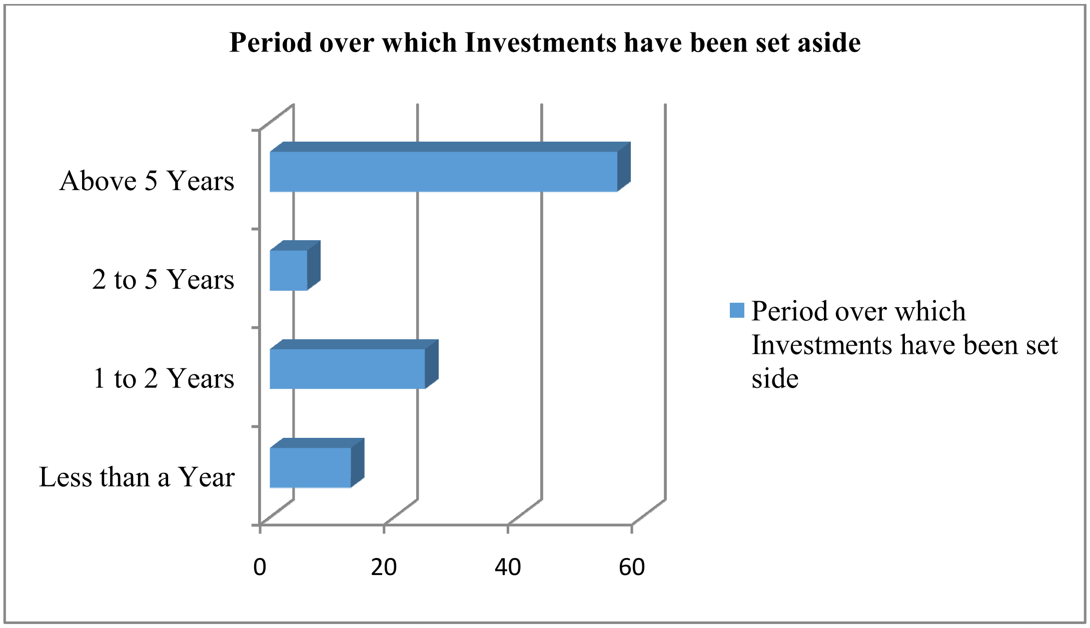

Fig 4.15: ***Responses on Period over which SMEs Sidelined Projects over Financing***

4.19 Long Term Investments Sustain SMEs Financial Viability

18 SMEs unanimously agreed that long term investments play an integral part in sustaining profitability and financial viability in SMEs. Of the 18 respondents, 10, 56% strongly supported the idea and the other 8, 44% agreed to the idea without much emphasis. No single respondent disagreed to the fact that investment is the key to financial viability of SMEs in the long run. This data supports the observation by Olutunla et al, 2008 that external sources of financing, through investment, stimulate SMEs profitability which in turn accelerates business expansion and stability in the long run. This information is summarised in the table below as well as a graphical presentation in fig 4.16.

Status of Respondents	**Strongly Agree**	**Agree**	**Disagree**	**Total**
Number of Respondents	10	8	Nil	18
Percentage of Respondents	56	44	Nil	100

Table 4.16***: Results on whether Long Term Investments Sustain SMEs' Financial Viability***

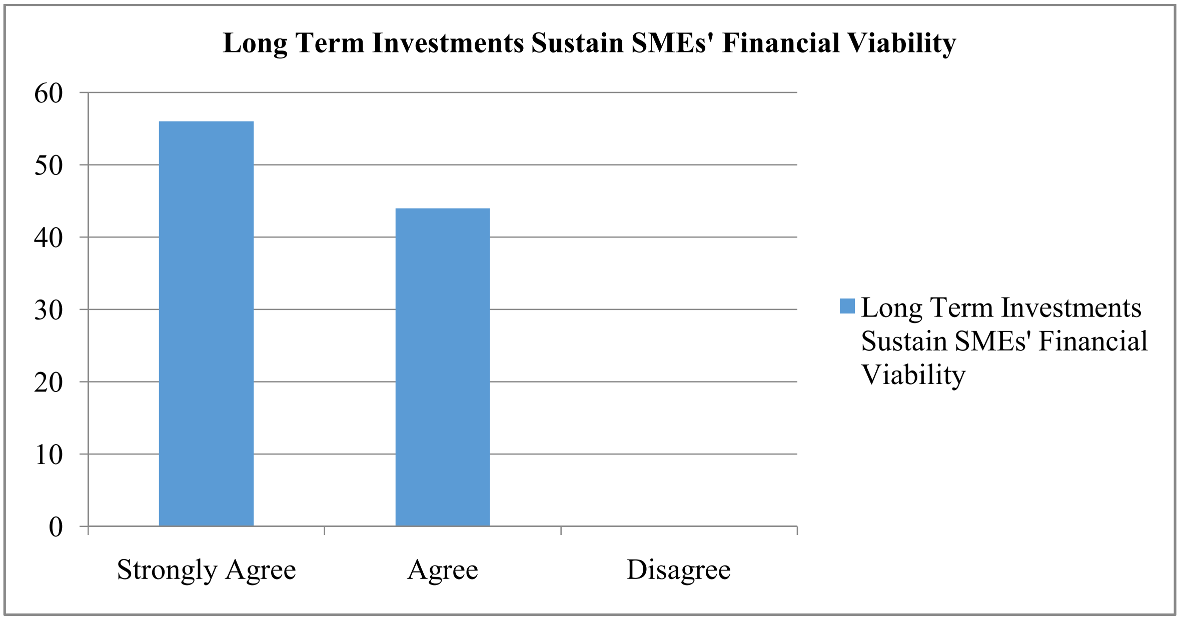

Fig 4.16: ***Results on whether Long Term Investments Sustain SMEs' Financial Viability***

4.20 Operational Inefficiencies as a result of low investment

The question on operational inefficiencies being encountered as a result of low investment levels got 18 responses. 16 SMEs,89% acknowledged that they encountered operational problems due to low investment levels and the other 2, 11% have not encountered any operational problems related to low investment levels yet.

The findings agree with the model in chapter 2 extracted from the International Journal of Business and Management (Volume 7.No 24.2012) which explains the sequence with which constrained access to financing negatively impacts the factors of production with an overall result of poor firms financial performance. The responses are summarised in table 4.17 and the pie chart in fig 4.17.

Inefficiencies Encountered	**Yes**	**No**	**Total**
Number of Respondents	16	2	18
Percentage of			

Respondents	89	11	100

Table 4.17: ***Operating Inefficiencies Encountered due to Low Investment Levels***

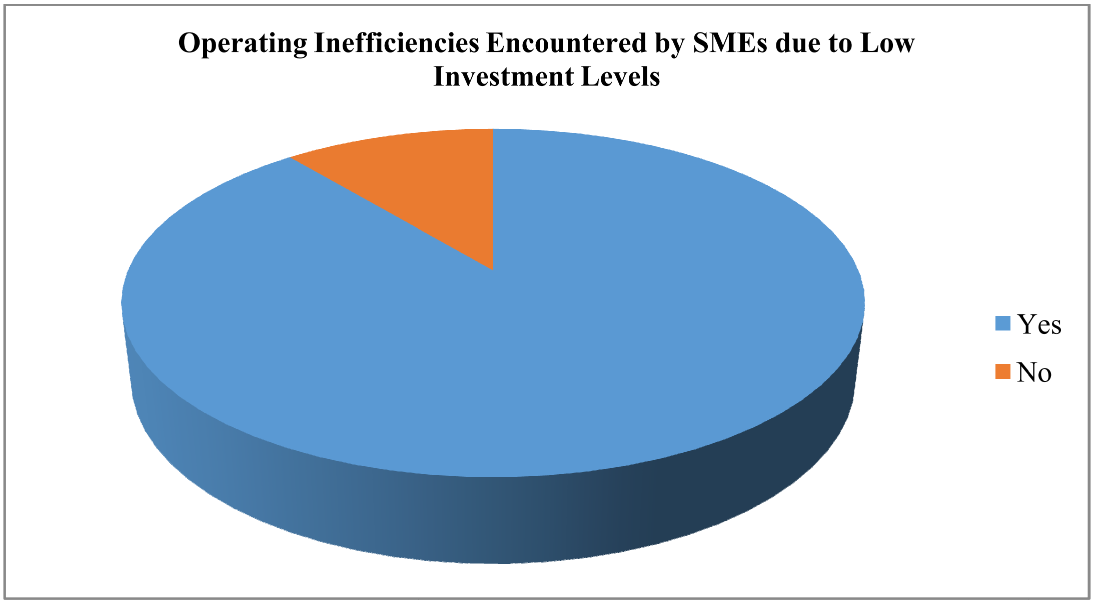

Fig 4.17: ***Operating Inefficiencies Encountered due to Low Investment Levels***

4.21 Examples of Operating Inefficiencies Encountered

- Failure to meet customer orders due to Machinery break down.
- Delays in deliveries due to delivery vehicles' break down
- Failure to import raw materials
- High repairs and maintenance costs
- Fall in plant productivity
- Declining revenue due to falling output.
- Failure to pay employees on time

4.22 Establishment of SMEs' Stock Exchange

The question sought the view of respondents on the need for a stock market specifically meant for SMEs and 19 responses were received in this regard. 3 respondents strongly agreed and 15 agreed to the idea of establishing a stock exchange for SMEs. Therefore, a total of 18 out of the

19 respondents, 95% are in support of the need for a SMEs' Stock Exchange. Only 1 respondent, 5% disagreed in that regard.

This agrees with the idea put forward by the Financial Inclusion Experts Group in Scaling up SME Access to Financial Services in the Developing World (October 2010 Summit) giving reference to SME Stock Markets such as the Alternative Investment market in London and the Mothers market in Japan. Table 4.18 shows a summary of the results obtained and they are further highlighted in the pie chart in fig 4.18.

Need For SMEs' Stock Exchange	**Agree**	**Disagree**	**Total**
Number of Respondents	18	1	19
Percentage of Respondents	95	5	100

Table 4.18: ***Results on the Need for SMEs' Stock Market***

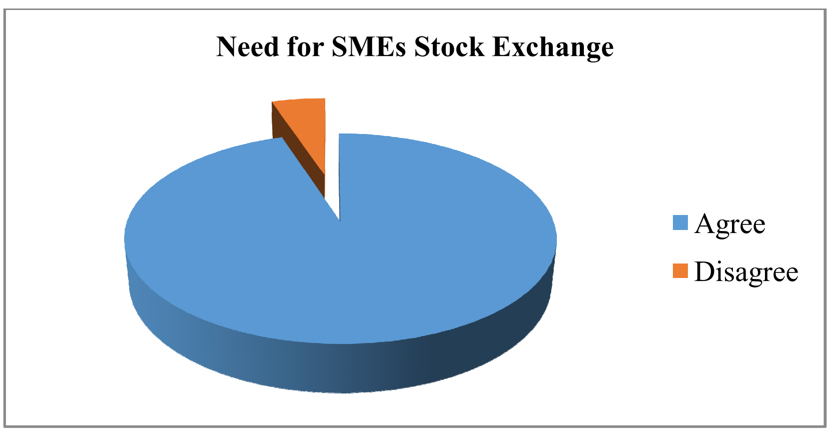

Fig 4.18: ***Results on the Need for SMEs' Stock Market***

4.23 Need for Government Intervention

Of the 19 respondents, 18 are in agreement with the idea of government intervention in SMEs' financing issues. Only one respondent did not agree with the idea. The responses were obtained in the following pattern: 8 strongly agreed, 10 agreed and 1 strongly disagreed with the idea.

Government intervention in SMEs financing matters has been successful in South Africa where the Government, through the Department of Trade and Industries, has established various institutions meant to assist SMEs access to financing for start-up and long term investment projects.

4.24 Response Rate for Financial Institutions

8 questionnaires were distributed among financial institutions and 7 of these were responded to, giving a response rate of 88%. The information is shown in table 4.19 below and an illustration is given in the pie chart in fig 4.19

Target Population	Questionnaires Distributed	Questionnaires Responded to	Response Rate (%)
Financial Institutions	8	7	88

Table 4.19: ***Response Rate from Financial Institutions***

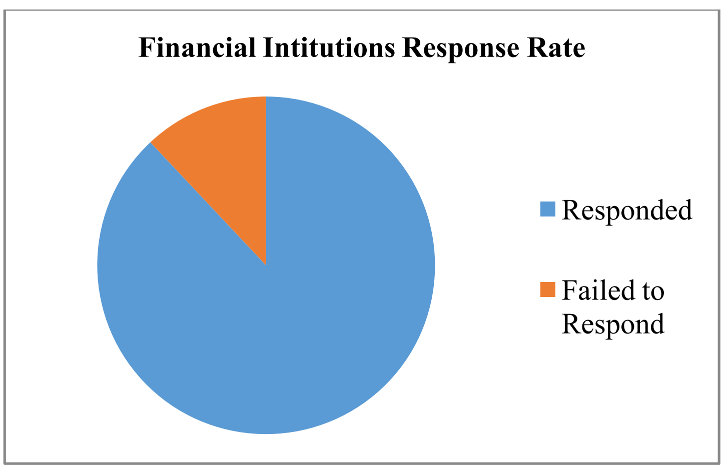

Fig 4.19: ***Response Rate from Financial Institutions***

4.25 Financial Institution Has Special Lending Facility for SMEs

7 responses were obtained in this regard. 2 respondents strongly agreed and 4 agreed giving a total of 6 respondents, 88% who acknowledged having a special lending facility. Only 1 Financial Institution did not have the facility.

This question was raised to assess the financial institutions' compliance with the call from the Reserve Bank of Zimbabwe Governor; Dr Gideon Gono (Monetary Policy Statement 2013), that banking institutions should reorient their portfolios so that loans to the SME sector would constitute at least 30% of the total loan book. The findings show that the banks are reluctantly trying to comply as shall be shown from their loan book percentage allocations to SMEs loans in the research findings from the following question. A summary of the results is provided in table 4.20 and the graph in fig 4.20 below

SME Lending Facility Exists	**Agree**	**Disagree**	**Total**
Number of Respondents	6	1	7
Percentage of Respondents	88	12	100

Table 4.20: ***Responses on Existence of Special Lending Facility for SMEs***

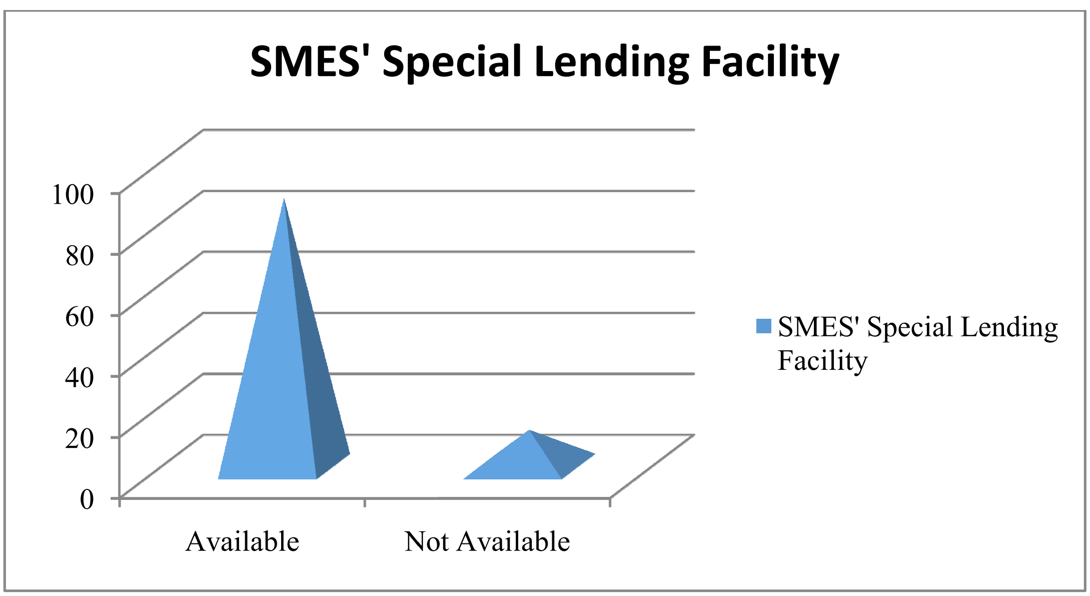

Fig 4.20: ***Responses on Existence of Special Lending Facility for SMEs***

4.26 Financiers find it Easy to Assess SMEs' Creditworthiness

Of the 7 respondents, only 1, 14% find the assessment of SMEs creditworthiness easy. The rest of financial institutions, 86% are finding it difficult. The reason identified for this agrees with the one cited by Stiglitz and Weiss (2009) to be information asymmetries, a situation where firms have some superior private information they do not want to reveal to financial institutions. These data are shown in table 4.21 and is illustrated graphically in fig 4.21.

Easy To Assess SMEs	**Agree**	**Disagree**	**Total**
Number of Respondents	1	6	7
Percentage of Respondents	14	86	100

Table 4.21: ***Responses on Assessment of SMEs' Creditworthiness***

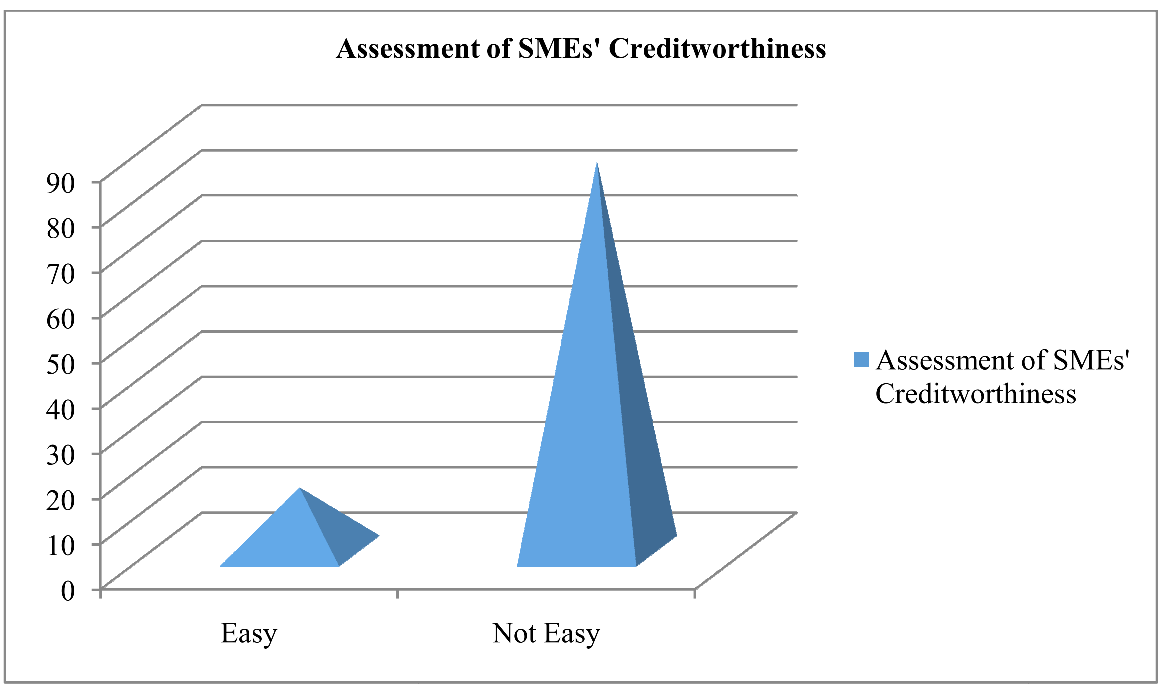

Fig 4.21: ***Responses on Assessment of SMEs' Creditworthiness***

4.27 Specific Percentage Allocation from the Loan Book Exists for SMEs

This part sought to assess the adherence by financial institutions to the specification by the Reserve Bank of Zimbabwe in the Monetary Policy Statement issued on the 31st of January 2013 that all Commercial banks should allocate 30% of their loan book to SMEs. Of the 7 respondents, 6, 86% have a specific percentage set aside for SMEs and 1 respondent, 14% did not have that allocation. Table 4.22 illustrates these data supported by the pie chart in fig 4.22.

Specific Allocation Exists	**Yes**	**No**	**Total**
Number of Respondents	6	1	7
Percentage of Respondents	86	14	100

Table 4.22: ***Financiers' Status on Loan Book Percentage Allocation to SMEs Loans***

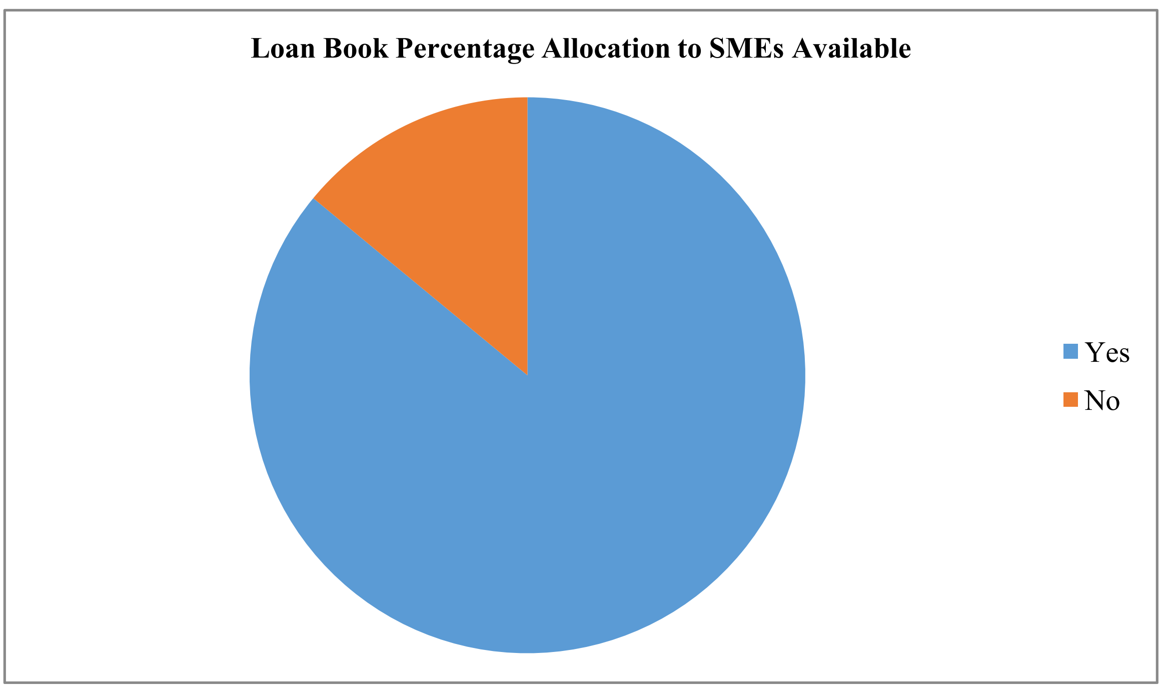

Fig 4.22: ***Financiers' Status on Loan Book Percentage Allocation to SMEs Loans***

4.28 Percentage of the Allocation

Of the 6 financial institutions that have specific loan allocations to SMEs, 3, 50% have allocations of between 5% and 10%, 2, 33% are in the range of 10% to 20% and only one Commercial bank had an allocation above 30% as stipulated by the Reserve Bank of Zimbabwe.

The results above show that financial institutions are reluctant to uphold the RBZ request due to their lack of confidence in SMEs. Table 4.23 together with the graph in fig4.23 illustrate these findings.

Percentage Allocation	**5% to 10%**	**10% to 30%**	**30% and Above**	**Total**
Number of Respondents	3	2	1	6
Percentage of Respondents	50	33	17	100

Table 4.23: ***Responses on Loan Percentage Allocations to SMEs***

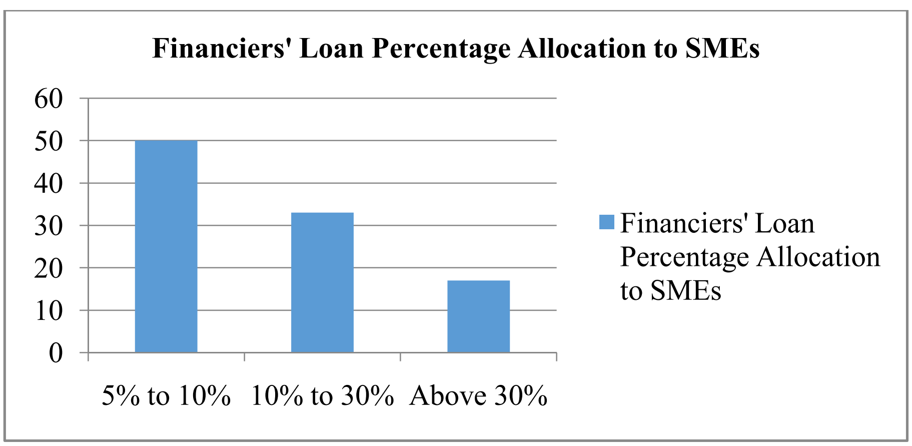

Fig 4.23: ***Responses on Loan Percentage Allocations to SMEs***

4.29 SMEs are Successful in Loan Repayments

Of the 7 respondents, only 2, 29% agreed that SMEs find it easy to make loan repayments. The other 5, 71% alluded to the fact that SMEs are failing to meet their loan repayment requirements. This information is shown table 4.24 as well as the Pie chart in fig 4.24.

SMEs Repay Loans Successfully	**Agree**	**Disagree**	**Total**
Number of Respondents	2	5	7
Percentage of Respondents	29	71	100

Table 4.24: ***Responses on SMEs Loan Repayment Successes***

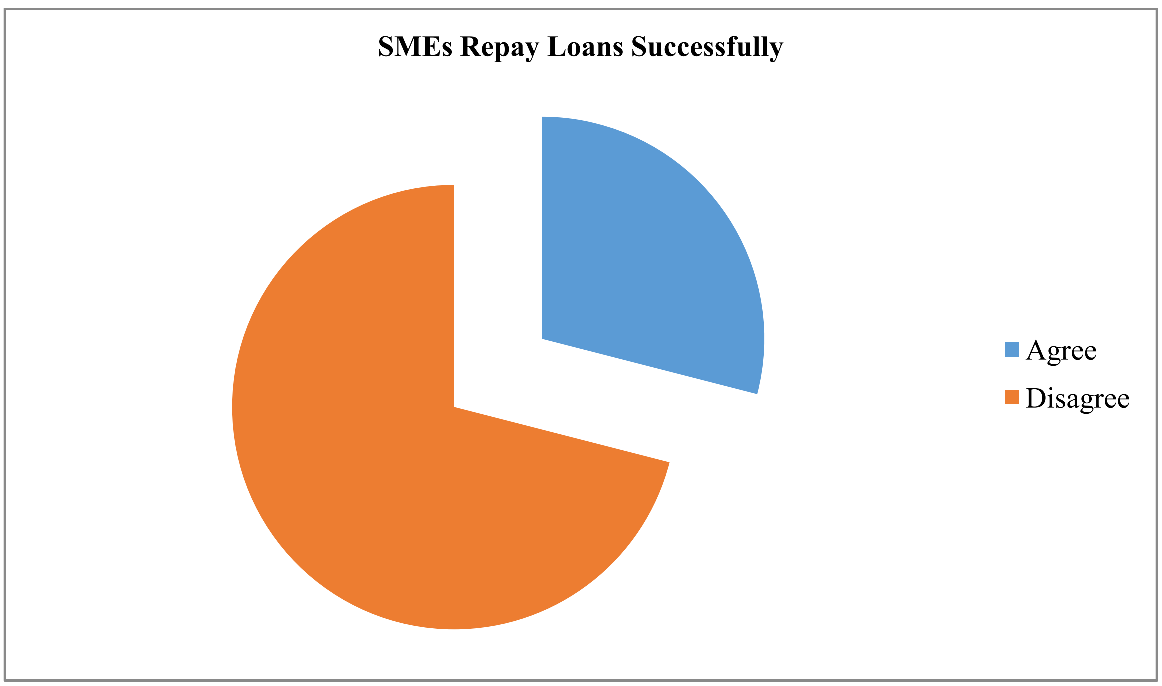

Fig 4.24: ***Responses on SMEs Loan Repayment Successes***

4.30 Financiers Assign a High Risk to SME Lending

5 out of 7 respondents, 71% assign a higher risk to SMEs lending as compared to large corporations. Only 2 respondents, 29% disagreed that a higher risk is assigned to SMEs lending as compared to large companies.

The findings agree with the stance taken by the Organisation for Economic Cooperation and Development in The Financing Gap Volume 1 when it was identified that high administrative and transaction costs of lending or investing small amounts do not make SME financing a profitable business. The findings are tabulated in Table 4.25 and a pie chart illustration is given in fig 4.25.

High Risk for SMEs' Lending	**Agree**	**Disagree**	**Total**
Number of Respondents	5	2	7
Percentage of Respondents	71	29	100

Table 4.25: ***Responses on High Risk for SMEs' Lending***

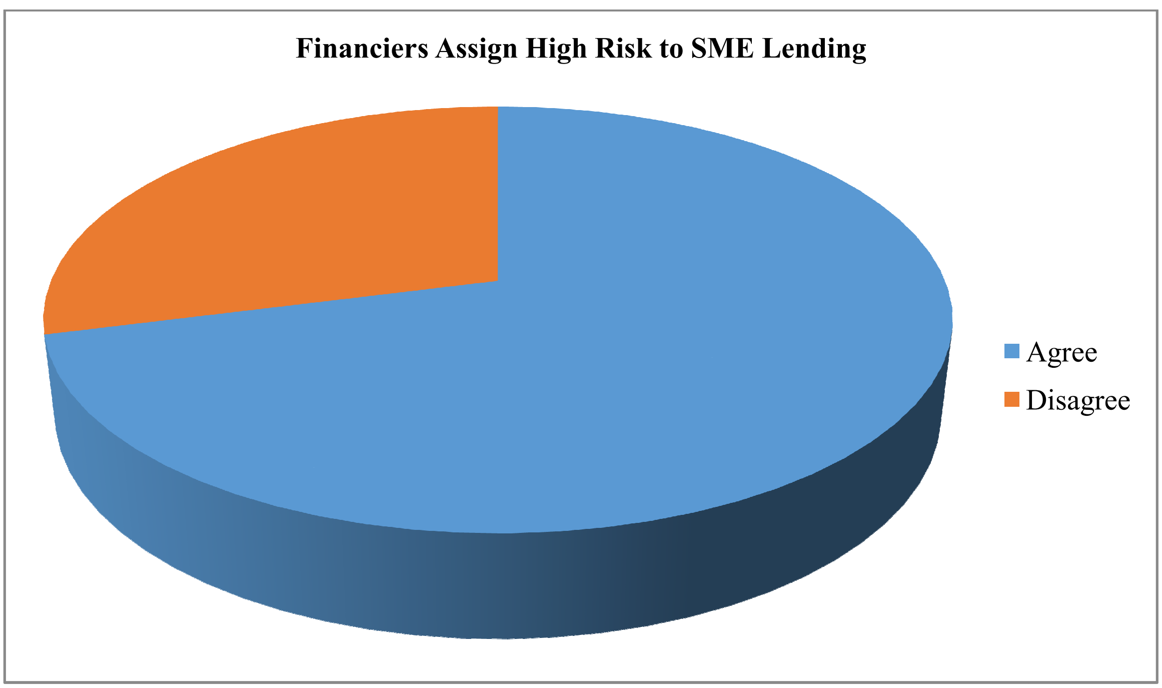

Fig 4.25: ***Responses on High Risk for SMEs' Lending***

4.31 SMEs Withhold Essential Information from Financiers

All the 7 financial institutions which responded alluded to the fact that SMEs are withholding critical financial information that is required to make evaluations of their loan applications. No single respondent was satisfied with the information they get from SMEs as back up for their loan applications.

4.32 Guarantees Received from Government for SMEs Loans

Only 1 of the 7 financial institutions, 14% has received guarantee from the government over SMEs' loans. The rest, 6 out of the 7 respondents, 86% disagreed that the government has ever intervened with guarantee schemes for SMEs' loans.

This is because the Government of Zimbabwe has not initiated SMEs loan guarantee schemes such as the one adopted by the South African Government under Khula Enterprises Finance Limited detailed in chapter 2. A summary of these findings is given in table 4.26 and a graph illustrating the same data is also given in fig 4.26.

Government Guarantee Received	Agree	Disagree	Total
Number of Respondents	1	6	7
Percentage of Respondents	14	86	100

Table 4.26: ***Responses on Government Guarantees Received***

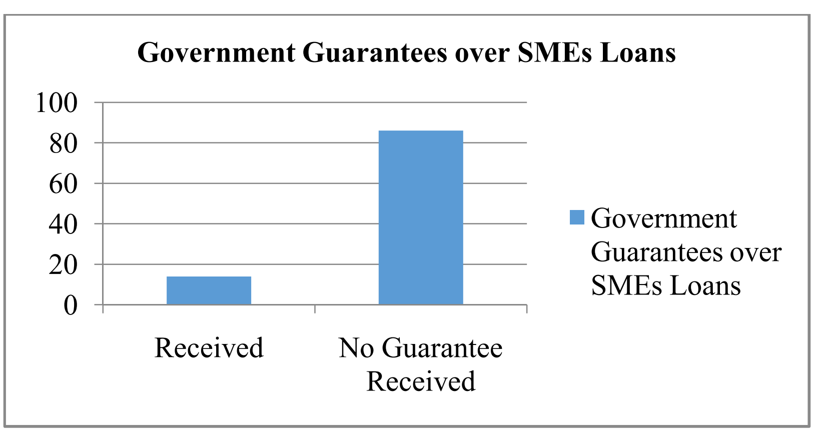

Fig 4.26: ***Responses on Government Guarantees Received***

4.33 Third Party Guarantors for SMEs' Loans

The Financial institutions cited the following guarantors for SMEs' borrowings outside the government:

- Directors of SMEs
- Colleagues on Reliable Salaries
- Unlimited guarantees from individuals

4.34 Factors Considered by Financial Institutions in Assessing SME Creditworthiness

The respondents pointed towards the following factors they consider before granting loans to SMEs:

- Nature of business
- Collateral Security being pledged
- Capacity to repay
- Character
- History with the bank
- Viability of business
- Business module and strategy
- Management
- Product
- Market
- Financials
- Credit Clearance

4.35 Interview Results

Five interviews were conducted at Cool Ice and other four randomly selected SMEs in the Case Study area and the following results were obtained:

1. SMEs are finding it very tough to expand their operations due to lack of financing. Investment activity is very low in SMEs. Examples were cited by the interviewees of some firms that went as far as closing operations due to low, or even no investment at all.

2. The bulk of the operating expenditure incurred by the SMEs interviewed is highly attributed to repairs and maintenance of worn out machinery and delivery vehicles. Further losses have been incurred in the form of abnormal losses and lost production hours due to old production plant and machinery breakdown. At Cool Ice (Pvt) Limited, the importation of a 2nd Ice manufacturing plant has been on the agenda since 2008 but no funds have been raised yet.

3. Most of the SMEs rely on financing in the form of borrowings from friends and relatives which are highly inadequate to meet the finance requirements on hand. At times the SMEs are forced to obtain loans from the company directors. Majority of the interviewees started their businesses from personal savings.

4. SMEs are failing to undertake some lucrative and profitable ventures due to limited funds

5. The SMEs feel the financial institutions lack confidence in SMEs. They suggested government intervention is needed to improve on the cooperation of banks and participants in the SME sector.

4.36 Cool Ice Document Analysis Results

An analysis of some Company documents at Cool Ice (Pvt) Limited brought the following revelations.

- Financial statements reveal a trend of continuous decline in revenue since 2010. It was observed from the interview conducted with the Operations Manager that the fall in revenue is attributed to low production levels. Daily output has drastically declined due to reduced plant productivity and several other factors that were cited. Table 4.27 and fig 4.27 illustrate these results.

COMPONENT	2009	2010	2011	2012
Revenue	$356568	$347295	$304588	$266973

Table 4.27: ***Cool Ice Revenue Trend from 2009 to 2012***

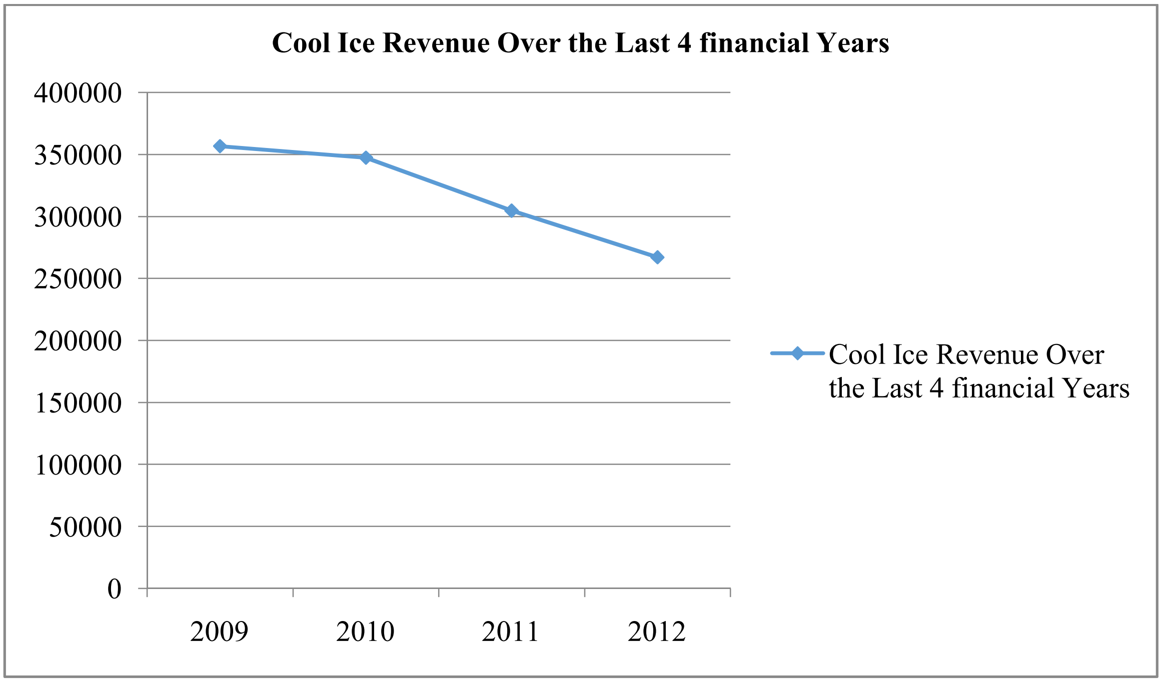

Fig 4.27: ***Cool Ice Revenue Trend from 2009 to 2012***

- There has been a trend of rising proportion of expenditure on repairs and maintenance of plant and machinery as well as motor vehicles. They constitute a great proportion of total operating expenditure and as result, operating profits have been falling until losses began to be realised in 2011. Table 4.28 together with the line graph in fig 4.28 summarises this information.

COMPONENT	2009	2010	2011	2012
Repairs and Maintenance	$15264	$17856	$25768	$37266

Table 4.28: ***Cool Ice Repairs and Maintenance Expenditure from 2009 to 2012***

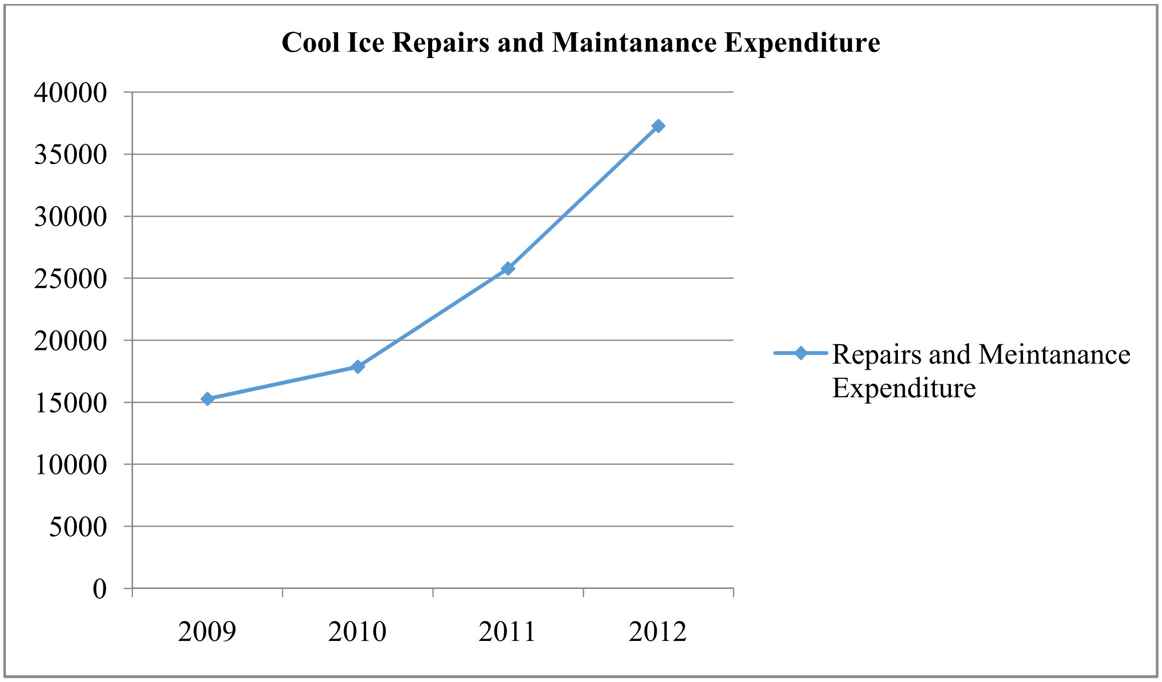

Fig 4.28: ***Cool Ice Repairs and Maintenance Expenditure from 2009 to 2012***

- Profit has been falling since 2010 until substantial losses began to be realised from the year 2011. As it stands currently, worse profit margins are expected by the end of the current financial year. The Cool Ice profit trend since 2009 is tabulated and illustrated in table 4.29 and fig 4.29

COMPONENT	**2009**	**2010**	**2011**	**2012**
Net profit /(Loss)	$35 411	$22560	($12123)	($28976)

Table 4.29: ***Cool Ice Profit Trend from 2009 to 2012***

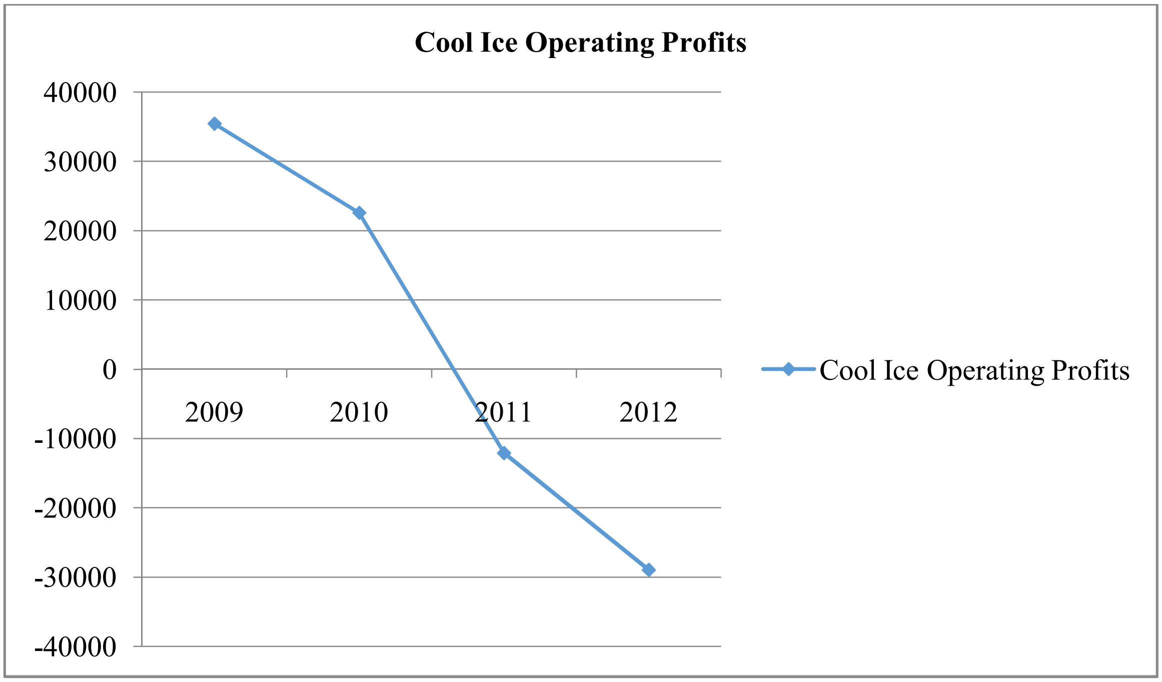

Fig 4.29: ***Cool Ice Operating Profit Trend from 2009 to 2012***

- Management and Directors' meetings minutes reveal that some long term investments resolved in meetings held 5 years ago have not been undertaken.
- The noncurrent asset register shows nearly nil additions for the past 5 financial years. The noncurrent assets in use were acquired more than 5 years ago.
- High rates of labour turnover are being experienced due to poor employee remuneration and late payment of salaries.
- There are no additions to the customers' lists. Instead, some customers have ceased ordering goods 2 to 3 years back
- Loan files are full of loan applications but no single loan has been obtained from any financial institution since the incorporation of the company.

4.37 Summary

An analysis of the data gathered was provided in this chapter. Every questionnaire response was analysed separately and illustrated either in a tabular form, graphically or on a pie chart for easier interpretation. Summaries were also provided on the results obtained from the five interviews conducted as well as the analysis of various company documents at Cool Ice Private Limited. Conclusions will be drawn from these findings and, together with recommendations; they form the basis of the discussion in the final chapter of this project.

CHAPTER 5

MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This is the last of the five chapters that form the content of this project. The chapter provides all the summaries of the four preceding chapters. Furthermore, Chapter five details the conclusions that have been drawn from the primary and secondary data collected during the research. The final part of this chapter shall highlight the various recommendations by the researcher to the various parties affected by the research project.

5.1 Summary of Objectives

The objectives of this research included establishing the role played by lack of financing in contributing to the financial and other operational problems faced by SMEs, identifying the forms of financing available to SMEs and how easily SMEs can access financing through these sources. The research also sought to identify the major constraints faced by SMEs in accessing financing, review the efforts that have been made by different stakeholders to address SME financing as well as identifying possible solutions to SME constrained financing.

5.2 Summaries of other Chapters

Chapter one introduced the scope of the study as a whole. It further showed the problem statement and gave an account of the background of the study. It revealed the importance of the study together with the research objectives. Research questions were raised from the research objectives to be answered by the results of the study. It also outlined the focus of the whole study as well as the limitations and the delimitations of this research project.

Chapter two covered the review of literature regarding the research objectives mentioned in Chapter One. The reviewprovided a definition and concept of Small and Medium Enterprises and covered a detailed investigation of the forces behind the trends of declining revenue, escalating costs and recurring losses (poor financial performance) in SMEs in the manufacturing sector. The review tries to identify the available sources of financing to SMEs, the difficulties faced by SMEs to access financing through different sources and the overall effect of lack of adequate financing to the financial viability of SMEs. Also highlighted in the chapter, are the various efforts that have been made by different stakeholders to address the problem of SMEs'financing.

Chapter three highlighted the research philosophy, design and strategy adopted by the researcher. It also accounted for the various sampling methods considered during the research as well as the research instruments that were employed during the primary data collection process. Various forms of secondary data made use of during the research were also included in this chapter.

Chapter four detailed an analysis of the data gathered during the research. Every questionnaire response was analysed separately and illustrated either in a tabular form, graphically or on a pie chart for easier interpretation. Summaries were also provided on the results obtained from the five interviews conducted as well as the analysis of various company documents at Cool Ice Private Limited.

5.3Major Research Findings

1. Access to financing is a major constraint to SMES right from start-up. The research conducted revealed that most SMEs employed their personal savings and some assistance from friends and relatives. Very few could manage to raise loans from the banks for start up.
2. SMEs pay less consideration to financing in the form of share capital. Most of them have made very limited ordinary share issues at the time of incorporation to the owner founders and no more share issues were made afterwards. For reasons of control and dilution of ownership, the majority of SMEs are not interested in raising financing through the issue of shares.
3. SMEs have been making financing applications from commercial banks but very few have managed to secure the funds. The following factors have been concluded from the data gathered to be the major constraints restricting SMEs from accessing financing from financial institutions:

- The borrowing costs associated with loans are too high in relation to SMEs' returns on their investments.
- SMEs, due to their nature and size' do not have sufficient resources to pledge as collateral for their financing requirements. Most of the SMEs in Msasa are operating in leased factories which they do not own. They fail to raise sufficient funds to acquire their own premises.

- Financial institutions lack confidence and trust in SMEs hence they assign a high risk to lending funds to SMEs. This tendency of financiers towards SMEs comes as a result of the unstable nature of SMEs returns. They lack consistency in their trends. During some financial years, they realise exceptionally high returns and may record negative returns in the following year. This level of risk has triggered financiers to raise the costs of borrowing to SMEs and have become more reluctant to lend funds to these SMEs as a result.

4. Financial institutions are not satisfied with the financial information they are getting from SMEs. In as much as SMEs claim to be furnishing financiers with all the required information, the financial institutions find the information highly insufficient. Therefore this information gap happens to be a constraint on SMEs financing. SMEs information systems need to be upgraded and try to meet the standards required by the financial institutions.
5. Investment in the SME sector is very low due to constrained financing. It was noticed from the research that the majority of the firms have potentially lucrative and highly profitable investments they cannot undertake due to lack of funding. The majority of the firms have more than 5 year investment plans which have not been implemented.
6. Low investment as a result of constrained financing to SMEs has brought about various operational problems to SMEs. These problems have restricted SMEs profitability, growth and some have even failed to survive under competition. The majority of the SMEs from the research conducted are breaking even with some realising operating losses. The following operational inefficiencies were concluded to be facing SMEs from the data gathered:

- Failure to meet customer orders due to Machinery break down.
- Delays in deliveries due to delivery vehicles' break down
- Failure to import raw materials
- High repairs and maintenance costs
- Fall in plant productivity
- Declining revenue due to falling output.
- Failure to pay employees on time
- Cash flow imbalances

7. It is concluded from the research conducted in financial institutions that the majority of commercial banks have recently established SMEs lending schemes. This came after the requirement from the Reserve bank of Zimbabwe that all Commercial banks should have a 30% allocation of their loan book towards SMEs lending. Although schemes were established, the problem was found to be on the adherence to the 30% stipulation.
8. The government has not initiated any guarantee schemes over SMEs loans. Although the Reserve Bank of Zimbabwe is trying to introduce policies to address SMEs financing problems, SMEs still find it difficult to raise funds because little compliance has been realised from the financial institutions.

5.4 Recommendations

5.4.1 To the SMEs

- SMEs have to make use of equity capital. Although prospects of dilution of ownership and control would arise, financing should also be raised through the issue of shares to complement internally generated funds. This would reduce the magnitude of operating inefficiencies encountered and financial performance may stabilise at least in the short run. This idea is supported by Churchill and Frankiewicz (2009) who dismissed credit to be a sufficient developmental tool and therefore other sources such as equity financing should be considered.
- SMEs should upgrade their Accounting and other Information Systems. Such information should be able to convince financial institutions on the creditworthiness of the firm. The current position with financiers is that SMEs are failing to provide them the information they require. Stiglitz and Weiss (2009) argued that SMEs financing is constrained by the existence of such information asymmetries. Therefore there is need to upgrade the information systems and close the information gap that exists between the SMEs and the Financiers.
- SMEs should try to access funding from the government by applying for government grants. The South African SMEs have utilised the institutions established by the Government through the Department of Trade and Industries to assist SMEs on financing and this has helped greatly in alleviating financing problems in the sector.

- SMEs should create long term relationships with the financial institutions through other services such as financial advisory services. They should build good reputations with these financial institutions such that when they approach them for funding, a mutual cooperation already exists. The Organisation for Economic Cooperation and Development, 2006, emphasised the idea that cooperation between SME organisations and financial institutions in order to reduce risks and costs and combine financial with non-financial services will create trust and financiers' confidence in SMEs.

5.4.2 To the Financial Institutions

- Financial Institutions should make use of third party guarantors for SME loans. This would close the gap associated with lack of collateral in SMEs. The South African Department of Trade and Industries introduced a guarantee scheme under Khula Enterprise Finance Limited and this assisted in reducing the high risk financiers ascribe to SMEs lending.
- Financial institutions should also relax their lending terms such that SMEs can also afford to meet the repayment requirements together with the borrowing costs.
- The Reserve Bank of Zimbabwe, in the Monetary Policy Statement of 31 January 2013, requested that banking institutions assign at least 30% of their loan books to the SME sector. If financial institutions comply with this requirement, the financing problems of SMEs, although they may not be completely eradicated in the short run, would be addressed to a great extent.
- The Reserve Bank of Zimbabwe should ensure that the monthly reviews of the operations of the financial institutions to monitor compliance with the 30% loan book stipulation for SMEs loans are conducted.

5.4.3 To the Government

- The Government should initiate loan guarantee schemes for SMEs. This would help improve financiers' confidence and reduce the risks they assign to SMEs lending. The borrowing costs would also be reduced due to the reduced risk factor. The example of the South African Government through the Department of trade and Industries cited in chapter 2 should be considered.

- The Government has to provide grants and subsidies to SMEs in order to promote the growth of the SME sector since its contribution is critical to the economy.
- A stock market specifically for SMEs should be established where SMEs can raise funds through the sale of shares and debenture issues as well as other stock exchanges.

5.5 Areas for Further Research

It was noted that further research needs to be conducted over the Management and Accounting information systems employed by firms in the SMEs sector. Financial institutions expressed the inadequacy of the current information systems in SMEs. Therefore, it remains to be discovered how these SMEs Management and Accounting information systems can be reconfigured to close the information asymmetries existing between SMEs and the Financial Institutions.

5.6 Overall Conclusion

This research project was investigating the cause of the financial problems faced by SMEs. It was discovered that financing is the major instigator of the majority of problems facing SMEs such as investment problems, declining profitability, restricted growth, unguaranteed survival and other various operating problems. Reference was made to the literature by various authors on the subject of SMEs financing including the efforts by different stakeholders, including governments, to address the problem. Sampling techniques were employed during the selection of SMEs and financial institutions for primary data gathering which was conducted in the case study area of Jaggers Light Industrial Area, Msasa, Harare. Data obtained through interviews, questionnaires and document analysis was analysed and conclusions and recommendations were drawn from the analysis of these research findings and suggestions for further research were made.

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Appendix A: Questionnaire Letter

Midlands State University

Faculty of Commerce

Department of Accounting

P Bag 9055

Gweru

TO WHOM IT MAY CONCERN

I am a fourth year student studying a Bachelor of Commerce Accounting Degree. In partial fulfillment of this programme students are required to carry out a research of their choice. My research topic is **Financing Constraint on SMEs' Success in the Manufacturing Sector (Case of Cool Ice (Pvt) Limited).**I am seeking approval to carry out the research in your organisation. In addition assistance will be required of any information related to my topic and all the information will be treated with confidentiality and only used for academic purposes.

Thank you for your co-operation

Yours faithfully

Admore Hwingwiri

Appendix B

Questionnaire for SMEs

Please tick in one of the boxes provided or fill in the spaces provided for your responses. Any information provided will be used solely for academic purposes. Your cooperation will be greatly appreciated.

SECTION ONE: BACKGROUND INFORMATION

1. **What is the name of your company?**

………………………………………………………………………………………

2. **Which industry are you operating in?**

Manufacturing [ ] Retailing [ ] Transport [ ] others (specify)………………………………

3. **How many employees do you have?**

Less than 20 [ ] 20 to 50 [ ] 50 to 100 [ ] 100 to 200 [ ] Above 200 [ ]

4. **How long have you been in business?**

……………………………………………………….

SECTION TWO: FINANCING REQUIREMENTS

5. **What form capital was employed to start the business?**

Equity Capital [ ] Long Term Borrowings [ ] Government Grants [ ]

Others (Specify)……………………………………

6. **If Long Term Borrowings, which form is it?**

Bank Loan [ ] Mortgage Loans [ ] Debentures [ ] Others (Specify)……………………………….

7. **Did you attempt to make further applications for external financing?**

Yes [ ] No [ ]

8. **If Yes, which form of Financing did you apply for?**

Bank loan [ ] Mortgage Loans [ ] Government Grants [ ] others (Specify)……………………………….

9. Was the application successful?

Yes [ ] No [ ]

SECTION THREE: CONSTRAINTS FACED IN ACCESSING FINANCE

10. What challenges did you face in applying for financing?

Rejection [ ] Lack of Collateral [ ] information Asymmetry [ ] High Borrowing Costs [ ] others (Specify)……………………….

11. SME access to Financing has improved of recent.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

12. Financiers lack confidence in SMEs investment projects.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

13. SMEs fail to avail great detail of financial information to financiers when trying to access financing.

Strongly Agree [ ]Agree [ ] Disagree [ ] Strongly Disagree [ ]

14. Borrowing costs are too high in relation to expected returns from investments made from such borrowings.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

15. Financial institutions are reluctant to implement policies tailor meant to improve SMEs financing.

Strongly Agree [ ]Agree [ ] Disagree [ ] Strongly Disagree [ ]

16. You are finding it difficult to repay your loans and other long term borrowings.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

17. You are finding it difficult to provide collateral security for loan applications.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

SECTION FOUR: CONSTRAINED FINANCING ON SME FINANCIAL VIABILITY

18. Do you have some investment projects sidelined due to inadequate financing?

Yes [ ] No [ ]

19. How long have they been sidelined

Less than a year [ ] 1 to 2 years [ ] 2 to 5 Years [ ] More than 5 Years [ ]

20. Long term investments greatly sustain your profitability and financial viability.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

21. Have you ever encountered some operational inefficiency as a result of low investment levels?

Yes [ ] No [ ]

22. If yes ,could you please site some of them

…………………………………………………………………

…………………………………………………………………

………………………………………………………………...

………………………………………………………………….

SECTION FIVE: SUGGESTIONS FOR IMPROVEMENTS

23. The establishment of SME stock exchange would improve SME financing.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

24. Government intervention on SME financing issues is strongly required.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

25. What measures will you suggest to improve SMEs financing?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………..

Thank You!

Appendix C

Questionnaire for Financial Institutions

Please tick in one of the boxes provided or fill in the spaces provided for your responses. Any information provided will be used solely for academic purposes. Your cooperation will be greatly appreciated.

1. **You have a special lending facility targeted at addressing SMEs' financial needs.**

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]

2. **SMEs are providing you better business opportunities as compared to large corporations.**

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]

3. **You are having no problems assessing the creditworthiness of SMEs.**

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]

4. **Do you have a specific percentage allocation for SMEs from your loan book?**

Yes [ ]   No [ ]

5. **If yes, which range does your percentage allocation fall under?**

Less than 5% [ ]   5% to 10% [ ]   10% to 20% [ ]   20% to 30% [ ]   Above 30% [ ]

6. **Majority of SMEs are successful in meeting loan repayment agreements.**

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]

7. **You assign a higher risk to SME lending as compared to large companies**

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]

8. **SMEs are withholding critical financial information from financial institutions when applying for financing.**

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]

9. **You have been receiving guarantees from the Government and other third parties for loans made to SMEs.**

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

Could you please cite other third parties that have been providing guarantee schemes over SME loans?

…………………………………………………………………………………………………….

10. What factors do you consider when assessing the creditworthiness of SMEs

………………………………………………..

………………………………………………...

…………………………………………………

Thank You!

Appendix D

Interview Guide

1. **In your opinion, what do you think is the major challenge affecting financial performance, growth and survival of firms in the SME sector?**
2. **What forms of financing have been easily available to SMEs and what challenges have you been facing in accessing other sources?**
3. **Are there any indicators in this organisation you would ascribe to inadequate financing?**
4. **Have you ever forgone lucrative investment opportunities due to financing problems?**
5. **What measures do you suggest need to be put in place to address issues to do with SMEs financing?**