ROLE OF VENTURE CAPITAL AS A SOURCE OF FINANCE
FOR SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE

By

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DEDICATION

I dedicate this dissertation to my parents for the sacrifice, love and support for my education. To my wife Linda, my son Ashley and the twins, Akim and Lisa, your support was awesome throughout the study. Above all thanks be to God, the Almighty for the grace, power, focus and love to take me this far.
DECLARATION

I, Francis Madondo, do hereby declare that this dissertation is a result of my initiative effort and quest for research and contribute immensely to the body of knowledge, except to the extent indicated in the acknowledgements. This is also with references to and by the comments made in the body of the study and that it has not been submitted in part or in full for any other degree to any other educational institution.

_______________________   _______________________
Student’s Signature        Date

_______________________   _______________________
Supervisor’s Signature     Date
ACKNOWLEDGEMENTS

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ABSTRACT

Venture capital is an important source of finance for small businesses although it is least understood. The VC financing market in Zimbabwe is inactive and mainly targets large companies instead of small to medium enterprises. The study sought to evaluate the role of venture capital as a source of finance for small to medium enterprises (SMEs) in Zimbabwe. The objectives of the study were to review the types of venture capital financing in Zimbabwe, identify the factors that drive the venture capital financing and impact of venture capital on small business development. The study adopted a quantitative methodology in order to investigate the subject. Questionnaires were administered on respondents. The respondents were from the Zimbabwe Investment Authority, Ministry of Small to Medium Enterprises, Reserve Bank of Zimbabwe, Small Enterprises Development Corporation and financial institutions. An overall response rate of 89.66% was achieved. The study established that government was the main financer of venture capital financing in Zimbabwe. Further, stable economic environment, investor protection and corporate governance and well developed capital markets were found to be main determinants of venture capital financing. The study also established that the role of venture capital financing played an important role in the areas of employment creation, investment, export growth as well as innovation and creativity. Overall venture capital financing is an alternative financing option for SMEs. However, the development of venture capital market is being constrained by the economic environment, lack of a vibrant capital market, no regulatory framework regards corporate governance and investor protection. The study recommends that development of entrepreneurship by having an active venture capital market, stable macroeconomic environment and regulatory framework that protect investors.
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ACRONYMS AND ABBREVIATIONS
VC Venture Capital
PE Private Equity
MFI Microfinance Institution
SME Small and Medium Enterprises
MSME Ministry of Small to Medium Enterprise
ZIA Zimbabwe Investment Authority
MOF Ministry of Finance
SEDCO Small Enterprises Development Corporation
RBZ Reserve Bank of Zimbabwe
ZIMRA Zimbabwe Revenue Authority
IFC International Finance Corporation
SBIR Small Business Innovation Research
GVC Global Venture Capital
BVCA British Venture Capital Association
BEE Black Economic Empowerment
EPA Economic Partnership Agreement
ITC International Trade Centre
IMF International Monetary Fund
WB World Bank
MIS Management Information Systems
IPO Initial Public Offer
MBI Management Buy In
MBO Management Buy Out
CHAPTER 1

Introduction and background to the study

1.0. Introduction

In Africa, the micro, small and medium scale enterprises (MSMEs) have been seen as important for economic growth (OECD, 2004). According to United Nations Environment Programme Finance Initiative, UNEP FI (2008) "MSMEs employ 63% of the employed people in Africa with 90% of business coming from them. To have highest impact on economic growth, the economic development strategies should focus on increasing number of oriented SMEs which can be competitive on both international and local market". These strategies require linking SMEs to affordable sources of finance and providing adequate business support (Christy, 2004). The financing instrument that can be used to attain this goal is venture capital.

Wright (2005) broadly described venture capital as a medium term equity investment or direct equity with a well-defined exit strategy in young privately held companies. Venture capital financing is underpinned by the principle of forging relationships through matching finance to entrepreneurs. This study, therefore, seeks to evaluate the role of venture capital as a financing option for SMEs in Zimbabwe.

1.1. Background to the study

The venture capital concept began in the United States of America (USA) as an informal business investment by wealthy families and individuals (Christy, 2004). In 1946, a publicly traded investment company called the American Research and Development Corporation (ARD) was formed and provided start-up capital to small business at an agreed rate of return over a certain period of time. The number of venture capital firms rose in the 1950s. The formation of federal Small Business Investment Company (SBIC) in 1958 supported the growth of venture capital firms of which some of them are still operational. During the 1960s and 1970s, their focus was on financing start-up and expanding businesses in the technology and medical industries until stock market crash in 1974 (Adongo, 2011).
European Venture Capital Association (EVCA, 2005) found those venture capitalists were progressively expanding their investments across their national boundaries because of the availability of abundant international entrepreneurial projects. No statistics were made with regards to Zimbabwe. The report also indicated that between 2004 and 2005, venture capital investment by Europeans increased from USD12.8 billion to USD15.8 billion showing the tremendous growth in Europe. The Israeli Venture Capital Association (IVCA) also in 2005 reported that venture capital activities in Israel rose from over USD700 million in 2004 to USD1.2 billion in 2005, even though most of the funding came from external sources such as the United States of America and Europe.

Van Horne (2006) argued that venture capital financing brings positive results. Government should intervene positively for the sake of venture capital through the governmental institutions that ensure the provision of funding to the emerging projects. Each country should create common or public funds for risk capital as a form of support for these institutions, in line with those established in the United States of America in 1957, Germany in 1995 and Finland in 1994.

In India, the small businesses are not only seen as a potentially key engine for economic growth but also as a crucial player in poverty reduction (Adongo, 2011). According to Berger and Udell (2008), the profession of venture capital faces many obstacles like resistance of expanding the financial disclosure of the projects and fear of losing its independence. They prefer to maintain certain independence and hence they tend to prefer lending to partnership unlike financing projects through banking loans. This entails changing the industrial culture of project owners by trying to spread the culture of open collective partnership or collective project spirit (Engel, 2002).

In Africa the venture capital firms have been active depending on the state of the economy, financial support given and other fundamentals affecting investments. Commonwealth Development Corporation (2010) found that the first investment was Chilange Cement Plant in Zambia then Northern Rhodesia in 1955. In 2007, these firms supported a total of 1,708 entrepreneurs on the continent (Rohac and

The development of venture capital sector prompts policy makers to understand the role played by the financiers. However, the inability to access finances by the SMEs is a major factor constraining the growth of the sector. SMEs struggle to mobilise finance due to lack tangible collateral, inappropriate legal and regulatory instruments that do not recognise innovative strategies for lending to SMEs (Mensah, 2006; Harvey, 2001; Lerner, 2002). According to Hellman and Puri (2002), deposit and non-deposit taking institutions can play a pivotal role in promoting the sustainable development of venture capital market.

However, venture capital firms disappeared from Zimbabwe due to economic challenges that faced the economy in the late 1990’s and negatively affected the industry’s viability (Nyanga, 2012). The Venture Capital Company of Zimbabwe (VCCZ) seized operations in 2009 including other small venture capital firms like Parity Venture Capital and Takura Venture Capital.

The USAID report (2008) stated that “macroeconomic imbalances, the weak capital market structures and financial systems must be critically dealt with to create an environment conducive for the development of small business”. This also helps the country to attain sustainable economic growth and higher Gross Domestic Product (GDP). Small business development through venture capital can be one of the leading drivers of social and economic transformation in Zimbabwe. However, it is imperative that finance, preferably non-collaterised finance is made available to the business community.

Other financiers of small business including the government have designed schemes focussing more on working capital than fixed capital which is not adequate to change the fortunes of the business (Gatsi, 2011). The problem in Zimbabwe is about having schemes to assist small business to access equity finance.
1.2. Statement of the problem
Zarutskie (2005) argues that venture capital financing served as an important source of start-up finance and increases the investment portfolio of many institutional and angel investors. New businesses especially small to medium enterprises struggle to get bank credit because of lack of collateral as well as track record. It is in view of this challenge that venture capital financing has become a major source of funding in the developed world and to a lesser extent in other African economies such as South Africa (EVCA, 2010). Proper structuring of venture capital financing is essential for small and medium enterprisesdevelopment. In Zimbabwe the venture capital market seems to target large firms and still do not like to support the small to medium enterprises. Can venture capital be the solution to financing problems for SMEs? Do these SMEs meet the requirements for venture capital finance? This study, therefore, seeks to evaluate the role venture capital financing as a financing option for small to medium enterprises in Zimbabwe.

1.3. Research objectives
The objectives of this research are to;

- Identify the types of venture capital financing in Zimbabwe
- Establish the factors that drive the venture capital financing.
- To determine the impact of venture capital on small business development.
- Offer some recommendations on venture capital financing in Zimbabwe.

1.4. Research questions
The specific research questions were;

- Which types of venture capital financing are available in Zimbabwe?
- What are the factors that drive venture capital financing?
- What impact does the venture capital have on the small business development?
- How can Zimbabwe improve the participation of venture capital financing?
1.5. Research proposition
Venture capital financing is vital to the development of small and medium enterprises in Zimbabwe.

1.6. Justification of the study
In Zimbabwe, the small business sector plays a pivotal role in creating new competitive markets and businesses leading to job creation. Both the government and the private sector have not given this sector the much-needed attention and support in terms of unveiling the necessary funding to promote and develop the sector (Gatsi, 2012).

Venture capital financing fills in the gap left by the government, non-governmental organisations and private sector in financing the small business sector because of their nature, mandates, scope and conditions for accessing finance.

The Government of Zimbabwe created institutions such as the Small Enterprise Development Cooperation (SEDCO) to look into small business development but they lack adequate funding to fully promote the SME sector. SEDCO has been in existence for more than fifteen years and was established thorough the SME Act. Since they have in operation they still could not provide the much-needed support to the SMEs (Christy, 2004).

The banks or financial institutions require collateral for the loans advanced and considering that the players in this sector do not have adequate collateral, it becomes difficult for them to have access to the loans. Where no security is needed, they require a business plan with cash flow projections. These become heavily evaluated in terms of risk analysis and take a long period of time to be approved. The process of loan approval seems to be longer compared with the Venture capital finance.

The Microfinance Institutions (MFIs) normally offer bridging finance at very high interest rates and are security or salary based. Their repayment terms are very short usually three, six and up to twelve months. They are not suitable and viable for small business ventures which require a substantial amount. MFIs are short term financing options while venture capitalists are medium to long term financers.
The non-governmental organisations play a complementary role to already existing institutions such as SEDCO that is currently supporting small business development. Because of the current socio-economic and political environment, non-governmental organisations have not been forthcoming with the adequate financing as a complimentary role (ZAMFI, 2008).

The venture capital financing would then link up all the other areas not supported by the traditional financiers. New ideas transform individuals and companies when supported by adequate finance. People with new ideas challenge the way things are, they enable change to happen. Entrepreneurship is in the best interest of Zimbabwe and it is critical to the advancement of economic empowerment as it encourages people to think as masters of their own businesses rather than employees by making them aware of possibilities.

1.7. **Scope of the research**

The research population of the study include the regulators, SEDCO and financiers. The research would get responses from SEDCO, Zimbabwe Investment Authority (ZIA), Ministry of Small to Medium Enterprises (MSME), financial institutions and Reserve Bank of Zimbabwe (RBZ). The research was restricted to the regulators, SEDCO and financiers as SMEs in Zimbabwe are geographically dispersed. The period of study is 2003 to August 2014. The period was chosen as most of the venture capital companies were still in operation.

1.8. **Summary**

This chapter introduced the study area. It gave background information of the research area. The research aims were defined together with the problem statement. This has seen the statement of the research proposition. The chapter spelt out the significance of the research and the scope of the research. The general layout of the rest of the report was also highlighted in this chapter.

1.9. **Structure of dissertation**

The first chapter of the study highlighted the background to the research, the research problem, research objectives, research questions, scope of the study and the research justification. Theoretical and empirical literature review would be discussed in Chapter 2. Chapter 3 describes the research methodology and
highlights the methodology that would be employed to conduct this research. Research findings and an analytical review of the findings are presented in Chapter 4. Chapter 5 wraps up the study with conclusions and recommendations drawn from the study.
CHAPTER 2

Literature Review

2.0 Introduction

This chapter reviews the theoretical and empirical literature on the venture capital financing. The chapter starts by discussing the theoretical basis of study, definitions of venture capital, process involved in venture capital, types of venture capital, role and determinants of venture capital. Other case studies are also reviewed in this chapter.

2.1 Theoretical basis of the study

The study is based on the Principal Agency Theory. Besley and Brigham (2006) stated that principal agency relationship occurs when the principal(owner) engages another person(agent) to perform service. Service performance entails delegation of decision making authority to the agent. In venture capital financing, there exists the principal-agent relationship between the investors and corporate entities, in this case venture capitalist and entrepreneur. Delegation comes with problems such as goal differences and information asymmetry (Gatsi, 2012). Venture capitalists can be tempted to serve own interest or goals than investors who own the funds, hence goal differences resulting in the principal agency problems. This is in the case of pension funds, insurance companies and banks. Also as they are active investors some level of information asymmetry exists in those investors rely on venture capital firms to make selection on viable projects that give high return to investors (Sahlman, 2010). Also the entrepreneur has an incentive to favour her interests over those of the venture capital firm. The choice and timing of exit and entry can be strongly influenced by desire to minimise these agency problems (Cumming and Macintosh, 2009).
Based on the Principal-Agent theory, the problem under study would be analysed as shown in the tentative Conceptual Framework in Figure 2.1. The framework shows the current problems regarding venture capital financing of SMEs in Zimbabwe and the proposed solutions after the problems had been addressed. With the conceptual framework in place, there is need to define venture capital.

2.2 Definitions of Venture Capital

International Finance Corporation (IFC) (2009) defines venture capital as commitment of capital by venture capitalist to promote development of new ideas, business, products, services and processes that offer high returns on investment. Venture capital involves other non-monetary tasks which include screening, monitoring, strategic advice, operational assistance and corporate governance (Sorensen, 2007; Ivanov and Xie, 2010). Black and Gilson (1998) define venture capital by explaining the high-growth and high-risk nature of the investments. Venture capitals are equity...
investments for the purposes of launching, start-up development and expansion of a business (European Venture Capital Association (EVCA), (2012).

Black and Gilson (1998), IFC (2009) and EVCA (2012) agree on the venture capital as form of equity investment with high risk and return. Sorensen (2007), and Ivanov and Xie (2010) include the non-monetary contributions to the entrepreneurs. From the above varied definitions venture capital can be defined as investment both in the form of capital and non-monetary to entrepreneur ideas that have the potential to generate higher returns. Venture capitalists would provide the finance on projects that have the highest potential to maximise the returns. The main features of venture capital include high degree of risk, equity participation, management participation and liquid investment (IFC, 2009).

Venture capital also has distinctive types of financing appropriate to each stage of business development. EVCA (2012) argued that venture capital resembles a hybrid type of finance because it resembles the qualities of a stock market investor, a banker and an entrepreneur.

2.3 Stages of venture capital financing

Venture capital financing occurs at any stage of business development to balance between risk and profitability. The stages include two main stages namely early stage financing and later stage financing.

2.3.1 Early stage financing

Venture capitalists are interested in providing seed and start-up capital to potentially viable small businesses to trigger innovation, which in turn helps in building national competitiveness (Pandey, 2003). Due to high risk associated with early stage financing and information asymmetry, small firms are usually exposed and faced with strict financing criteria due to investors’ refusal to provide capital for early stage business (Berger, 2002; Gans, 2003). O’Brien (2001), Bottazzi and Rin (2002) concur that venture capital provided a boost for small start-up, dynamic and innovative small businesses. Gompers (2001) argue that the limited or no access to lines of credit through traditional financing polarises the ability of entrepreneurial business to take-off. This is also because the firms are too small and cannot provide adequate collateral for bank loans and high levels of business uncertainty exists.
Venture capital financing can serve as solution to the early stage financing problems of most small to medium enterprises.

2.3.2 Later stage financing
The established business requires additional financing but cannot get the support through the traditional means hence can approach the venture capital funds to finance their expansion and buy-out programs. Venture capital perceives low risk in ventures requiring finance to expand their businesses (Repullo, 2008). Ernest and Young (2014) argue that expansionary stage represents the last stage in venture financing before a planned exit from the business by venture capitalists.

The buyout involves the transfer of management control by creating a different entity from existing owners (Bonini and Alkan, 2009). For example, where venture capital finances the acquisition of new product line or business by the current investors or operating management. Management buy-in (MBI) is when funds are made available to an outside group of investors to buy an existing company (Gompers and Lerner, 2008). Management buy-ins are more risky than Management buy-out and not popular because of the management difficulties in assessing the actual potential of the target group. Management buy-ins are able to target the weaker or underperforming business (Gatsi, 2004).

2.4 Types of Venture Capital Financing
In Europe, banks are the largest financing source for private equity funds while in Sweden, corporate investors have over time been the largest providers of capital to venture capital funds. In terms of number of fund investments made, however, public pension funds, insurance companies and family offices have made most venture capital fund investments (Soderblom, 2011). Achs and Audretsch (2004) observe that there are four broad categories of venture capital financiers. These have different characteristics and are used to finance business at different levels of development. These are discussed below:

2.4.1 Independent partnership venture capital
Knill (2009) defines these as independent investment firms which raise capital from pension plans, foundations, wealthy individuals and from endowments. Their main goal is to maximise financial return on start-up companies (Knill, 2009). Independent
venture capital participates actively in managing their portfolios as well as in human resources issues and strategic focus for the company (Bottazzi et al, 2008). They are more prevalent in United States (U.S). The success rate of small business backed by such types of venture capital is very high (IFC, 2009). This is the largest source of financing available to small businesses (Berger and Udell, 1998; Bozkaya and Van Pottelsberghe De La Potterie, 2008; Revest and Sapio, 2010). For example, the GEM study showed that more than 60% of the start-up capital to new ventures came from the founders (GEM, 2004). This shows that the founders seem to have an edge and these do happen in developed nations.

Similarly, Berger and Udell (2008) argued that the principal owner relationship accounted for 50% of utilised capital utilized in new US ventures. This is in line with theoretical basis of the study the Principal-Agent Theory and the success rate in US firms. Also Bozkaya and Van Pottelsberghe De La Potterie (2008), 80 percent of the firms in Belgium where owner financed. This also concurred that venture capital financing is most successful in high tech industries.

2.4.2 Corporate venture capital
These are made up of subsidiaries or affiliates of banks, insurance companies or industrial corporations and make investments on behalf of their parent firms. They look for a strategic fit between parent company and portfolio companies (Chesbrough, 2002). The parent company and subsidiary enjoy benefits of corporate venture capital because they strategically complement each other (Dushnitsky and Lenox, 2005; 2006). The corporate venture capital increases the firm’s value and gains insight into new ideas through ownership interest. Gompers and Lerner (2000) highlighted that investments made by corporate venture capital do not outperform investments made by other forms of venture capital.

Chemmanur and Loutskina (2008) argue that corporate venture capital allocate more capital to younger and riskier start-up entities to obtain a higher valuation. Companies backed by corporate venture capital get higher IPO and acquisition valuations than those backed by other venture capital because they have a strategic fit with the corporate venture capital (Ivanov and Xie, 2010). Corporations have also
important roles in the financing of young and small companies. Besides setting up their own corporate venture capital investment organisations or investing in independent venture capital fund, they constitute important financing sources to start-up firms in roles such as customers and suppliers, acquirers, or strategic partners (Denis, 2004).

2.4.3 Financial venture capital
This type of venture capital has links with financial institutions like banks, insurance companies and pension funds. These financial institutions do have motivations for their investments apart from profit maximisation. Business backed by and affiliated to financial venture capital are likely to get debt financing and such relational debt financing may result in parent company advancing loans at cheaper interest rates (Hellman et al, 2008). The relationship becomes mutually benefiting if the venture capital makes strategic investments related to financial parent’s business.

For example in Ghana in the absence of a regulatory environment, USAID as the sponsors established a non-bank finance institution to hold the funds, Ghana Venture Capital Fund (GVCF) and a management company Venture Fund Management Company (VFMC) to make investment decisions. USAID provided a grant to underwrite the operational expenditures over a three-year period ending in 1994 and combined investment capital of USD5.8 million. The GVCF became operational in November 1992, and was fully invested with 13 investee companies. The average investment was USD250,000 (Mensah, 2004).

2.4.4 Government venture capital
Various arms of the government finance small business for various reasons which include promoting entrepreneurship, innovation and public policy goals such as employment creation (Brander, Egan & Hellmann, 2008). The Small Business Innovation Research (SBIR), which is the biggest government venture capital program in the U.S, indicated that there was rapid growth to companies backed by SBIR venture capital. Cumming and Maclintosh (2003) argued that investment made by government venture capital create less value that other venture capital.
Venture Capital Trust Fund Report (2006) notes that in 2004 the Ghana Government established Venture Capital Trust Fund through an Act of Parliament. The vision was to provide low cost finance to SMEs to facilitate growth in productive sectors (Mensah, 2004).

2.5 Factors that promote development of Venture Capital Financing

Hellman (2000) identifies five factors that are vital for the development of venture capital industry (VCI). These include government policy, the financial market structure, source of opportunities, the availability human capital and supporting institutions. These factors do not work in isolation as they have direct effect on each other. Francis and Winston (2002) viewed the favourable environment for innovation as critical to the development of venture capital industry after analysing the experiences of other VCI developments. The environment was found mainly in developed nations. They argue that the environment for innovation also depends on other variables which include an open market for trade and investment, an open door policy to global talents, a sound infrastructure, intellectual property rights, a risk taking culture and a robust financial system as the main factor.

The National Venture Capital Association (NVCA) (2010) carried a survey and came up with a list of factors which created a non-conducive climate for venture capital. The results are shown below;
Table 2.1: Non Conducive climatic factors for Venture Capital

<table>
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<th>Factors</th>
<th>Responses</th>
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<td>Lack of established venture capital community</td>
<td>9%</td>
</tr>
<tr>
<td>Reduced entrepreneurial activity</td>
<td>14%</td>
</tr>
<tr>
<td>Lack of entrepreneurial talent to build a new business</td>
<td>17%</td>
</tr>
<tr>
<td>Intellectual property laws</td>
<td>20%</td>
</tr>
<tr>
<td>Unfavourable economics (valuations, higher costs,)</td>
<td>36%</td>
</tr>
<tr>
<td>Unstable regulatory environment</td>
<td>48%</td>
</tr>
<tr>
<td>Unfavourable tax policies</td>
<td>56%</td>
</tr>
<tr>
<td>Difficulty in achieving successful exits</td>
<td>72%</td>
</tr>
</tbody>
</table>

Different institutional investors consider various models and conditions before they allocate their capital to various investments in venture capital financing (Balboa and Marti, 2003). The Global Venture Capital (GVC) and private equity country attractiveness index highlights that institutional investors are concerned about factors such as the degree of economic activities, taxation, investor protection, depth of economic market, corporate governance, entrepreneurial culture and human and social environment (Groh et al, 2011). These factors determine the success or failure of taking up venture capital financing of small businesses and are discussed below:

2.5.1 Entrepreneurial environment

The most important factor for the investors’ international risk capital allocations is the access to viable investments. For the early stages in business development the expectations are that the number of potential investments must correspond to the research output in the economy (The GVC and PECAI, 2011). The growth in venture capital fundraising in 1980s and 1990s may have been a result of a drop in patents (Kortum & Lerner, 2000). Schertler (2007) and Clarysse (2009) emphasized the
positive correlation between number of patents, research and development expenditure and venture capital activity.

Romain and van Pottelsberghe de la Potterie (2004) highlight that there is an interaction between entrepreneurial activity and technological opportunities, research and development of capital stock and the number of patents as positively correlated. Research and developments and innovations are not only necessary for early stage investment but also sufficient research create, establish and maintain the market positions with strong product brands to attract venture capital investors. The Global Entrepreneurship Monitor (2008) found that 38% of potential entrepreneurs in UK were not confident to start a business because they were afraid to fail whereas in US, there were bankruptcy laws which are entrepreneurs biased (Lee, 2008). There is a stigma of failure in Europe which discourages entrepreneurial activity. The entrepreneurial environment promotes competetiveness and innovative entrepreneurship driven by the opportunities.

On the deal generation side, the procedural requirements, excessive rules and the process to seek approval from various authorities and cumbersome paperwork requirements also negatively affect the entrepreneurial activity (Baughn and Neupert, 2003). Lee and Peterson (2000) had earlier indicated that such time consuming and costly processes discourage investments in general.

2.5.2 Human and social environment

Culture plays an important part in shaping individual mindsets and environmental conditions to promote the development of small businesses (Baughn and Neupert, 2003). In order to promote a growing venture capital industry, there is need to incorporate national laboratories and institutions of higher learning since they play a crucial role in developing the research culture (Megginson, 2004, 2006). A labour market that is not flexible affects the development of venture capital activity. This is because workers are highly protected and hence a reduction in employment and growth. Market rigidities do affect individuals’ decision to become venture capitalists and discourages them from being entrepreneurs (Schertler, 2003). The higher the degree of employee protection, the more difficult to hire and fire employees which in
turn discourages entrepreneurship and ultimately results in decrease in demand for venture capital and venture capital activity.

Djankov et al, (2002) argue that crime, bureaucratic delay, a larger unofficial economy and corruption were the major impediments for start-ups in most developing countries. These are societal burdens to the development of entrepreneurial activity in some emerging markets with percived high levels of corruption.

2.5.3 Capital market
Small businesses have their own choice when it comes to finance and accessibility. The presence of a deep and highly liquid capital market offers financing opportunities to the entrepreneurs. A liquid capital market gives an important exit route as an investment option allowing investors to realise their returns in the future (Groh, 2011). This also ensures a supply of investment capital by reducing information asymmetry among the players and hence the transaction costs.

According to Schertler (2003) the initial public offers (IPOs) encourage capital providers to provide more funding, at favourable and viable conditions. The existence of liquid capital markets ensures adequate supply of venture capital and allows necessary skills to be developed with some positive impact on early stage venture development (Schertler, 2003; Gompers & Lerner 2000). Clarysse (2009) cited stock market depth (market capitalisation) as a driver of venture capital investment.

Investors and venture capitalists to develop there should be an exit mechanism which is a prerequisite for the development of the industry. An exit mechanism is necessary because of the financial incentive to divest a fund (Black and Gilson, 1998). Kaplan and Scholar (2005) also emphasized the crucial role played by well developed capital markets as exit mechanisms as well as its impact on venture capita investments. The active stock market provide a conducive environment for venture capital investments and more opportunities for entrepreneurs. This was, however, argued by Meyer (2006a) that there is no simple correlation with any individual sub-category of private equity investments because there are many factors that influence economic growth that are unrelated to venture capital. The economic
cycle is an indicator of stock market performance. Meyer (2006; 2008) highlights the positive relationship between venture capital investments and stock market performance. He also mentions that a negative relationship exists between unemployment and venture capital investment linked to the cyclical nature of venture capital investing.

### 2.5.4 Financial reporting standards

Small business ventures are considered to be risky prospects and in the absence of good information, investors require a high risk premium resulting in more expensive funding for these businesses (Meyer, 2006). Compliance to strict accounting standards reduces the information gap and venture capitalists do not have to spend resources gathering information to monitor their investments (Jeng, 2000). Such reporting standards have a positive impact on the supply of venture capital funds.

### 2.5.5 Investor protection and corporate governance

The protection of property rights and availability of legal structures have a strong bearing on the attractiveness of entrepreneurship. Roe (2006) reiterates the crucial role of shareholder protection and the factors of corporate governance legislation of economies. This is possible because it is easy to apply and enforce investors’ rights in most countries (Glaeser, 2001; Djankov, 2008b). The quality of legal structure supports more venture capital exits than the IPOs and the differences in these legal structures and accounting practices between nations also affect the venture capital investments (Cumming, 2006; 2010). Fair application of property rights protection does promote the growth and development of small business (Desai et al, 2006). La Porta (2002); Lerner and Scholar (2005) also point out that the cost of capital is relatively lower where there is better investor protection. The country’s legal system plays an essential role in creating a favourable environment for the development of small business through venture capital financing. This is because it gives investors confidence that their investments are well protected before they allocate their capital.

It is important for venture capitalists to know that their investments are safe and protected from misuse. Desai (2006) instituted that investors confide in adequacy of legal and regulatory frameworks and the protection of property rights to safeguard their investments. Lee and Peterson (2000) also highlighted that the institutional
environment must be appropriate and sufficient to protect the investments and not to act as administrative deterrent to new venture creations. The institutional environment must be flexible to allow private equity investors to implement their models within the confines of the regulations and the contract law which does not prevent venture capitalist from having outright voting rights (Schertler, 2003). Clarysse (2009) noted the scheme to incorporate employees through share ownership schemes as it does affect the success of innovative businesses in a positive way and hence an increase in the demand for venture capital.

2.5.6 Economic activity
State of the country’s economy has a bearing on venture capital investment activity. Studies by Wilken (2009) showed that the degree of economic prosperity and development promotes entrepreneurship because of its ability to accumulate capital for investments. Audretsch (2002) also highlighted that economic instability negatively influences start up in entrepreneurial activity in general. Stability and macroeconomic expansions provide conducive environments for the increase in a number of small business start ups. The environment becomes more attractive and gives more investment opportunities to investors (Gompers and Lerner, 2000).

Romain and van Potterlsberghe de la Potterie (2004) argue that venture capital activity is cyclical and related to economic growth. This stimulates the demand for venture capital funds hence a positive relationship between stable macroeconomic environment and venture capital activity or investments. Entrepreneurship is, however, related to societal wealth because of availability of start-up capital and more disposabale income in potential customers in the domestic market (Groh, 2011). This shows that economic development gives rise to more opportunities.

2.5.7 Macroeconomic factors
Achs and Audretsch (2004) found that macroeconomic factors can affect venture capital. Jeng and Wells (2008) argue that differences in venture capital across countries can be explained by financial and regulatory factors that affect technological opportunities and entrepreneurial environment. Macroeconomic factors include gross domestic product (GDP) growth, interestrates, the unemployment rate and stock market growth. Financial factors include risk,returns on initial public
offerings (IPOs), trade sales and write-offs, performance, priceratios and book ratios as well as the institutional framework that affects financial factors such as legal and shareholder rights, financial reporting standards, and pension fund regulations. Regulatory factors affecting technological opportunities include innovation, and research and development (R&D) expenditures.

2.5.8 Government policy
The government policies play a major role in determining the venture capital investments in an economy and some governments have started recognising the benefits of venture capital and have gone further to fund startup business. This is supported by Lerner (2009), that government funded programs can yield favourable benefits. The governments’s involvement in venture capital may also affect the development of private venture capital sector because of inability to appropriately target healthy ventures (O’Shea, 2006).

According to Andrea (2000), the government contributes to the venture capital investments by providing subsidies to start-up enterprises. He concluded that public subsidies make a viable contribution when the supply of venture capital for development of small businesses is low and without the necessary expertise for financing highly risk enterprises.

The Triple Helix model by Etzkowitz (2003) emphasise the interaction of government, university and industry as a condition which can make the country attractive for venture capital investments. A developed trilateral interaction of these three public institutions contributes to economic development and competitiveness of the venture capital industry. The model also identifies the networks connecting these institutional spheres as a condition for innovation and makes the country attractive to venture capitalists, (Etzkowitz and Leydesdorff, 1998, 2000; Etzkowitz, 2000, 2004; Cowan and Jonard, 2004; McEvily, 2004).

2.5.9 Taxation regimes
The tax regime is an important factor for both the venture capital and potential investee companies in that it affects the risk-return relationship of the venture capital investments. The tax regime affects the return which influences the capital supply. The capital gains tax rate influences the rate of investments in venture capital activity.
(Gompers, 2008). The entry and exit of entrepreneurs in small business development is affected by the tax rates as well (Cullen and Gordon, 2002). This was also supported by Bruce and Gurley (2005) who went a step further to identify the relative rates of income, capital gains and corporation tax as important factors to be considered in decision making in entrepreneurship. Djankov (2008) found out that corporate taxation affect entrepreneurial activity, investment and the level of foreign direct investment.

The development of venture capital industry is sensitive to the regulatory changes in terms of capital gains taxation, prudential rules for pension funds, labour market flexibility and property rights protection (Christy, 2004).

Porteba (2009) investigated the link between capital gains taxation and venture capital activity in the United States of America from 1969 to 1987. He found that taxes did not affect the supply of venture capital as most investors were tax exempt.

2.5.10 Exit mechanisms

When venture capitalists move into a company, they get a residual interest in the firm’s value and controlling rights by the powers to remove or appoint executives via the staged funding process. Jeng and Wells (2006) highlighted that the participation by venture capitalists does not end with the provision of funds but involves other monitoring and control elements like management assistance, intensive evaluation and monitoring of performance and reputational capital. These also fade away as the company portfolio matures. The efficiency of the stock market has been clarified as an exit mechanism.

Gompers (2005) found that venture capital funds earned an average of 60% annual return on investment in IPO exists compared to 15% in acquisition exits. According the Bank of England (2000) there was a positive correlation observed between the levels of IPO activity and the value of venture capital funds raised. The IPO exit route does have an influence on entrepreneurs, investees and venture capital funds investors. The increase in the probability for the entrepreneur to regain control of the business increases the benefit to start a new business. This means that the structure of the stock market sustains and support greater entrepreneurship. On the other hand, the IPO mechanism provides an efficient mechanism for the capital providers
in order to assess the efficiency of funds manager and to screen between various venture capital funds.

2.6 The impact of venture capital as a form of finance
There is a close relationship between what happens in the economy and the firm as a result of capital injection (Gatsi, 2011). Capital injection in the form of venture capital financing small businesses results in value addition. This provides the business with monitoring, skills, expertise and reputation which help to attract more finance. Small businesses play a significant role in the economic prosperity of both developed and developing countries. The development of information and innovations shows the economic value of small entrepreneurial firms. Van Osnabrugge and Robinson, (1999a) described entrepreneurial firms as firms with a vision for growth and having the greatest ability to generate jobs and high returns. Venture capital is therefore crucial to the development of small businesses especially in their start-up and early stages of development

2.6.1 Employment creation
Coopers and Lybrand (1996) and PriceWatersHouseCoopers (1999) carried out their researches in Europe and found out that venture-backed firms had annual growth of employment estimated at 15% between 1991 and 1995, 7 times more than top European companies, and a result which was also confirmed by British Venture Capital Association (BVCA). In U.S, venture-backed firms increased their employees by an average of 40% per year as published in the 1998 NVCA annual study. NCVA(1998) added that because these companies are active in high technology sectors, they directly contribute to the creation of highly skilled jobs. The BVCA (1999) also carried out a survey of high-tech venture capital firms’ potential on job creation by sector and four different stages and results were shown as below,
Table 2.2: Employment creation by sector

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total</th>
<th>Early stage</th>
<th>Expansion stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biotech/Healthcare</td>
<td>38</td>
<td>46</td>
<td>21</td>
</tr>
<tr>
<td>Communications</td>
<td>27</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Electronics &amp; Engineering</td>
<td>11</td>
<td>26</td>
<td>8</td>
</tr>
<tr>
<td>Information Technology</td>
<td>35</td>
<td>42</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>41</td>
<td>22</td>
</tr>
</tbody>
</table>

Average employee growth* per company in the U.K. Sources: BVCA (1999).

The highest growth rate was experienced in early stage financing of biotechnology firms and information technology because the hiring of highly knowledgeable and skilled workers is directly associated with the amount of funds committed to research and development. It is the small share of start-ups which provides close to 50% of employment out of all surviving firms, (Van Osnabrugge and Robbinson, 2009a).

2.6.2 Innovation and competitiveness

Venture backed firms have a direct impact on the development of new products and services because of their flexibility to change direction as environment changes and provide a more supportive environment for research. Kortum and Lerner, (2006) argue that there is positive and significant effect of venture capital on innovation and competitiveness. They infer that “a dollar of venture capital appears to be three to four times more potent in stimulating patenting than a dollar of traditional corporate research and development. The contribution of venture capital to innovation can also be assessed by looking at the allocation of funds by sector in other countries.

There is evidence that entrepreneurship is the engine behind economic growth and productivity (OECD, 2004). It stimulates the creation of innovative small enterprises thereby building the national competitiveness (Pandey et al, 2003). Berger and Udell (2002) cite the vulnerability of small business to high start-up risk and informational inconsistency as an obstacle for their development. These small businesses are also faced with harsh financing issues because investors are sceptical about financing the business at an early stage (Gans and Stern, 2003).
2.6.3 Investment and export sales growth
Venture backed firms demonstrate a high degree of performance in investment and export sales. The European Venture Capital Association (2001) showed a 25% to 30% increase in investment and export sales of venture backed firms per year and the same observation was made in U.K. The 1998 NCVA survey also reported a 66.5% per annum increase in investment and sales growth. This is because the venture backed firms try to maximise on the benefits of technological breakthrough during its short life and have the incentive to venture into international markets quickly.

2.6.4 Regional development
Venture capital is also considered as an efficient financing instrument in regional policy to favour high-tech firms (Christy, 2004). Early and targeted financial instruments have been put in place by regional authorities for example in Munich to attract and nurture firms in fast growing businesses. Factors which attract venture backed firms in addition to the cost of doing business include access to skilled workforce, availability of venture capital, network of suppliers, customer and the climate. Murray (2007) highlighted that there are regional gaps induced by geographical concentrations as viewed in U.K that depressed regions in the Midlands and northern England are net exporters of equity finance to the most successful southern regions. Venture capitalists also create networks to enhance the general business knowledge and discipline and strategic relationships with other companies (Fried and Hirish, 1995).

2.6.5 Impact to the firm
Hellmann and Puri (2000) argued that venture capital can have a dramatic impact on the performance of the company by reducing the time it might take the company to bring its product to the market, product viability and may allow the firm to establish itself as a first mover in the market. The venture capital can also have the immediate influence to carefully select the companies and the administration and monitoring through participation by the venture capitalists immediately improves (Kaplan, 2001a). Hellmann and Puri (2002) also mentioned the fact that venture capitalists remove the founders from the Chief Executive Officer’s positions and bring in an
outsider to provide value added services and professionalise the companies they finance and help them to establish in their marketplaces.

Venture capital fuels the growth and development of entrepreneurial activity. Venture capital is seen as a substitute for businesses with problems in accessing finance from traditional financiers. This makes it a strong financial injection for start-up firms that do not have any profitability record (Manigart et al, 2002). This means that venture capital financing promotes, maintains and speeds the development of small enterprises, their performance and ultimately their topline. Reynolds (2000) described venture capital financing as the main player in eliminating most financial impediments associated with early stages of business development. On the other hand venture capital financing is associated with high levels of risk. There is the uncertainty of positive returns that may occur after a period of time (Mason et al 2010). Manigart et al (2002) highlighted that the uncertainty is managed by the pre-investment screening, post-investment monitoring and the value addition as the business comes to reality. The value-addition process facilitates the investor as the promoter and consultant because of his capabilities (Wilson, 2005). Hellman and Puri (2002b) inferred that fresh capital injection by an investor forces him to commit much of his time in trying to make the business sustainable, structure internal organisation and proper structuring of human resources. Professionalism within the organisation becomes the order of the day in start-up companies financed by venture capital (Bottazzi and Rin, 2002).

2.7 Empirical Literature

In order to fully understand the problem under study, empirical evidence was obtained. Studies done in both developed and developing countries was obtained and is discussed below:

2.7.1 Venture capital in U.S

The successful venture capital industries like Silicon Valley and Route 128 clearly outlines the reasons for their success. Silicon Valley continues to have an edge in high-tech business because of its large numbers of entrepreneurs, engineers and venture capitalists. A lot of high-tech business were founded and established in Silicon Valley and have created many jobs. Such businesses include CISCO
Systems, Apple, Oracle, eBay, Yahoo and Google. According to the Joint Venture (2008), there were 1.15 million jobs and 22,000 start-up businesses in Silicon Valley. Zhang, (2007) also added that 2100 high-tech business were created annually on average from 1990 to 2000. PriceWatersHouseCoopers, (2005) reported that $111 billion dollars was invested in Silicon Valley by venture capitalists and that represented about 32% of venture capital investments made in the U.S.

Michel and Mark (2009) concluded that the network of agents in Silicon Valley is the main reason why it can be used as a reference of a successful venture capital industry. They further developed the Etzkowitz triple helixes model into multiple agents’ model with 9 parties involved as in Table 2.2.

Table 2.3: Agents in venture capital

<table>
<thead>
<tr>
<th>Agents</th>
<th>Formal functions</th>
<th>Informal functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities</td>
<td>-nature innovations, accumulate expertise, provide trained workers</td>
<td>-incubate start-ups, socialise agents</td>
</tr>
<tr>
<td>Large Firms</td>
<td>-nature innovations, develop innovations, accumulate expertise</td>
<td>-incubate start-ups, acquire start-ups, partner with start-ups, provide trained workers, socialise agents</td>
</tr>
<tr>
<td>Law firms</td>
<td>-accumulate legal expertise, handle legal issues</td>
<td>-embed start-ups, network the cluster</td>
</tr>
<tr>
<td>Recruiting Agencies</td>
<td>-favour labour market</td>
<td>-network the cluster</td>
</tr>
<tr>
<td>Media</td>
<td>-circulate information</td>
<td>-publicise start-ups, sustain an entrepreneurial culture</td>
</tr>
<tr>
<td>Consulting groups</td>
<td>-accumulate business expertise, supply expertise to start-ups</td>
<td>-provide trained workers</td>
</tr>
<tr>
<td>Certified Public Accountants</td>
<td>-accumulate accounting expertise, handle accounting issues</td>
<td></td>
</tr>
<tr>
<td>Investment Banks</td>
<td>-organise IPO and acquisitions of start-ups</td>
<td>-signal start-ups</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>-enable financial transactions</td>
<td></td>
</tr>
</tbody>
</table>

Agents involved in creating venture capital industry: Michel and Mark, (2009)
Herve (2007) had also identified the pioneering culture, ability of people to take the risk and the exchange of ideas as other critical factors for the development of venture industry. Aoki (2000) pointed out the stability in social and political environments as key the success of entrepreneurial development. The meritocracy in Silicon Valley attracts immigrant talent to engage in entrepreneurial activities. Other factors that led to the successful establishment of Silicon Valley include a large pool of expertise, highly networked suppliers, access to venture capital, tolerance of failure, enthusiasm for change and new ideas and availability of educational research facilities.

The U.S recognises venture capital as specialised in the promising and upcoming small business development. They concentrate on distinguished sectors with high growth opportunities. Abdul Basit (et al, 2003) stated that there is clear supremacy for venture capital funded businesses over self-funded ones in all aspects with the exception of little difference in case of creating a more efficient labour between the two types of projects. Table 2.3 summarises the results.

Table 2.4: Comparison of venture capital funded and self-funded projects

<table>
<thead>
<tr>
<th>Factor</th>
<th>Self-funded</th>
<th>V/C funded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create a more efficient labour (%)</td>
<td>+59%</td>
<td>+56%</td>
</tr>
<tr>
<td>Employment per year (%)</td>
<td>-3%</td>
<td>+25%</td>
</tr>
<tr>
<td>R &amp; D expenditures per year (%)</td>
<td>+33%</td>
<td>+67%</td>
</tr>
<tr>
<td>Annual investment rate (%)</td>
<td>+9%</td>
<td>+35%</td>
</tr>
<tr>
<td>Annual productivity (%)</td>
<td>+5%</td>
<td>+12%</td>
</tr>
</tbody>
</table>

*Source: Abdul Basit, Wafa (2003)*

The national venture capital association reported that during 1989 to 1993, sales for the venture capital funded projects recorded a 41% increase in annual growth rate versus the 2% for other projects and about 5% for the total economy. Furthermore, 76% of the small and new businesses belong to venture capital institutions against 6% for the founders and the remainder to the general investors. These figures show the strategic role and effectiveness of the venture capital firms in supporting the new and existing projects in the whole economy.
2.7.2 Venture capital India

The Research and Development Act of 1986 in India saw the birth of the venture capital concept as a new financing strategy. The Industrial Development Bank of India (IDBI) was the first to introduce the venture capital fund as a facility to finance the development of indigenous technologies in 1987. Thereafter a lot of venture capital firms came into effect. They increased from 12 in 1990 to 31 in 1997 and 45 in 2000. Due to the slow growth in the domestic funds, offshore private equity funds started coming into India in substantial amounts since 2001 upon recommendations from the Report of the Working group on structure of Venture capital funds.

World Bank also played a crucial role in the development of venture capital in India where it provided start-up capital and international exposure. They also developed manpower resources and networking among venture capital firms to foster cohesiveness and professionalisation of the venture capital firms was the ultimate result.

2.7.3 Venture Capital financing in Ghana

Gatsi and Nsenkyire (2006) analysed venture capital in Ghana using simple descriptive study by describing in details how venture capital is being operated. The study generally revealed that venture capital is very young in Ghana and heavily depends on the Ghana venture Capital trust fund with limited fundraising activities. The study also revealed that venture capital financing is skewed towards expansion and late stage investment. There is limited flow of international and syndicated venture capital finance coupled with the absence of angel investors in the industry.

2.7.4 Venture capital in Kenya

Venture capital has had significant impact on small business development in developing countries. The lack of finance has been cited as the major contributor to small business development in Kenya since 1970s. Its policy on SME’s (RoK, 2005) showed that the sectors do not only provide goods and services but goes further to act as a driver in promoting competition, innovation and enhancing the enterprise culture necessary for private sector development.

Lack of access to credit coupled with unavailability of tangible security and inappropriate legal and regulatory framework hampers the development of small
business in Kenya. They hardly grow beyond the start-up stage and others wind up operations at very early stages (Bronwyn 1995). Hallberg, (1998) and Mead et al (1998) revealed that access to finance is an important ingredient to the development of SMEs.

**Impact of Venture Capital in Kenya**

The venture capital investment in Kenya facilitated wealth creation in ways that people’s lives have been improved reaffirming the correlation between small business development and poverty alleviation. There has been a considerable contribution recorded to economic growth witnessed and measured as well due to the venture capital financing of small business development. Kenya also proved that the use of venture capital can be profitable even under unstable political and economic environments. There was a social impact experienced as well due to the venture capital where there were employments opportunities created which improved people’s lives and alleviated poverty among the employees.

SMEs also realised increases in sales, profit, value addition and improvement in management of finance and control systems. The increase in profits implied more revenue collection for government expenditure via the collection of tax revenue. Venture capital’s involvement in Kenya has demonstrated that the partnership implicit in equity financing is as important as the finance and that these two aspects of the relationship are mutually reinforcing. Small businesses have seen improvements in internal processes and operations of the business especially in policy formulation and implementation. Therefore the venture capital has demonstrated a business case for small business investment and development.

**2.7.5 Venture capital / Private Equity in South Africa**

Limited access to start-up capital is considered to be the main obstacle to entrepreneurship in South Africa. Other factors that affect the growth of start-up businesses have come up from other surveys. Herrington (et al, 2009, 2010) cited limited access to capital as the greatest challenge among other challenges such as lack of business planning, lack of information knowledge, the quality of employees and the marketing of products and services. This does not only show the importance of venture capital or private equity as an important source of finance but also brings
in with its wealth of expertise, knowledge, experience, networking alliances and customers (David et al., 2013). However, there has been a decline in venture capital and private equity investments in South Africa from 2007 and seed capital from venture capitalist has suffered the greatest knock (KPMG, SAVCA, 2010).

**Black economic empowerment (BEE)**

This is an important concept in SA for the development of the private equity investments. BEE is promoted through the management and ownership structure as well as the funding sources in the private equity investment transactions. This is evidence by a 90% of private equity transactions and 100% of buy-out transactions having a BEE component (Missankov et al., 2006). Due to the state involvement in the BEE, Lingelbach (et al., 2008) argued that BEE played a significant part in causing stagnation in venture capital investments. Instead it tries to promote later stage private equity investments and discourages early stage venture capital investments (Missankov et al., 2006; Lingelbach et al., 2008). The South African PE market is biased towards late-stage investment activity and has recorded remarkable growth over a number of years (Van Niekerk, 2009).

**The regulatory environment**

The private equity and venture capital market is governed by the Companies Act No. 71 of 2008 which came into effect on 1 May 2011. Under the legal form, the private equity and venture capital firms can be general (disclosed) partners and limited (undisclosed) partners. In the event of any disagreements between the partners in the private equity or venture capital, the Memorandum of Incorporation (MOI) overrides the Companies Act. Where pension funds invest in private equity or venture capital funds the transfer of ownership of the invested assets to the fund trustees is prohibited by section 5 of the Pension Funds Act No. 24 of 1956. The revised Regulation 28 of the pension Funds Act published in July 2011 limits investments by pension funds to 10% of their assets in private equity funds. This regulation also mandates the pension fund, its trustees and advisors to carry out due diligence in their investment activities to reduce their exposure to risks.
to-private buyout transactions mostly associated with the private equity enterprises are managed under the Companies Act of 2008, the Takeover Code, JSE listing requirements and the Securities Services Act of 2004 (Bellew et al, 2011). To further promote sanity in the venture capital and private equity market, the fund managers and the advisors must be licensed under the Financial Advisory and Intermediary System (FAIS) Act of 2003. The taxation laws also make provisions for taxation of mergers, acquisitions and restructuring and interest on structured finance for the transaction cannot be automatically deducted unless approved by SA revenue service.

S.A also relaxed its exchange control where approval by South African Reserve Bank (SARB) on a deal to deal basis is no longer required when investing outside SA, Lesotho and Swaziland (David et al, 2011). South Africa amended its tax laws as well to avoid local taxation on international investors in a bid to attract foreign direct investments. Bellew (2011) cited the removal of dual structures on funds there by eliminating the legal and administrative costs associated with dualism.

All these legislative moves are meant to try and attract foreign investors and promote the development of small businesses in S.A. This is because private equity or venture capital is an essential and growing contributor to economic growth. Private equity and venture capital deals have however become increasingly a critical source of start-up funding.

2.7.6 Venture capital in Botswana

Botswana is an upper-middle income country in an African cultural cluster with an economy dependent on its natural resources. Its development has been different from South Africa’s because of the validation and modification of the emergence model. The model emphasises three factors namely adequate stocks of capital, entrepreneurs and specialised financial institutions (Lingelbach et al (2008).

The Botswana Venture Capital industry emerged in an environment characterised by extremes politics, uninhabitable desert and the highest HIV incidences which contribute to high levels of uncertainty in a business environment (Leith, 2005). The Botswana industry relied much on South Africa for much of its economic history up to independence in 1966 in terms of labour and economic policies (Mhone et al, 2001).
The emergence of venture capital in Botswana was heavily dependent on the availability of entrepreneurs, sufficient pools of capital to promote venture capital investment and the presence of specialised institutions. The overall stock of entrepreneurs as measured by new firms in relation to the size of the economy was much lower than in South Africa (World Bank, 2008). Botswana’s small business landscape has been shaped by its tribal culture in the initial entrepreneurial stock (Werner, 2002). The country’s industrial structure is less biased towards technology-oriented industries limiting the deal flow of high growth seed, start-up and early stage firms needed to attain the required results (World Economic Forum, 2008).

The sufficient pool of capital from Botswana’s pension fund sector has increased significantly in recent years (African Development Bank, 2006). The local pension fund managers have recognised local private equity and venture capital as possible investible areas. The few funds invested in local private equity funds have been channelled on to later stage venture capital investments. That created an equity gap because there were no angel investors interested in seed, start-up and early stage investments.

The Botswana’s legal and regulatory environment does promote the establishment of venture capital funds as witnessed by the first fund established by the Venture Partners Botswana. The second fund had a regional investment strategy suggesting that international investors may want to establish base outside Botswana (Venture Partners Botswana, 2008).

The VPB’s fund was established as an initiative by the Government of Botswana in 2002 as a result of the excess liquidity from diamond exports, an increased demand for participation by citizens in the economy, the SMEs sector demanding for new sources of funding and the need to diversify for the economy beyond mining and agriculture (Lingelbach et al, 2008). The VPB’s strategy was to encourage venture capital investments in both early and late stages of development. There has been a channel of diffusion where VPB received funding requests from South African early stage investees. This increased the liquidity of the Botswana Stock Exchange (BSE) where a lot of South African firms listed on the BSE and other local firms owned by foreigners in Botswana. The listing led to the diffusion of firms required for the
successful operation of the venture capital cycle. The VPB also secures funding commitments from other developing nations with the support of International Finance Corporation and the Commonwealth Development Corporation (CDC). These international investors avails a critical channel for the diffusion of venture capital governance and monitoring practices (African Venture Capital Association, 2009). AVCA is an industry association with the mandate to promote, develop and stimulate private equity and venture capital in Africa.

2.7.7 The Zimbabwean Case.
The venture capital concept is a new concept in most developing countries and their results are very limited due to a number of factors. It finances some sectors and neglects other sectors because of the risk element. In Zimbabwe, there is a financing gap created by traditional financiers and other investment institutions to promote the development of small businesses from grass roots level. Introducing venture capital to finance small businesses and brings them to reality will close this financing gap. The venture capital concept is not fully developed in Zimbabwe to promote entrepreneurial projects mainly at the start-up and early stages of development. This is because of the weak financial markets, lack of effective risk control techniques, low levels of investor confidence, lack of transparency and credibility in the information provided on financial conditions and the political and economic instability.

2.8 Summary
This chapter presented both empirical and theoretical literature in venture capital financing. The principal agency theory served as the theoretical basis of the study. The chapter also revealed the types of venture capital financing available, factors that drive the venture capital land challenges faced by SMEs in venture capital financing. The experiences in USA, India, Kenya, Ghana, South Africa and Botswana were also discussed. Chapter 3 presents the study’s methodology.
CHAPTER 3

Research Methodology

3.0 Introduction

The research methodology used for the study is explained in this chapter. The research design which details the knowledge creation process is explained in Section 3.1 followed by the research philosophy in section 3.2. Section 3.3 details the primary research method. The target population is presented in section 3.4. A discussion of the research process, the sources of data and the instruments used for data collection are highlighted in section 3.5. Section 3.6 deals with the analysis and presentation of data. The limitations encountered during the study are discussed in section 3.7. The study discusses ethical factors in section 3.8. A conclusion of the chapter is in section 3.9.

3.1 Research Design

According to Yin (2009) a research design provides guidelines in the process of gathering, analysing and interpreting results. It allows the researcher to draw inferences about the causal relationships among the variables under consideration. It is a plan of action from the beginning up to the end of the research. Limpanitgul (2009) defines it as a research tool in gathering, interpreting and analysing the research facts. Research design tries to address the gap and narrow the gap between theory and argument and the empirical evidence from the collected data. The various techniques used in the research try to address different problems (Bryman et al, 2007). A research design is a blueprint that provides answers to the research objectives in any research (Cooper and Schindler, 2003).

Saunders, Lewis and Thornhill (2007) further explain the constraints and ethical factors encountered in carrying out any study. These factors were also dependent on the selected research design.

Because of the academic nature of the study, the budget and time constraints, a cross-sectional study was used rather than a longitudinal. Cooper and Schindler (2003) advocate for the cross-sectional studies as they present the results of a study at a point in time in a snapshot.
3.2 Research Philosophy
Saunders et al. (2003) observe that research philosophy depends much on how the researcher thinks about knowledge development. Research philosophies that dominate literature include positivism (quantitative) and phenomenological (qualitative) research. The philosophies to create knowledge are of much importance as they give insight into real world situations. They all have an important part to play in business and management research. The philosophies are discussed below:

3.2.1 Positivism (quantitative)
Positivist research is generally quantitative and involves the use of numerical measurement and statistical analysis of measurement to examine phenomena. It assumes that social reality is independent of human behavior. Saunders et al. (2007) assert that the researcher must be objective and must have the ability to make independent interpretations. There must be minimal interaction and studies must be purely based on facts and consider the world to be external and also objective (Wilson, 2010). According to Ramanathan (2008) the key features of positivism include independency by the researcher, human interests must be irrelevant, explanations must demonstrate causality, concepts must be operationalised and generalisation through statistical probability.

A quantitative approach explains the causal linkages between the quantitative data (Saunders et al., 2007). This was supported by Myers (2010) who described the deductive approach as a tool that is distinctively analytical and separate. The researcher chose this approach because of its objectivity and reliability. It also uses statistics to generalise findings. However, this study does not involve any hypothesis testing nor does it try to explain any causal relationships.

3.2.2 Phenomenological (qualitative) research
Comparably, phenomenological researchers argued that the world was socially constructed and that science is driven by human interests and that the researcher, as a subjective entity, is part of the world being observed (Easterby-Smith et al., 2007). Total objectivity is therefore an impossible aim. The advantages of the qualitative, interpretive orientation in research are that the findings often have greater validity and less artificiality as the process of observing phenomena in
natural and real life setting often allow researchers to develop a more accurate understanding of those phenomena (Saunders et al., 2008).

Saunders (et al., 2008) describe a qualitative approach as a way to collect data and coming up with a theory from the data. It gives information and helps the researcher to discover the hard facts during the study. The raw nature of the data which is qualitative is what is required to develop insights and theories to help understand a situation from the gathered data (Hammersley, 2007). The researcher used this approach to a lesser extent to support the quantitative results and give it more meaning. Qualitative was partially used as well because of its participatory and interactive nature where the researcher got first hand responses from participants without any pre-defined classes (Hammersley, 2007). The data collected by this method was used to formulate polices because respondents’ views were based on their experiences, observations, research and even through reading.

Good qualitative research often reveals depth of understanding and richness of detail. Research driven by phenomenological philosophy is sometimes undermined by the subjectivity of the researcher and poor reliability of the findings in that, two researchers may arrive at different conclusions based on their observations of the same phenomena at the same time (Saunders et al., 2007).

3.3 Research Approaches

There are basically two kinds of research approaches namely the deductive and inductive approaches (Saunders et al., 2007). In the deductive approach, theory and hypothesis are developed first and then a research strategy is designed to test that hypothesis. With inductive approach, data is collected first and then a theory is developed after data analysis. Conclusion logically follows from the available facts (Aqil Burney, 2008). The researcher adopted the deductive approach

Inductive reasoning moves from specific observations to broader generalizations and theories. This method is sometimes called the bottom-up approach. This method involves a high degree of uncertainty (Aqil Burney, 2008).
3.4 Sampling techniques and Population

The target population, sampling methods and respondents for the study are discussed below:

3.4.1 Target Population

Target population refers to all the members of the real or hypothetical set of people, events or objects to which we want to generalize the results of our research. The population for this research was made up of Zimbabwe Investment Authority (ZIA), Small Enterprise Development Corporation (SEDCO), Ministry of Small to Medium Enterprises (MSME), Reserve Bank of Zimbabwe (RBZ), and Financial Institutions. The population was classified into policy makers, small business and financiers. SEDCO was selected as it provides finance and deals directly with SMEs. It is a requirement for any study to state and maintain the target population from which results would be drawn (Minichielle, Aroni and Hays, 2008). The target population of the study is shown in Table 3.1.

Table 3.1: Target population

<table>
<thead>
<tr>
<th>Policy makers</th>
<th>Small businesses</th>
<th>Financiers</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Zimbabwe Investment Authority</td>
<td>-Small Enterprise Development Corporation</td>
<td>-commercial banks</td>
</tr>
<tr>
<td>-Reserve Bank of Zimbabwe</td>
<td></td>
<td>-Barclays Bank</td>
</tr>
<tr>
<td>-Ministry of Small to Medium Enterprise</td>
<td></td>
<td>-Standard Chartered Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Stanbic Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-CBZ Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-FBC Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Metropolitan Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-MBCA Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Allied Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-ZB Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-BancABC.</td>
</tr>
</tbody>
</table>
3.4.2 Sampling techniques

Sanders (et al, 2008) encouraged researchers to use sampling techniques. Sampling techniques provide a range of methods that enable one to reduce the amount of data to collect by considering only data from a subgroup rather than all possible cases or elements. Henry (2010) argues that sampling saves time and resources. Probability and non-probability sampling techniques are the two main sampling categories used. Probability sampling deals with survey-based type of research and non-probability is associated with exploratory and case study researches. The sample that is generated through the use of this technique is usually representative of the population and the results obtained can be generalised to the whole population. A non-probability sampling technique on the other hand is more subjective in that the researcher uses his or her judgment in coming up with the sample. Non-probability sampling techniques used included the , stratified and random.

A stratified random sample was selected as a suitable sampling method to ensure that the views of different categories of groups with an effect on venture capital financing for SMEs were incorporated into the study. The method was selected based on the roles they play in venture capital financing for SMEs in Zimbabwe. Bryman and Bell (2009), a stratified random sample exhibits a proportional representation of the different strata in a population. Accordingly, three groups of policymakers (regulators), financiers and small business financier were selected. The quotasampling was therefore used to identify target groups of respondents who were in a position to provide necessary and informed opinions which would assist in answering the research questions. The quotas are discussed below:

Ministry of Small Medium Enterprises

In the ministry responsible for SMEs, there is a section responsible for financial development policy (MSME, 2010). In the section, there is Director, Deputy Director (2), Senior Economist (2), and Economist (3) with the Director reporting to the Permanent Secretary. Since, the senior management act on behalf of the board, in executing the strategic goals/policies of the organization, the researcher chose the managers on the basis of their involvement in the day to day running of the ministry. However, given the ever busy and fully booked diary of the Director, a choice was
made to exclude from the target population. The selected samples size was Deputy Director, Senior Economist and Economist (2).

**Zimbabwe Investment Authority (ZIA)**

The organisation has departments such as Finance and Administration, Research and Development and Legal Services. For the purpose of the study, the Research and Development department was selected as it was considered able to give information regards venture capital financing in Zimbabwe. The Research and Development composed of Senior Economists (2) and Economists (4). The sample size was three made up of the Senior Economist and two Economists (2). These were considered able to provide solutions to the research questions on venture capital financing in Zimbabwe for SMEs.

**Financial Institutions**

Financial institutions include all registered commercial banks, building societies, micro-finance and asset managers. For the purpose of this research, financial institutions were limited to deposit taking institutions which are commercial banks. From the target ten commercial banks only four were randomly selected these were Stanbic, CBZ, FBC, and Allied Bank. Depending on the set-up structure of these selected banks, the SME department, risk department or treasury departments in the banks were the resource personnel in terms of venture capital financing for the SMEs. Conclusively three were selected at each bank hence a sample size of twelve (12).

**Small Enterprises Development Corporation**

This is a quasi-government institution, where all the finance for SMEs is directed to from the government and donor community. There is the Chief Executive Officer, Operations Manager, Assistant Operations Manager, Credit Managers (2), and Credit Analysts (3). The researcher choose the personnel from the Operations Manager to the Analysts as they were involved in the day to day running and can make policy proposals based on their work. Hence a sample size of six was selected.

Reserve Bank of Zimbabwe
The Financial Markets a division under the RBZ is the division responsible for managing and approving the various forms of finance in the country was chosen. The division has four senior analysts which were selected as they would provide a set of responses in line with the assessment of various financing options into the country. Hence the sample size of four was chosen.

In this respect, the researcher first identified the categories and their proportions as they are represented in the population. To reinforce the quota sampling method, a judgmental sampling method was also incorporated in order to identify or choose relevant elements and or respondents from each category to the issues being studied. This method was considered to be appropriate because samples/elements were chosen deliberately as they were considered to be representative of the population on the basis of the sample’s knowledge of the company’s business fundamentals.

The advantage of using stratified sampling method was that it ensures that the resultant sample was distributed in the same way as the population in terms of the stratifying criteria. In this research the elements of the population could be easily identified in terms of classification using the roles played.

3.4.3 Sample Size

Saunders, (et al, 2007) describe a representative sample as one that has been chosen and possess the main characteristics of the parent population. From the target population in table 3.1 a sample size that was statistically significant was selected. This was in line with White (2007), that the sample size to be significant should be a third of the total population. From target population of fifty six (56) a sample size of twenty nine (29) served as the sample of the population.
Table 3.2: Sample size of study

<table>
<thead>
<tr>
<th>Category</th>
<th>Target population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>ZIA</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>RBZ</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>SEDCO</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>30</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56</strong></td>
<td><strong>29</strong></td>
</tr>
</tbody>
</table>

3.5 Data collection process
The primary and secondary sources of data were the two main sources of data. The researcher made use of both sources of data.

3.5.1 Primary data
This type of data was gathered specifically for the current project (Wenger, 2001). Primary data is more expensive to gather than secondary data in terms of time and resources required in designing the research instruments. Others costs were in terms of telephone calls, transport and stationery. Despite all these setbacks, primary data allowed the researcher to formulate questions that directly addressed the research objectives.

Myers (2010) argued that no single data collection method can sufficiently cover all dimensions of a complex research statement. The researcher used self-administered questionnaire, interviews and semi-structured interviews to gather the information.

3.5.2 Secondary data
This is data already collected and assembled by someone else and does not require access to informants. Basically it is historical data gathered for a reason separate from the current project but can be used to make references (Wegner, 2001). It is less time consuming and less costly. The setback with this type of data is that it may
not be reliable since the original data cannot be manipulated to suite the researcher’s current project.

The main secondary sources of data in this research were the annual reports, fiscal and monetary policy statements and brochures. These were found available on the internet and in the libraries. Secondary forms the basis of the literature review where the researcher widened the knowledge base on which conclusions were made. Despite the vast information on venture capital, only a few sources were and applicable and relevant to Zimbabwe

3.6 Data collection instruments
The data collection instruments used in the study are discussed below

3.6.1 Questionnaires
These were used as instruments to collect the data because of their applicability to case study research design and analysis. The instruments were targeted to all the respondents. They are less costly and convenient instruments used in data collection. The questionnaires were flexible and also allowed respondents to express own opinions about the research problem without any due influence from either party. The disadvantage being given response was final as there was no further probing.

Design reliability and validity of questionnaire
A questionnaire containing 15 questions was designed and distributed to the sampled informants for the purposes of extracting primary data. The questionnaire comprised of both closed and open ended questions. Cooper and Schindler (2003) believe that a questionnaire must have investigative and measurement questions. In this research the measurement questions were used to resolve the research questions whereas investigative questions are direct questions used to probe for more detailed information and provide answers to the research objectives. The objectives of the study were used to formulate the questionnaire.

The questionnaires were distributed through emails to identified respondents. The respondents were contacted by telephone and requested to participate in the study and supplied with their email addresses. The questionnaire was accompanied by the cover letter to formally introduce the researcher, purpose and importance of the
research study. A confidentiality guarantee clause was also included in the cover letter.

### 3.6.2 Pretesting

The research instrument were pre-tested and evaluated by the researcher before administered on to the field. This was done with 7 respondents and these consisted of respondents from financiers, SEDCO and regulators. This was done to fine tune unclear areas on the data collection instruments. Designing clear and precise questions for research purposes is a difficult task (Minichielle et al., 2008). The pre-test showed that some questions were not clear, very long and poorly worded. It also indicated that some instructions were not very clear. All these anomalies were addressed in line with the findings. The instruments were shared with experienced researchers for their recommendations.

### 3.7 Data analysis process

The Microsoft office excel and SPSS application packages were used due to the nature of the statistical data analysis and presentation method. These were the packages only available at the researcher’s disposal. The following steps were used for data analysis and presentation:

- The quantitative data was coded and similar responses were grouped together using MS excel.
- Coded data was put in the SPSS application package.
- Data cleaning process was carried out.
- The results and analysis were presented in the form of tables, bar graphs and pie charts for comparative analysis depending on the factors under consideration.
- Some quantitative results that would not be coded were analysed to try and support the main idea under discussion.
- Uncoded quantitative responses were also analysed using themes to support the coded data and give it more meaning.
- Some qualitative data was also used although to a lesser extent to try and give more meanings to quantitative results.
3.8 Limitations of the study

These are related to the methodology when collecting the data on the field.

The most respondents were managers who had busy schedules and had no time to respond fully to the questions being asked by the researcher. To manage this, the researcher had to distribute the questionnaires well in advance and follow ups were done through the telephones to remind them of the due date. Questions were also briefed to the respondents before they get the questionnaire so that they do a bit of homework on the subject in question.

Some of the respondents had no idea of the subject in question and did not want to participate. This is because they had no access to real venture capital experiences. However the researcher had to give a brief explanation of the venture capital and related it to other forms of financing like banks and microfinance institutions. The researcher also tried to explain the venture capital concept so that they can have an idea of the information required and explained that it was an opportunity for them to learn new ideas of financing small business. This was because the information could be generalised to financing of start-up business ventures. Because of the sensitivity of the information that related to their business, the information was considered private and confidential hence access to it was very difficult. Because the researcher would have been referred to the other responded based on knowledge and expertise by the previous respondent he would introduce himself and explain that he has been referred by this respondent who happens to know him on their personal levels. To give the respondent confidence, the researcher would produce the personal friend’s business card and or telephone numbers. At times the researcher would ask the respondent to introduce him to his next respondent over the telephone and book an appointment for the researcher.

3.9 Ethical considerations of the study

The research was carried out in a manner that ensures security, privacy and confidentiality on the part of participants. The aims and objectives of the study were communicated to the respondents before agreeing to take part including their right not to respond to questions they were not comfortable with. Assurance was also given to the respondents that the information collected was not to be used for any
other purposes outside the study and that the views expressed during interviews were to be treated with confidentiality and anonymous. No spaces for participants’ names and their institutions were provided for to ensure anonymity.

3.10 Summary

This chapter covered the methodology of the research and outlined the research design, sampling procedure, research instruments and justification for the instruments. Data analysis techniques were also discussed in this chapter. The next chapter focuses on presentation and analysis of data.
CHAPTER 4
Data Analysis and Presentation of Results

4.0 Introduction
This chapter analyses the data gathered and presents the information in a summarised form to show and clarify results. The information assists in answering research questions and achieving the research objectives. The chapter would include the response rate and demographic.

4.1 Response Rate analysis
Questionnaires were used as primary sources in the collection of data. A total of twenty-nine (29) research instruments were administered. The researcher discarded three instruments, due to non-completion and ineligibility. An overall response rate of 89.66% was obtained as tabulated in table 4.1.

Table 4.1: Response rate

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Target Sample</th>
<th>Response</th>
<th>Response rate as percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBZ</td>
<td>4</td>
<td>4</td>
<td>100%</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>12</td>
<td>11</td>
<td>92%</td>
</tr>
<tr>
<td>Zimbabwe Investment Authority (ZIA)</td>
<td>3</td>
<td>2</td>
<td>67%</td>
</tr>
<tr>
<td>SEDCO</td>
<td>6</td>
<td>6</td>
<td>100%</td>
</tr>
<tr>
<td>Ministry of Small to Medium Enterprises (MSMEs)</td>
<td>4</td>
<td>3</td>
<td>75%</td>
</tr>
<tr>
<td>TOTAL</td>
<td><strong>29</strong></td>
<td><strong>26</strong></td>
<td><strong>89.66%</strong></td>
</tr>
</tbody>
</table>

Saunders (et al, 2008) suggest that a response rate of 50% is ideal for survey research. In this study, therefore the overall response rate of 89.66% was attained and results can be considered for further analysis. A high response rate of 89.66% attained represented the majority of the target sample and reflects the true representation of the population where key attributes of the population were captured. A high response was achieved due to the questionnaires which were directed to the knowledgeable people who did not have any challenges in
understanding the problem under study and the questions were short and precise to the problem under study.

4.2 Demographic analysis of respondents
The demographic characteristics of the respondents have an effect on the overall conclusion of the study. The following were the characteristics of the respondents;

4.2.1 Level of education
The level of education has an impact on the understanding and appreciation of venture capital financing to SMEs. The survey results as shown in figure 4.1 indicate that 54% of the respondents are holders of degree or higher with 31% diploma/certificate holders and 15% holders of secondary education.

![Figure 4.1: Education level of respondents](image)

The majority of the respondents in the study were in possession of degree or higher as the highest level of education. This could be attributed to the entry requirements of the companies under study. Most of the organisations require that the employees be in possession of minimum education qualification. This is so for those working in the venture capital financing section where basic skills and training is a prerequisite. Considerably, respondents would be able to provide solutions related to the problem under study.
4.2.2 Period dealing with SME financing

The period of dealing with financing of SMEs at an organisation assist in the evaluation of projects and related factors (Brad, 2008). In order to determine the experience and knowledge on the venture capital financing for SMEs response was shown in figure 4.2. The results showed that 46% had been worked dealing with SMEs financing for period of 4 years to 7 years with 31% having worked for more than 7 years and 23% less than 4 years.

Figure 4.2: Respondents period dealing with SME financing

The above results show that the majority have had working experience with SMEs financing of 4 years to 7 years. The results clearly indicate that the majority have been dealing with SMEs financing and development for a considerable time which could be attributed to good human resource practices. The respondents in the study would be able to provide answers on the problem under study and offer solutions on the same.

4.3 Types of Venture Capital financing in Zimbabwe

The researcher sought to establish the venture capital financing in Zimbabwe which focus on types of venture capital financing and industries for SMEs likely to attract venture capital finance. Availability of venture capital financing promotes the development of SMEs. The responses were as follows:
4.3.1 Available types of venture capital financing in Zimbabwe

The respondents were probed on the types or categories of venture capital financing available in Zimbabwe. These have different characteristics and are used to finance business at different levels of development. The responses as shown in figure 4.3 were as follows 52% alluded that government venture capital were most likely with 22% sighting independent partnerships, 19% financial venture capital and 7% corporate venture capital.

The majority of the respondents sighted government venture capital which can be attributed to the role played by the government in promoting the development of SMEs. This can also be attributed to the liquidity challenges being faced in the country.

![Figure 4.3: Respondents on the type of venture capital financing for Zimbabwe](image)

An institution is capable to provide venture capital funds if it has a healthy liquidity position, its risk appetite is high as well as having expertise into the field on venture. Some of the respondents explained that pension funds have a high capacity to enter into venture capital market. Also insurance firms were nominated as a potential investor in the venture capital market. The main reason given by respondents was that the pension funds and insurance firms are highly liquid institutions with high capacity to fund new ventures. Their funds can also be committed for long periods and always seek to invest in funds under management.
Banks do not want to commit their funds in high risk businesses for a long period of time. The research also revealed that any institution with excess liquidity and appetite to invest money for long periods of time have the capacity to offer venture capital.

The Small Business Innovation Research (SBIR), which is the biggest government venture capital program in the U.S, indicated that there was rapid growth to companies backed by SBIR venture capital. Cumming and Maclintosh (2003) argue that investment made by government venture capitals creates less value than other venture capital firms. In Zimbabwe there were venture capital companies in the country such as Venture Capital of Zimbabwe, Takura Venture Capital and Parity Venture Capital. However all these were mainly independent partnerships or private equity funds which closed due to the economic downturn. Government has the potential but due to limited fiscal space it cannot finance small business (Zindiye et al., 2008).

4.3.2 Industries likely to attract venture capital financing

The study sought to find out the importance of venture capital financing in promoting entrepreneurial development. Respondents were asked to indicate sectors which they think would require venture capital financing and the findings are shown in Table 4.2.

Table 4.2: Industries likely to attract venture capital financing for SMEs

<table>
<thead>
<tr>
<th>Industry</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>88%</td>
</tr>
<tr>
<td>Mining</td>
<td>73%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>65%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: Research Survey, 2014

The findings revealed that agriculture, manufacturing, information technology and telecoms and the mining sectors have the highest potential to attract venture capital.
financing. The study also revealed that the agricultural sector can become vibrant and active if supported by venture capital to start up operations. This represented by the highest frequency of 88% indicating agriculture followed by frequency of 73% in mining, manufacturing (65%) and information and technology (53%).

The main reason why these sectors got the most respondents could be attributed to that the Zimbabwean economy is agricultural based and by making finance available this promotes entrepreneurship and boost the economy. Agriculture and mining are also main earners of foreign currency. The information technology and telecoms industry provides the infrastructure for communication and information sharing since the world is now a global village.

4.4 Drivers of venture capital financing

In order to fully understand and address the objective of the drivers of venture capital financing in the country, participants were asked to indicate the factors which contribute to the development of small businesses through venture capital financing. It is important to note that these factors do not work in isolation. They have a complementary effect on each other. Respondents were not restricted to any number of drivers. However similar responses were grouped together. The findings are shown in the Table 4.3.

Table 4.3: Respondents frequency on factors that drive venture capital financing

<table>
<thead>
<tr>
<th>Driver / Factor</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable economic environment</td>
<td>100%</td>
</tr>
<tr>
<td>Investor protection and Corporate governance</td>
<td>92%</td>
</tr>
<tr>
<td>Capital markets</td>
<td>84%</td>
</tr>
<tr>
<td>Entrepreneurial environment</td>
<td>76%</td>
</tr>
<tr>
<td>Human and social environment</td>
<td>61%</td>
</tr>
<tr>
<td>Taxation policies</td>
<td>73%</td>
</tr>
<tr>
<td>Government policies and programs</td>
<td>65%</td>
</tr>
<tr>
<td>Profits and potential for growth</td>
<td>34%</td>
</tr>
</tbody>
</table>

Source: Research Survey, 2014
4.4.1 Economic, regulatory and capital markets

The major drivers of venture capital financing identified by respondents included stable economic environment (100%), investor protection and corporate governance (92%) and the well-developed capital markets (84%). The least popular driver identified was the profits and potential for growth which was highlighted by frequency of 9 respondents. The pleasing note was that most respondents acknowledged and appreciated the factors that drive venture capital financing and gave significance to three main drivers namely stability in the economic environment, regulatory framework and the capital markets.

The liquidity of the stock market plays an important part. These results concurred with Clarysse (2009) that market capitalisation is one of the critical drivers of venture capital investment. The liquidity of the capital markets makes funds available for venture capital thereby promoting early stage business developments (Schertler, 2003). Investors also advocate for safety of their investments as a contributory factor to the positive establishment of venture capital investments (Desai, 2006).

4.4.2 Taxation and government policies

A significant number of respondents argued that taxation policies (73%) and government policies and programs (65%) actually hinder the development of venture capital financing. Djankov (2008) advised that the tax rates were critical in determining the level in investments, entrepreneurial activity as well as the international investors’ perception on start-up businesses. The respondents gave reference to the high tax rates on both business and individual incomes such that they reduce the amount of disposable income for investments.

Reference was also given by other respondents to the Indigenisation policy where organisations are required to have 51% local shareholding. Respondents had different views with regards to the Indigenisation policy. Some argued that it is not an obstacle to venture capital financing by international investors because it empowers the local business people. On the other hand, some respondents said that it drives away investors because the government wants a major share where it did not invest financially. That concept drives away foreign direct investments.
4.4.3 Ranking of conditions for a successful venture capital market

In order to address the objective on the key conditions necessary for the establishment of the venture capital market the research asked the respondents for their views concerning the prescribed conditions. Factors were then ranked by respondents in order of their perceived importance. The findings are shown in Figure 4.4.

![Figure 4.4: Ranking of the factors that drive venture capital financing](image)

Figure 4.4: Ranking of the factors that drive venture capital financing

1. Macroeconomic Stability

The study established that 84% of the respondents highlighted that macroeconomic stability as a critical factor to the development of venture capital market. The inflation rates, exchange rate, economic growth, together with the consistency in policies help to determining the stability in the economy. Most respondents cited politics as the main factor in affecting the macroeconomic fundamentals. There is a direct and close relationship between the politics and macroeconomic fundamentals. However, 11% of the respondents argued that the macroeconomic stability is important and 5% of the respondents did not find any role played by the macroeconomic stability as
important. The macroeconomic stability result in increasing the market size and the market capitalization, factors which attract the investors.

2. Capital market liberalisation
Market liberalisation is a process by which the government through its authorities relaxes their managerial control, entry and exit barriers into an economy. Sixty five percent (65%) of the respondents considered the liberalisation as a critical factor in the development of entrepreneurship. This is because the venture capital concept has not been fully developed in Zimbabwe and hence there are more opportunities for investment.

Once the industry is open then international investors with more experience and expertise in venture capital would get attracted to the country and invest in small businesses. This increases the number of players in the venture capital market hence competition increases. Competition would then result in small businesses coming up with new innovative ideas, more products, improved quality of products and services and hence efficiency and effectiveness in their operations. The study also established that 29% of the respondents considered liberalisation as important to venture capital market development. The 6% of respondents thought that liberalisation would open the market for abuse and would not develop the venture capital market hence less important. However the liberalisation of the venture capital market results in ease access to deeper and more liquid markets.

3. Infrastructure
The respondents had mixed feelings with regards to the role played by infrastructure in venture capital development. At least 60% of the respondents considered infrastructure as a critical factor in promoting venture capital market. A sizeable percentage (32%) of respondents saw infrastructure as important. Accessibility to market information is critical to the success of a venture capital market. There is need to have a robust information technology systems in the country for easy accessibility to information.

4. Liquidity
The majority of the respondents considered liquidity to play an important role in the development of venture capital market. Eighty six percent (86%) of the respondents consented that liquidity is critical with 12% saying that it is important. An insignificant percentage of 2% considered liquidity to be less important. A liquid market easily
attracts investors and the opposite is true. Since the venture capital market in Zimbabwe has not been fully developed and is having liquidity challenges, the development of venture capital market will increase the level of liquidity in the market and more investors will come and invest into the market.

5. Capacity Building
The research noted that 78% of the respondents considered capacity building as a critical factor in promoting the development of venture capital financing small businesses. Twenty percent (20%) of the respondents viewed the skill and or education as simply important as they believed that experience would be gained in the process. For a venture capital market to operate successfully there is need to develop the skills and educate the entrepreneurs through the formal training, exchange programs with countries with venture capital expertise and workshops. The capacity building initiative would involve training in basic business management principles, risk management techniques as well as the venture capital processes. This is because the concept will be a new financing method to new businesses in Zimbabwe. It is therefore imperative to ensure that players in the venture capital market have the necessary knowledge and skills to ensure proper development of the venture capital market.

6. Perception
The perception of a country is depended on the political, economic and regulatory environments among other things. It is also difficult to separate these variables. The outright hostility from politicians, the media and the regulators can destroy the potential of a venture capital market. Forty five percent (45%) of the respondents concurred that perception is an important factor in promoting venture capital. The issue of risk associated with venture capital was highlighted by 25% of the respondents who believed that perception is a critical factor. A stable political and economic environment and good international relations with the international bodies like World Bank (WB) and the International Monetary Fund (IMF) automatically deals with the issue of perception. Perception is associated with risk in the eyes of the investors.
7. Corporate Governance
An economic environment guided by professional business principles and ethics provides a basic conducive environment for the small business development. The study noted that corporate governance plays a critical role in promoting venture capital market. This constitutes 90% of the respondents who accorded that corporate governance is critical and at least 7% of the respondents also cited it as an important factor. An economic environment characterized by high levels of corruption, no business ethics and a poor regulatory framework to regulate the operations discourages both local and international investor. Only 3% of the respondents criticized it as less important in that they believed in an economic environment which is self-regulatory.

8. Current regulatory requirements in Zimbabwe
A follow up question was asked to respondents to comment on the position of the current regulatory requirements in Zimbabwe to successfully support the development of venture capital market. The findings are shown in Figure 4.5.
Figure 4.5: Current regulatory requirements

The research revealed that the majority of the respondents (67%) view the current regulatory requirements as inadequate to support the development of venture capital market. However, 28% of the respondents had a patriotic view whereas 5% could not decide. The general view was that the ZIA in conjunction with other relevant authorities must come up with clear, specific and more comprehensive policies and guidelines to promote the financing of small businesses by venture capitalists. The respondents who considered the current regulatory requirements as inadequate had various reasons ranging from the absence of clear cut regulation, structures, systems and policies to stimulate venture capital, pension funds and insurance companies being prohibited from venture capital financing and lack of knowledge and skills.

The respondents who were positive about the current regulatory requirements highlighted the issue of risk and the unavailability of capital as only obstacles to venture capital development. The presence of Indigenisation policy was also made reference to support the adequacy of the current regulatory requirements as evidenced by the disbursement of over USD20 million dollars by Central African Building Society (CABS) and Old Mutual to youths to start businesses.

4.5 Current challenges being faced by small business

Fraunchart et al (2011) summarised these challenges affecting the small business into five (5) constructs as inadequate technical skills, operational capacity, unsupportive business environment, uncompetitive pricing and inadequate experiential knowledge. All these factors act as obstacles to the growth, survival and competitiveness of small business as echoed by respondents in their responses.

The respondents were asked to highlight the current major constraints being faced by SMEs in the country. The findings are summarized by the Figure 4.6.
Lack of access to capital and liquidity challenges

The majority of the respondents (96%) claimed that the greatest constraint being faced by small businesses was that of lack of access to capital. Capital is the lifeblood of any business venture such that its absence has detrimental effect to the small business. This is also worsened by the liquidity challenges represented by 88%. Attached to these two factors is the cost of funds from those with little capacity to finance small business. The funds are so expensive because the demand for money outstrips the supply.

Lack of collateral

Lack of collateral (46%) by entrepreneurs is one other factor restricting small business to access lines of credit from financial institutions like banks. Most of these new businesses do not have any business record that can be used by the financial institution to evaluate the viability of the business before advancing credit. This is in sync with the Commonwealth Secretariat (2002) and Isimbadi (2006) that various
requirements have to be met to access working capital from banks which start-up businesses have problems in meeting and that they do not have the necessary collateral and credit history.

4.5.3 Taxation
Some respondents have argued that the taxation (35%) is another impediment to the development of small business. The tax rates are very high such that businesses are left with very little capital foe investment and expansion. The regulatory framework governing the management and treatment of tax is said to be rigid. This is because of the punitive measures against companies which fail to pay the tax not because they do not want but because they do not have the money to do so. The respondents who cited taxation as an obstacle vowed that the tax authorities should look at situations because the way they apply their law forces small businesses to shut down operations.

4.5.4 Regulatory framework
Seventy seven percent (77%) of the respondents highlighted that there is poor regulatory framework governing the operations of the small business and policy inconsistencies. This is because of the informal nature of the business. The challenges start from the registration process where the terms and conditions are punitive especially to start-ups. There are no mechanisms in place to monitor the operations of the entrepreneurs. Such mechanisms would assist the sector to improve on product and service quality, service delivery and general business practices.

The formalisation of the industry would also add revenue to the fiscus. The policy inconsistency in our country is also a major challenge affecting the development of small business. There is no transparency and accountability especially with regards to Indigenisation policy and Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim-Asset) blue print. These policies are silent on issues to do with capital to fund all the projects and such issues need clarity if investors are to be attracted. However in order to attract investors Zimbabwe must turn these blueprints into strategic and comprehensive documents which are self-explanatory.
4.5.5 Lack of venture capital knowledge
Respondents also placed great emphasis on the lack of venture capital knowledge and skill as one of the challenges being faced by small businesses. This was represented by 65% of the respondents. Very few people are conversant with venture capital operations and this led to low levels of small business development.

This is what one respondent said, “There are not enough structures that will see the SMEs having the right incentives for initial investments allowances and there is need for more public education on this. Most of the people know of the existence of micro-finance organisations but the question remains as to how many really know how venture capital works and the associated benefits attached to it”.

There is need to create awareness and have structures to develop entrepreneurial skills. Such skills will enhance the monitoring and administration of small business to succeed. The respondents also argued in the same line with Deakins and Freel (2009) that entrepreneurs lack the quality of devotion, innovation, management, control and marketing skills which are critical to the growth and survival of new businesses.

4.6 Impact of venture capital financing
The research sought to establish the benefits the economy derives from venture capital financing of small businesses. The respondents were asked to explain the major benefits from an economic perspective. Frequency of responses were summarised as presented in Table 4.4.

Table 4.4: Frequency of responses on benefits of Venture capital financing

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment creation</td>
<td>100%</td>
</tr>
<tr>
<td>Investment and export growth</td>
<td>100%</td>
</tr>
<tr>
<td>Local competitiveness</td>
<td>69%</td>
</tr>
<tr>
<td>Innovation and creativity</td>
<td>76%</td>
</tr>
<tr>
<td>Increase in the level of liquidity</td>
<td>73%</td>
</tr>
<tr>
<td>Reduces load on national budget</td>
<td>61%</td>
</tr>
</tbody>
</table>

Source: Research Survey, 2014
The major benefit of venture capital financing small business identified by respondents includes employment creation (100%), investment and export growth (100%) and innovation and creativity (76%). This shows how the respondents appreciate the importance of venture capital to entrepreneurship development. The opening up of small business means more people getting employment and new products on to the market through innovation. This however confirms the assertion by BVCA (1999) that venture capital backed start-ups contribute to the creation of highly skilled jobs. A supporting view by Van Osnabrugge (1999a) also highlights that about 50% of employment comes from start-up businesses.

According to Pandey et al. (2003), the introduction of a venture capital market act as a catalyst to the development innovative and highly competitive enterprises which is also supported by a frequency of 69% respondents from study.

In the event that the venture capital industry is formalised, it means more revenue through tax. Increase in liquidity and local competition came up as other benefits to the local market cited by frequency of 73%. Venture capital financing increases the level of liquidity in the market due to increased activity and flow of funds. Respondents also highlighted an increase in gross domestic product (GDP) ensuring a speedy recovery of the economy because it leaves the government with room to focus on the strategic areas of the economy. The introduction of venture capital market reduces interest rates by way of reduced demand for the funds from the banks and other financial institutions hence reducing the cost of funds available for investments. Overall the venture capital financing give benefit financially and socially to the economy. These benefits created by venture capital financing are interlinked and the absence of one of the benefit will have ripple effects on the other benefits.

### 4.7 Policy Initiatives to promote the development of venture capital market

The respondents were asked to come up with appropriate policy measures to promote venture capital financing entrepreneurship in Zimbabwe. Their responses as a frequency are presented in Table 4.4.
Table 4.4: Policy Initiatives by institutions

<table>
<thead>
<tr>
<th>Policy Initiative</th>
<th>Frequency of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve international relations</td>
<td>69%</td>
</tr>
<tr>
<td>Formalisation of SME sector</td>
<td>96%</td>
</tr>
<tr>
<td>Regulatory framework</td>
<td>96%</td>
</tr>
<tr>
<td>Tax incentives on venture capital firms</td>
<td>73%</td>
</tr>
<tr>
<td>Management of Information Systems (MIS)</td>
<td>84%</td>
</tr>
<tr>
<td>Skills development</td>
<td>76%</td>
</tr>
</tbody>
</table>

Source: Research Survey, 2014

4.7.1 Formalisation of SME sector

The formalisation of the SME sector and the improvement of the regulatory framework were the most important measures suggested by respondents in the promotion of venture capital. These were cited by a frequency of 96%. Such initiatives included the reformation of the investment conditions for insurance companies and pension funds, imposition of import licenses on certain products to protect the local market, scraping or relaxation of indigenisation laws, creation of markets for small business companies and increasing their visibility by encouraging them to participate at exhibition shows.

4.7.2 Tax incentives

A frequency of 73% of the respondents considered tax incentives for venture capital firms investing in small business start-ups. The ZIA and the tax authorities, ZIMRA, should relax import tariffs on certain raw materials allow for tax exemptions for funding provided to business in their formative stages.
4.7.3 Availability of information
Information about the venture capital, industries with more business opportunities, requirements for business set ups including other players in the industries for reference purposes must be available free of charge. That is the reason why frequency of 84% of respondents advocated for improvements in the MIS.

4.7.4 Skills development
Players in the venture capital market must be exposed to some skills development programs. A frequency of 76% of respondents cited the need for skills enhancement since this concept has not been fully developed in Zimbabwe.

Exchange programs as well as attachments to venture capital institutions with expertise and experience at country level, in the form of bilateral agreements would be a positive move towards the development of venture capital market. All these initiatives come to the conclusion that total compliance is a critical factor in the development of venture capital market.

4.8 Summary
The chapter presented the study findings, the data analysis and the discussion of results on venture capital financing small business development in Zimbabwe. Of particular importance were the sources and the response rate regarding the survey instruments used and administered. The data was presented in an objective manner and areas of concern it sought to address. The conclusions and recommendations in the next chapter were provided on the basis of these research findings.
CHAPTER 5

Conclusion and Recommendations

5.0 Introduction

This chapter presents the conclusions and recommendations drawn for the research study and the findings. The conclusions are presented in section 5.1 followed by recommendations drawn from the study in section 5.2. Section 5.3 presents suggestions for future research. The summary concludes the chapter in section 5.4

5.1 Conclusions

The conclusions to the study regards the research objectives and literature review are presented as follows:

- The main type of venture capital financing in Zimbabwe is government. This is in line with Cumming and Maclintosh (2003) though they argue that investment made by government venture capital created less value compared with other types of venture capital.

- The major drivers of venture capital financing identified were stable economic environment, investor protection, and corporate governance and well developed capital markets. These results concur with Clarysse (2009) that stable economic environment and well developed capital markets were the critical drivers of venture capital investment.

- The major benefit of venture capital financing to small and medium businesses identified by respondents included employment creation, investment, export growth, innovation and creativity. This confirmed the assertion by BVCA (2009) and Van Osnabrugge (2009a) that the benefits included employment creation.

Overall it can be concluded that venture capital financing can serve as an alternative financing option to SMEs development in Zimbabwe.
5.2 Recommendations
The main players in the study were the RBZ, ZIA, SEDCO, financial institutions and the Ministry of Small to Medium Enterprises representing the Government. The following recommendations were reached.

5.2.1 Government policy
The government’s role in promoting venture capital financing to small business development must be of a regulatory in nature as well as policy formulation. Policies should be formulated that encourage venture capital financing. This can be done through looking for finance. In Ghana this Venture capital was formulated through levying roads users over a three year period having levies accumulated. Also policy consistency is needed to attract funding. Any industry can attract venture capital financing as long as the investor finds it potentially viable and able to grow his equity and get a return from their investments.

Conducive macroeconomic policies and political fundamentals are an important element to attract and sustain foreign investors’ interest in a country business environment. Weaknesses in the domestic, political climate and domestic financial systems often result in capital flight. This leads to a reduction in the amount of capital available in a country for investments.

5.2.2 Regulatory and legal framework
The country’s legal set up is a critical aspect in the venture capital investment process. The rule of law is indispensable and contracts should be enforceable for venture capital market to thrive. This also gives both foreign and local investors’ confidence into the market. There are clear, realistic and attainable prospects for achieving a vibrant venture capital market in Zimbabwe.

Regulation brings in a balance between the important function played by venture capitalists and the risks borne by the unregulated markets. An active venture capital market promotes self-regulation and improves the organisation’s internal controls through discipline of market forces. The guarantees by the government also strengthen moral-hazard behaviour by venture capitalists.
This research study recommended the formulation of a comprehensive regulatory framework to promote the development of small businesses in Zimbabwe. The framework will explicitly protect and attract the investors as well as instilling confidence in the business environment.

Linked to the regulation and licensing of businesses in Zimbabwe is the issue of policy inconsistency. International investors are keen to expand economic relations to our country but the policy discord on the part of Zimbabwe is affecting investors and their investment decisions. There is need to have clarity of economic policies. There must be transparency and accountability on these policies.

5.2.3 Capital Market development and finance accessing
A vibrant venture capital market is one that is characterized by transparency, responsibility, accountability and fairness. Good corporate governance ensures the growth and sustainable private sector. The private sector is the main driver of a country’s economic growth hence it needs to be accountable. Good corporate governance ensures integrity and effectiveness of the private sector and helps the businesses to operate more effectively. The starting point is to propose the code of corporate governance by the MOF, the relevant regulatory bodies, the RBZ and other key stakeholders in the economy to build greater understanding of the implications of corporate governance. Corporate governance plays a bigger role reducing business scandals which damage trust in businesses, systems to prevent and deter corruption, deregulation and integration of capital markets, harnessing domestic savings for economic growth and value placed on good corporate governance by institutional investors. There is also need for international linkages to support and facilitate trade with other established markets so as to get access to global markets.

There is also the need to include international players aimed at capacitating the private sector to contribute meaningfully to revive the economy and strengthen the capacity of economic players. Agreements such as Economic Partnership Agreements (EPA) and the inclusion of International Trade Centre (ITC) must be embraced to promote regional integration and development of the economy.
The development of small business is affected by a variety of factors and on top of the list is lack of access to finance. Traditional financiers like banks do not avail credit to start up business because of the risk associated with the business at early stages. Where the credit facility is present, the conditions to get access to the capital are punitive. These businesses are still small they have inadequate or no collateral. Cost of finance from the traditional financiers is also very expensive.

5.2.4 Investor education

Venture capital as a financing concept that has not been fully developed in Zimbabwe in promoting start-up businesses. There is limited understanding of venture capital financing concept but vast knowledge on private equity investments. Such limited knowledge by business leaders act as a hindrance to the development of small businesses in Zimbabwe.

The government through the Zimbabwe Investment Authority (ZIA) and the Ministry of Small to Medium Enterprises (MSMEs) should educate the business community on the benefits of venture capital financing entrepreneurship. The processes involved in setting up a business, the requirements, what type of business to venture into, the policies and regulatory frameworks governing different sectors must be well documented and made available to the public. ZIA must offer a one-stop shop for the registration and formalisation of businesses. The processes and time to do all this must be shortened so as not to frustrate potential business investors in the country. This must also house offices for the Anti-corruption Commission and the Indigenisation and Empowerment Board as these are topical and influential subjects of the moment when investors want to invest in the country.

5.2.5 Entrepreneurship and Skills development

Since the venture capital concept is not fully developed in Zimbabwe, there is need for capacity building in this area. The Government of Zimbabwe through ZIA and Ministry of Small to Medium Enterprises should engage its various stakeholders to facilitate career development in promoting entrepreneurship development. This would be done through countrywide training, workshops and exchange programs with various venture capital firms and country level. The authorities can also engage the services of international experts in venture capital for further training. Monitoring
and evaluation mechanisms are also developed in the process to improve on service delivery efficiently and effectively.

Other factors which have got an influence on the development of entrepreneurship are economic, political, social, technological and human factors. These do not work in isolation and can positively or negatively affect the development of small business

5.2.6 Formalisation of SME sector
The SME sector needs to be recognized as an important contributor to the national income and the economic growth. Formalising the sector would regularize all business transactions to go through the formal channels and the operations being monitored closely. This also curb illegal dealings and may even reduce the level of corruption associated with the sector. The players in the sector will be forced to follow rules and regulations which may improve the quality of service delivery in the sector. The government will also increase its revenue base by collecting taxes from the sector, a situation that is not currently happening. The formalising of the sector results in these small business keeping trading or financial records. These financial statements or records can then be used to apply for capital from financial institutions because the financier can actually evaluate the performance of the business based on those financials.

5.2.7 Improving international relations
The Government of Zimbabwe, the MOF and other regulatory bodies should come up with a common goal on improving the chances of accessing international financing. The country’s huge debt and budget deficit are obstacles to accessing international financing. Zimbabwe is part of the global economy and cannot work in isolation. It needs both local and international partners to do business with. The Zimbabwe’s relations with the international community have been compromised greatly because of the politics. It is therefore important to separate politics from business economics to deal with the country’s international relations. In order to attract domestic and international capital inflows in Zimbabwe, there is need to put more emphasis on stabilizing the political environment.
5.2.8 Infrastructure development

The development of small businesses comes up with developments in various aspects of the business to improve efficiency, delivery and quality of the service and product. New processes and procedures to support these developments also come up to support these through innovation. It is therefore recommended that venture capital financing will come up with new developments in electronic trading and management information systems. This will keep the domestic market abreast with the global developments.

5.3 Area of further study

The venture capital concept is not fully developed and well understood in Zimbabwe. It is therefore important to explore deal structuring in venture capital financing. Areas of further research included identification the process and understand the critical role in venture capital deals. This would help in the establishment of a vibrant venture capital market in Zimbabwe.

5.4 Summary

This chapter concludes the research by presenting the conclusions and recommendations from the study. The recommendations were made to the government and its relevant stakeholders in the business to promote entrepreneurship in Zimbabwe. The researcher hopes that stakeholders will find this research useful and assist in the promotion of venture capital market in Zimbabwe.
6.0 Bibliography


Clarysse, B. K. (2009). Benchmarking UK venture capital to the US and Israel: what lessons can be learned?


APPENDICES:

APPENDIX 1: LETTER OF INTRODUCTION

Dear respondent

In partial fulfilment of the Masters of Business Administration Degree requirements from the University of Zimbabwe, I am carrying out a research study investigating the role played by Venture Capital financing as a source of finance to Small and Medium Business Development in Zimbabwe. May you please assist by completing this questionnaire.

Please note that this study is for academic purposes only and would be treated as strictly and highly confidential. The results of this research would not be used for any other purpose other than for this intended study. For any clarifications regarding this research, please do not hesitate to contact the researcher on the following contact details;

Email francismadondo@yahoo.com or fmadondo033@gmail.com

Cell phone +263 774 364 041

Your participation and cooperation will be greatly essential to the usefulness and validity of this study.

Yours faithfully

…………………………

Francis Madondo
QUESTIONNAIRE TO FINANCIERS AND SEDCO

Introduction

The development of small businesses in Zimbabwe is dependent on a number of factors but the major impediment is lack of capital or access to capital. This is the lifeblood of any business to start its operations and operate viably for the foreseeable future. Venture Capital financing to develop these small business among other factors may assist to close this financing gap. The financing gap is left out by traditional financiers like banks, pension funds, microfinance institutions and the government through its various programmes. This study seeks to understand the viability of venture capital financing in Zimbabwe and the impact it would have on the businesses and economy at large.

Instructions

1. Please give your honest opinion.
2. Kindly place a tick in the box to your response
3. Please explain your responses in the spaces provided.

SECTION A: DEMOGRAPHIC

1. Please indicate your sex?
   Male [ ] Female [ ]

2. In terms of education, indicate the highest level of education attained?
   Primary [ ] Secondary [ ]
   Diploma/Certificate [ ] Degree or higher [ ]

3. What is your age group?
   Less than 30 years [ ] 30 years to 40 years [ ] 40 years and above [ ]
4. For how long have you been dealing with financing of SME?

Less than 4 years  [ ]  4 years to 7 years  [ ]  7 years and above  [ ]

SECTION B

5. What do you understand by venture capital financing?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

6. Has your organisation offered venture capital financing? Please provide supporting statistics?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

7. Which institutions do you think have the capacity to offer venture capital financing to small business? Indicate on scale of 1 – 3 the institutions with 1 = no capacity; 2 = neither; 3 = high capacity.

<table>
<thead>
<tr>
<th>Institution</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Microfinance</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other, please specify</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Can you briefly explain your response to question 7 above?

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

9. Which industries would attract venture capital financing?

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10. Can you list the factors do you consider critical in successful venture capital financing of small business in Zimbabwe?

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11. Please explain your response to question 10 above?

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

12. Can you explain the impact of venture capital financing to Zimbabwe?

i. Small business development

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

ii. Zimbabwe
13. In your opinion does venture capital financing work in Zimbabwe to develop small business under the current economic situation? Explain.

14. In your opinion what policies do you think would enhance venture capital financing of small business development in the country?

End of questionnaire

Thank you for taking the time to respond to this questionnaire
REGULATORS QUESTIONNAIRE GUIDE

Introduction

The development of small businesses in Zimbabwe is dependent on a number of factors but the major impediment is lack of capital or access to capital. This is the lifeblood of any business to start its operations and operate viably for the foreseeable future. Venture Capital financing to develop these small business among other factors may assist to close this financing gap. The financing gap is left out by traditional financiers like banks, pension funds, microfinance institutions and the government through its various programmes. This study seeks to understand the viability of venture capital financing in Zimbabwe and the impact it would have on the businesses and economy at large.

SECTION A: DEMOGRAPHIC

1. Please indicate your sex?
   Male [ ] Female [ ]

2. In terms of education, indicate the highest level of education attained?
   Primary [ ] Secondary [ ]
   Diploma/Certificate [ ] Degree or higher [ ]

3. What is your age group?
   Less than 30 years [ ] 30 years to 40 years [ ] 40 years and above [ ]

4. For how long have you been dealing with financing of SME?
   Less than 4 years [ ] 4 years to 7 years [ ] 7 years and above [ ]
SECTION B

5. What is venture capital financing?

6. Have you dealt with venture capital financing?

7. Which institutions do you think have the capacity to offer venture capital financing to small business?

8. What do you think are the drivers venture capital financing?

9. Which industries would attract venture capital financing?

10. Who do you think must be involved in venture capital financing of small business development in Zimbabwe?

11. In your opinion why would small business go for venture capital financing instead of other forms of financing?

12. In Zimbabwe, we had some venture capital firms like Venture capital of Zimbabwe, Parity Venture Capital among others and these have since seized operations, what do you think led to their closure?

13. What benefits would this type of financing have to the Zimbabwean small business and economy at large?

14. What challenges are being faced by small business to develop to their full potential?

15. Which policy instruments would you recommend to enhance venture capital financing of small business development in Zimbabwe.

Thank you very much for your time.