INVESTIGATION INTO FACTORS THAT CONSTRAIN BANKS TO BANK THE UNBANKED SMEs in ZIMBABWE THE CASE OF HARARE CBD

BY
OLIVER HABONIMANA

R021706P

A DISSERTATION SUBMITTED IN PARTIAL FULFILLEMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

2013

GRADUATE SCHOOL OF MANAGEMENT

UNIVERSITY OF ZIMBABWE

SUPERVISOR: DR N. KASEKE
DECLARATION

I, OLIVER HABONIMANA, do hereby declare that this dissertation is a result of my own investigation and research, except to the extent indicated in the acknowledgements, references and comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any university.

...................................................  .......................................................
Student Signature     Date

...................................................  .......................................................
Dr N. Kaseke      Date
Supervisor Signature
DEDICATION

This dissertation is dedicated to my wife Clarisse and children Angeline and Ryan, whose unconditional love, patience and support have been the wind beneath my wings. And to my family and friends who instilled in me the importance of education and hard work.
ACKNOWLEDGEMENTS

Divine insight converts good works into master-pieces. I acknowledge that God alone gets the glory for this divinely inspired piece of work.

I am forever grateful to Dr. N. Kaseke for the assistance throughout my research. His fortitude was remarkable and the knowledge I gained was priceless. Thank you also to all the Graduate School of Management Lecturers who imparted knowledge with love.

I would also like to thank all the MBA lecturers who passionately guided me during the program. I am glad to say that I learned so much and was able to develop myself.

To my family which had to endure the course of going through my studies with me. It is without a doubt that without the support they offered I would have not managed to achieve what I have done to date.

To my colleagues and friends especially those that went through the program with me – Group X members (Prof. Robson, Nyanye, Sam, Cecil, Loveness, Jah Bless, Boniface, Tapiwa and Sam-Joe), I could never speak of success and not acknowledge that all great men and women are great because of the greatness of sharing knowledge.

I also thank those who make up an invaluable and inspirational team at BancABC, especially the Asset Finance Team. May God forever favour the Bank with continued business success.
This dissertation investigated factors that influence SMEs to banking their revenue due to the informal environment in which they are operating in. There have been significant debates that only about 18 percent of SMEs in Zimbabwe have access to formal financial services institutions while the majority put their savings “under the pillow”. SMEs, according to official figures constitute 70% of the economy and that means that the bulk of economically-active Zimbabweans are employed by the sector. Due to constrained cashflow and lack of financial support most SMEs do not bank their revenues. In pursuit of economies of scale they often prefer dealing in cash which often pushes down the cost of production and ultimately low prices to enable them compete with large corporates. The study focused on the main objective to investigate the factors that influence banking the unbanked SMEs, to identify strategies that banks can use to bank to attract them. Recommendations on the strategies and factors that can influence banking the unbanked SMEs will be suggested to reduce the current liquidity gap given the missing revenue in circulation attributed to unbanked SMEs. There is a growing body of literature that suggests SMEs have an influence to current liquidity challenges in the Zimbabwe economy. Studies suggest that banks should reduce charges and create innovative products that match SMEs' needs in order to attract the unbanked. Banks in other developing countries has successfully introduced mobile banking to tap in the informal sector, and it is yielding results. A case study was conducted with the sample representing SME owners and management. The study adopted a qualitative approach in the form of a survey research to ascertain knowledge, opinions, and attitudes of respondents in banking their revenue. A qualitative approach was chosen as data is rich and subjective and fit well with the study approach. The research considered a sample size of 100 SMEs in the Central Business District of Harare. In this study, primary data was obtained through the use of questionnaires. With primary data it was easy to formulate structured or unstructured questions that focused on the study topic. Primary data offered greater control over data accuracy. A response rate of 74% was attained, this allowed the researcher to effectively evaluate the responses Findings suggest that the greater majority of SMEs have bank accounts, but only dormant. Using appropriate statistical analyses, and content analysis techniques, the major concerns that cropped out were that banks have high pricing models and do
not offer suitable products and have no access to borrowings. Recommendations made include innovative pricing that have matching products. SME engagement through re-pricing of tailored bank products, education that has information and tools to prepare bankable project proposals as well as basic financial literacy has also been recommended. The proposition has also been proven as the informal operation caused by unbanked revenues by SMEs limit liquidity in the financial sector.
TABLE OF CONTENTS

DECLARATION .................................................................................................................. i
DEDICATION .................................................................................................................... ii
ACKNOWLEDGEMENTS .................................................................................................. iii
ABSTRACT ....................................................................................................................... iv
TABLE OF CONTENT ..................................................................................................... vi
LIST OF TABLES .............................................................................................................. ix
LIST OF FIGURES ........................................................................................................... xi
LIST OF ABBREVIATION ............................................................................................... xi

CHAPTER ONE ................................................................................................................. 1
INTRODUCTION .............................................................................................................. 1
1.0 Introduction to the study ............................................................................................ 1
1.1 Background ................................................................................................................ 2
1.1.1 Global Overview of Small and Medium Enterprises (SMEs).............................. 2
1.1.2 The Informal Sector in Zimbabwe: Small to Medium Enterprises (SMEs) .... 2
1.1.3 Business and the Operating Environment in Zimbabwe ................................. 4
1.1.5 Banking Platform in Zimbabwe ...................................................................... 7
1.1.6 Banking SMEs: the missing gap .................................................................... 8
1.1.7 SMEs in the CBD of Harare ........................................................................ 11
1.2 Research Problem .................................................................................................... 12
1.3 Research Objectives ................................................................................................. 13
1.4 Research Questions ................................................................................................ 13
1.5 Research Proposition ............................................................................................... 13
1.6 Research Justification .............................................................................................. 13
1.7 Scope of Research .................................................................................................. 14
1.8 Dissertation Outline ............................................................................................... 14
1.9 Chapter Summary ................................................................................................... 15

CHAPTER TWO .............................................................................................................. 16
CONCEPTUAL FRAMEWORK ........................................................................................ 16
2.0 Introduction .............................................................................................................. 16
2.1 Definition of SMEs ................................................................................................ 16
2.2 Bank’s definition of SMEs ..................................................................................... 17
2.2.1 Zimbabwe’s definition of SMEs ..................................................................... 18
2.3 SME Operations ..................................................................................................... 20
2.4 Financial Sector and SMEs ................................................................................... 22
2.5 Factors influencing banking the unbanked SMES ............................................... 24
2.5.1 High bank charges ........................................................................................ 25
2.5.2 Lack of security ............................................................................................. 25
2.5.3 Lack of financial support .............................................................................. 26
2.5.4 Lack of capacity ............................................................................................ 26
2.6 Benefits of banking the unbanked ....................................................................... 26
2.7 Strategies that can be used by banks to bank the Unbanked SMEs .... 27
LIST OF TABLES

Table 2.1: The EU Commission Definition of SMEs ...................................................... 17
Table 2.2: Interpreting SMEs in Zimbabwe ................................................................. 19
Table 3.1: Distinguishing Quantitative and Qualitative Approaches ..................... 44
Table 4.1 Reliability Analysis - Cronbach Alpha ..................................................... 64
Table 4.2: Factor Analysis Component Matrix ......................................................... 76
Table 4.3: Operating a bank account ........................................................................ 70
Table 4.4: Financial support ..................................................................................... 72
Table 4.5: Factors influencing SMEs from banking ................................................. 74
Table 4.6: Factors influencing SMEs from banking - Analysis ............................... 74
Table 4.7: Rank Analysis; Factors influencing SMEs from banking ...................... 74
Table 4.8: Proposed strategies to bank the unbaked ................................................. 79
Table 4.9: Rank Analysis, Proposed Strategies for Banks ...................................... 79
Table 4.10: Chi-square Analysis .............................................................................. 81
Table 4.11: Correlation Matrix Table .................................................................... 82
LIST OF FIGURES

Figure 1.1: Sectorial Distribution of SMEs In Zimbabwe ........................................ 3
Figure 1.3: Zimbabwe’s Market Share by Deposits .................................................. 8
Figure 1.4: Sources of Financing for SMEs ............................................................. 10
Figure 2.1: Key drivers for SME Mobile Banking .................................................... 29
Figure 2.2: Cost Comparison for Banks– Developed countries ................................ 33
Figure 3.1: The Inductive Process .............................................................................. 47
Figure 4.1: Response Rate ......................................................................................... 63
Figure 4.2: Ownership and Management ................................................................. 65
Figure 4.3 Employees Structure ............................................................................... 66
Figure 4.4: Annual turnovers ...................................................................................... 67
Figure 4.5: Nature of Business ................................................................................... 68
Figure 4.6: Business Maturity .................................................................................... 69
Figure 4.7: Frequency of operation of Bank Accounts ............................................. 70
Figure 4.8: Frequency of operation of Bank Accounts ............................................. 71
Figure 4.9: Access to financial support ........................................................................ 72
Figure 4.10: Strategies to bank the unbanked SMEs ............................................... 78
### LIST OF ABBREVIATION

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>Central Business District</td>
</tr>
<tr>
<td>CBZ</td>
<td>Commercial Bank of Zimbabwe</td>
</tr>
<tr>
<td>CZI</td>
<td>Consumer of Zimbabwe Industries</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EOS</td>
<td>European Opinion Survey</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td>FRB NY</td>
<td>Federal Reserve Bank of New York</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GNU</td>
<td>Government of National Unity</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>NGO</td>
<td>Government, Non Governmental Organisations</td>
</tr>
<tr>
<td>NMBZ</td>
<td>National Merchant Bank of Zimbabwe</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro Small and Medium Enterprises</td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
</tr>
<tr>
<td>SEDCO</td>
<td>Small Enterprises Development Corporation</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>ZNCC</td>
<td>Zimbabwe National Chamber of Commerce</td>
</tr>
</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.0 Introduction to the study

Banking of small and medium enterprises (SMEs) has attracted much attention in recent years and has become an important topic for policymakers working on financial solutions that can improve the liquidity situation in Zimbabwe. This interest is driven by the fact that SMEs account for the majority of firms in Zimbabwe and represent a significant share of employment. There is also the perception among academics and policymakers that SMEs lack discipline due to informal operations being displayed.

The “conservative wisdom” on banking SMEs argues that the way in which financial institutions operate is biased against offering SME financing. Thus, many banks and other financial institutions are not interested in servicing SMEs. One of the main factors often cited that hampers SME financing is “opaqueness.” De la Torre et al. (2010) highlights that by opaqueness it is difficult to ascertain if firms have the capacity to pay i.e. has viable cashflow and/or the willingness to pay (due to moral hazard). De la Torre et al. (2010) This opaqueness particularly is due to lack of historical records that prove movement of funds - historical financial records can only be obtained if a firm transacts all its revenue through a commercial bank.

This dissertation will investigate factors that prevent informal businesses, particularly SMEs, from banking their revenues; with particular attention to those in the Central Business District (CBD). It is believed that there is over US$2 billion unbanked money circulating in the Zimbabwean’s economy (Reserve Bank of Zimbabwe Policy Statement, 2012). As such, the focus of the study is on evidence relating to those entrepreneurs and business owners classified as SMEs who have the wrong perception and attitude that prevent them from formalising their business, hence not channelling their revenues through banks. The chapter describes the background to the problem, problem statement, objectives and research questions, justification of the study and then an outline of the research document.
1.1 Background

1.1.1 Global Overview of Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (“SMEs”) are believed to be the engine of economic development for most economies around the globe. However, SMEs continue to employ informal operations that we believe is the reason they do not channel their revenues to banks. Other sources include lack of confidence in the financial sector, lack of financial support, marketing and technical challenges as they try to grow their businesses. Small and Medium Enterprises remain important economic players of developing and developed countries. These enterprises have been identified as the means through which the rapid industrialization and other developmental goals of these countries can be realized. Madsing (1997) noted that SMEs contribute 65% of employment and 57% of Gross Domestic Product in the United Kingdom.

1.1.2 The Informal Sector in Zimbabwe: Small to Medium Enterprises (SMEs)

Zimbabwe’s economic history can be classified into two separate periods, one before independence in 1980 and the subsequent post independence period from 1980 to date. Other writers, instead seek to clarify the economic history of Zimbabwe into four distinct periods namely post war colonial period from 1945 to 1965, isolation of war period from 1965 to 1980, post independence period from 1980 to 1991 and the reform period from 1991 to 2007 (Kapoor, Mungwara and Chidavaenzi, 1998). The rapid increase of Zimbabwe’s SMEs sector coincides with the country’s economic slide due to liquidity challenges and internal political conflict resulting in the shrinking of the formal productive sector, a rise in unemployment and the growth of informal economic activities (CZI Business Intelligence Report, 2010). Rural to urban migration in Zimbabwe also resulted in cities and towns becoming overpopulated with people looking for employment in an economy with decreasing formal employment resulting in them joining the SME sector, especially in Harare, the capital city of Zimbabwe.
The IMF country report on Zimbabwe (2003) affirmed that real output declined from about 40% in 1999 to about 13% in 2002, thus leaving the cumulative decline in real GDP at 30%. The report further highlights that real GDP per capita experienced a 26% decline that was in sharp contrast to developments in the region.

From the year 2000, there was an economic downturn, resulting in companies closing down or downsizing their operations. Foreign companies left the country and invested in South Africa (Kumbawa, 2002). Many people in Zimbabwe lost their jobs and started their own businesses resulting in a high proliferation of SMEs in the different sectors of the economy. SMEs in Zimbabwe play a bigger role in the manufacturing sector where they contribute about 10.1% to gross output, 10.9% to net output, about 13% to employment and 11% to wages and salaries. The informal and micro-enterprises sector accounts for an estimated 15-20% of Gross Domestic Product (Reserve Bank Monetary Policy Statement, January 2005, p.48).

SMEs and micro-enterprises in developing countries play a significant role in respect of both output and employment. SMEs contribute extensively to the economy providing the goods and services that were in short supply in the country when large companies failed to produce enough to meet the demand. They are now the hope of the economic recovery in Zimbabwe. Today, SMEs in Zimbabwe are still the major
producers of goods and services as most companies are still facing financial problems to boost their production. Against this background, analysts believe employment in the informal sector has far surpassed that in the formal economy, where only about 40% or 2.7 million of the 6.7 million working adults in Zimbabwe are still employed, (http://www.gdrc.org/informal/6-zimbabwe.html; 14-04-2010). According to CZI (2010) Zimbabwe's unemployment rate was rated 94%, meaning that few people were formally employed and the rest were either unemployed or informally employed.

Though the SMEs sector is now the foundation for the majority of the Zimbabwean population, it continues to suffer from great challenges which hinder its smooth development and ultimately graduation into large organisations. Growth in the sector has, however, been greatly affected by the shortage of resources, requisite skills in management and financial sector’s unwillingness to assist the sector. Financial institutions are known for sidelining the sector due to their informal structure in nature. In most cases banks request historical financial records in order to prove cash flow, however, SMEs fall short always fail to provide due to nonexistent financial history caused by non banking of daily revenues. This study therefore, seeks to find out the factors that are can be used to attract SMEs in formalising operations and bank their revenues. In the process, banks will have adequate funds for operations with particular interest in financing performing SMEs.

1.1.3 Business and the Operating Environment in Zimbabwe

It is an eminent fact that the Zimbabwean economy is now more informal than formal, and the bulk of this informal side consists of small enterprises, many of which are either unregistered, or are not fully incorporated into formal statistics for one reason or another. Small to medium enterprises (SMEs) are also known to be the origin of tomorrow's industrial giants, and it therefore stands to reason that if a country is serious about wanting to improve liquidity challenges in the economy, there is no better place to start than with SMEs. In February 2009, Government of National Unity (GNU) was introduced in Zimbabwe, where the three major political parties agreed to join and form one government. Due to the GNU, the political environment in the country is favourable for business operations particularly SMEs.
Currently, few investors are investing in Zimbabwe as international investors lack confidence in the Unity Government. This poses an opportunity for SMEs in the country to grow as competition from the large organisations is low.

According to Johnson and Scholes (2004) the socio-cultural factors that affect the business are levels of education, income distribution, consumerism, and population demographics, attitudes to work and leisure, social mobility and lifestyle changes. In Zimbabwe, due to the brain drain that hit the nation, most of the middle aged population (workforce) left the country for the Diaspora leaving only the young, less experienced and the old people. SMEs have become training grounds resulting in loss of productive time and low performance. In Zimbabwe, there are many groups that claim to represent business in general, but in reality, these have morphed to become the representatives of big business. Not only do they advocate policies that are beneficial to large corporations, but in some cases they do so to the detriment of SMEs. An example is the recent saga regarding bringing small change into circulation. The Bankers Association of Zimbabwe announced that they had brought rand coins into the country, but retailers (who are mostly SMEs) were refusing to take them from the banks. What they did not mention of course was that the retailer would get the rand coins at official exchange rates of 1:7, whereas the street rate for rand change was 1:10. SMEs continue to be left out. SMEs are perhaps more to blame for allowing themselves to become shadow players within the economy. This development leaves a gap in terms of advocating for policies that accommodate the fragile nature of SMEs, compared to that of their large counterparts.

1.1.4 Legislation – The Private Business Corporation Act 15/1993

The present Companies Act of Zimbabwe (120) dates from 1951 and came into operation on April 1, 1952. It was based on the British Companies Act of 1948 and the South African Companies Act of 1926. The Act however was not conductive to the proliferation of SMEs in Zimbabwe and favoured big and well financed business ventures.

In order to register a formal SME in Zimbabwe (Kapoor, Mugwara and Chidavaenzi, 1997), entrepreneurs have to go through a bureaucratic process which requires the
submissions of Memorandum and Articles of Associations, Certificates of Incorporation, Investment Certificates from the Zimbabwe Investment Centre, notification of the Registrar of Companies of the appointment of the company’s directors and secretaries. In all, each stage required dealing with a different arm of Government and or department within the Registrar of Companies office. This process in itself is a major barrier to the registration and operation of formal SMEs.


- Minimum membership of one and a maximum membership of twenty.
- Formation by way of incorporation statement filed with the Registrar of Companies, with the Registrar of Companies, with reduced complexity and formally.
- No need to specify the objects of the private business corporation in a formal memorandum.
- No need to appoint directors to hold formal meetings.
- There are no shares or share capital but only members’ interests.
- There is no need to publish or submit annual accounts to the registrar.
- There is no need to appoint a chartered accountant as auditor because a suitably qualified person will suffice, the form of accounts has been simplified, and each member is an agent of the private business corporation.
- In the event of reckless dealing members can be declared personally liable by the court
- Non compliance with the law gives rise to personal liability of members or debts.

Again, the objective of the private Business Corporation Act has been to make it easier for SMEs to start and formally register their businesses. The Act has, however, remained out of favour with SMEs in Zimbabwe because of poor information availability to prospective SME operators.
1.1.5 Banking Platform in Zimbabwe

Zimbabwean banking continues to grow with serious competition. New more customer-centric brands continue to enter the retail banking space or seeking to grow their presence in it. However, the Zimbabwean banking market is proving not to be easy as some face liquidation. Peculiar challenges, amongst them, the generally low liquidity conditions prevailing in the local economy, limited access to offshore lines of credit and the prevalence of cash based transactions present competitive hurdles. Furthermore, arguments always have arisen on whether or not Zimbabwe is overbanked. Currently, there are 24 registered banks in Zimbabwe (excluding Genesis Investment Bank and Royal Bank Zimbabwe Limited) battling for deposits of just over US$ 4billion (including interbank deposits). Zimbabwean confidence in the banking sector remains largely on the low side, hence, smaller enterprises choosing to do informal transactions.

**Figure 1.2: Deposit Analysis by Bank as at 31 December 2012**
Source: BancABC (April 2013)

In Zimbabwe the top five banks control about 54% of total banking assets. These institutions included CBZ (22.3%); BancABC (11.0%); CABS (9.7%); Stanbic (7.9%) and Stanchart (7.8%). Barclays bank which used to be one of the leading banks has been relegated to 6th position. Institutions that experienced growth in balance sheet include Metbank (87%), NMB (79%), and CABS (78%). Over the years Stanchart’s market share has progressively decreased from 15% in 2009 to 10% in 2010 and 8% 2011 and 7.8% in 2012, mostly because of their stand not to lend.
According to Reserve Bank of Zimbabwe Policy Statement (2012), the introduction of the multi-currency regime has done little to restore public confidence in the banking sector. Structural and operational deficiencies continue to threaten the viability of many banks. Coupled with high percentage of non-performing loans and income generation challenges, a number of banks continue to be exposed to dire liquidity and solvency challenges.

![Figure 1.3: Zimbabwe’s Market Share by Deposits](source)

Out of 18 financial institutions active in the market CBZ Bank has the largest share of deposits at 25%, equivalent to US$1,003m or US$1bn. Undoubtedly, CBZ has the biggest accounts of SMEs in the market mostly those supported by Government. BancABC is ranked 2nd with a market share of only 11% or US$462m. Generally in 2012, deposit growth trend exhibited an irregular trend, making it difficult to manage liquidity risks in the banking sector. Most banks have therefore seen the importance to adhere to the 30% liquidity requirement threshold in order to safeguard themselves against intermittent periods of liquidity crunch.

1.1.6 Banking SMEs: the missing gap

In most countries, commercial banks are the main partners for SMEs (Figure 4), with that in mind the prevailing liquidity challenges has more to do with the informal
operations mostly by the SMEs sector, hence a potential positive correlation between the financial sector and the SME sector. The overall SME financing gap is particularly pressing in non-developed countries, since the bulk of them report a widespread shortage of interaction with financial institutions for all categories of SMEs. According to Gallup Europe (2005) even though SMEs report for a large share of enterprises, and symbolize potential employment and economic growth in emerging economies, they prefer to operate informal, hence nonexistence of financial records and as result most of them are denied any access to formal financial support. The distinctiveness of the banking system in emerging markets frequently inhibits SME lending. Many banks are privately-owned; their credit may not be allocated on the basis of Government guarantees or in line with government targeting to develop specific sectors. In most cases banks focus to ceilings on the interest rates they can charge, which make it complex to price credit in a way that reflects the risk of lending to SMEs. But, the bigger picture reveals that in the absence of banking history from SMEs, banks are not ready to take what they term unnecessary risk with such enterprises. SMEs on the other hand argue that that lack of confidence, appropriate products, rigid policies and requirements, very high charges and margins in most financial institutions are the main causes of not transacting through the formal channel.

According to the Reserve Bank of Zimbabwe Policy Statement (2012) the financial sector’s loans and advances amounted to US$3, 27 billion as at 30 June 2012 representing a growth of 18.5% from US$2, 76 billion as at 31 December 2011. Dr. Gideon Gono, in the same report, indicated that total loans that were extended to SMEs by the various financial institutions amounted to a paltry US$164, 4 million out of total loans, accounting for just above 5% of the total loans.

For a sector that has mostly become the salvation of low-income generating families, the present support by banking institutions to SMEs could be a drop in the ocean. SMEs, according to official figures constitute 70% of the economy that means that the bulk of economically-active Zimbabweans are employed by the sector (Reserve Bank of Zimbabwe, 2012). Mafirakurerwa (2012) reported that most of these firms are run by former employees of large companies who have over the years gained experience and the ins and outs of the business. Evidently, there is a relationship
gap between SMEs and financial institutions. Like many small businesses in the
globe, local SMEs have been constrained by limited finance, not-so-efficient
technology, and ineffective marketing due to limited resources, among others. Due to
constrained cashflow, most SMEs do not bank their revenues. In pursuit of
economies of scale they often prefer dealing in cash which often pushes down the
cost of production and ultimately their pricing down.

![Figure1.4: Sources of Financing for SMEs](image)


Banks also believe SMEs should pay their employees through formal channels to
enhance accountability and value chain in the system. A World Bank study
established that the contribution of the formal SME sector to formal employment in
Zimbabwe for period 1990-1992 stood at 15.20 percent against an average 17.56
per cent for all low-income countries. Several studies on the employment creation of
the SME sector in an economy have used the hypothesised link between the
sources of these new jobs and the state of the macro-economy (Liedholm, 2001, p.
13). In terms of the size distribution of SMEs, 69 percent were very small consisting
of one person working alone confirming that self-employment was a central element
in Zimbabwe's economy. Using the definitional universe of the SME’s as those firms
with 1-50 workers, the survey results suggest that Zimbabwe had less than 2 per
cent of businesses at the upper end of the tail comprising of those SMEs with 10-50
workers.
Of late, frequent calls have been made for the setting–up of a dedicated financial institution to fund the development of local SMEs at reasonable interest rates that would not choke their development. At most, the central bank has been using moral suasion to convince banks to lend to the SMEs, but this does not seem to be yielding any positive result. However, it remains a mystery for most financial institution who argue that as long as SMEs do not formalise their operations and accounts their revenue, no change will be realised.

1.1.7 SMEs in the CBD of Harare

In the period before 2005, most SMEs used to do business along the road sides and in homes. They operated in informal structures and had no work places to do their business. The Government embarked on an operation called ‘Operation Murambatsvina’, (operation remove rubbish/ clean up). Understanding the importance of SMEs contributing to solving both economic and social problems for the country, the Ministry of SMEs lobbied the City of Harare for land to build shelters for SMEs to work in. The Ministry got the land and constructed workstations to accommodate mainly SMEs who had lost their premises due to ‘Murambatsvina’ and those who were manufacturing and selling furniture along the streets.

Recently, tuck shops, garages, food outlets, street vendors resurfaced in the capital in the name of indigenisation, resulting in direct competition to established enterprises (Sibanda, 2013). Most of these new players are not registered, have no bank accounts, pay cash in salaries and do not pay tax under illegal structures outside the demarcation of the city. On the other hand, they have become employers to struggling youths and job seekers, providing them with incomes for survival. According to the National Chamber of Commerce (2011), the Harare’s Central Business District (CBD) is now dominated by small- to- medium-scale non indigenous traders due to high rental charges. Gundani (2011) said they conducted the survey to identify who was occupying most space in the city centre and the majority of small traders proved to be Nigerians and Chinese. The survey indicates that clothing shops account for the bulk of front windows in the capital. Clothing shops make up a total of 420 ground-floor window shops accounting for 33% of activity in the CBD while motor spares and services are at 22% (National Chamber
This development reflects that the economy has basically become a trading economy as 50% of the retail is made from imported goods. Supermarkets and tuck shops are at 6%, electrical shops are at 10% while furniture and hardware combined make up 4%.

Gundani (2011) revealed food outlets make up a relative portion of these small businesses, with the largest concentration around the middle of town at 5%. There are around 14 shopping malls and 28 car sales dealerships in the CBD.

1.2 Research Problem

Since the origin of multi-currency in 2009 in Zimbabwe, financial institutions continue to face liquidity challenges which lead to subdued performance and closure at times. Recent reports indicate there is over US$6 billion circulating in the Zimbabwean’s economy, only US$4 billion is traceable and not necessarily banked and US$2 billion untraced funds; which is believed to be enough to ease the liquidity challenge.

While various studies have shown how the Government, Non-Governmental Organisations (NGOs) and the private sector support the SMEs in Zimbabwe with the objective of developing and growing them, lack of formal structures continues to be a challenge, hence, there is limited support and attractive environment for the SME sector to partner with banks.

In an attempt to bridge the gap, the research focuses on ways financial institutions can attract SMEs to formally circulate their revenues through formal channels of the economy. It is now apparent that financial institutions need to be more innovative by tailor making appropriate products for SMEs, as well as proper practise of corporate governance, in a bid to return confidence in the sector.

As such, the focus of the study is to identify factors that influence SMEs to banking their revenues and to make recommendations on the strategies and factors that can persuade banking the unbanked SMEs.
1.3 Research Objectives

The broad objective of this research is to establish ways of channelling untraced funds believed to be circulating in the informal sector to financial institutions in a bid to ease liquidity challenges as well as promoting SME growth. The key objectives of this research paper will therefore be:-

- To investigate factors influencing banking the unbanked SMEs;
- To identify the strategies that banks can use to bank the unbanked SMEs;
- To ascertain the link between current liquidity challenges in the financial institutions and the missing revenue in circulation attributed to unbanked SMEs.
- To make recommendations on the strategies and factors that can influence banking the unbanked SMEs.

1.4 Research Questions

- Do SMEs operate active bank accounts?
- Do SMEs formulate the unbanked sector?
- Why are SMEs not banking their revenues?
- What role can financial institutions play to bank the unbanked SMEs?

1.5 Research Proposition

To determine factors that can influence banking the unbanked SMEs given the informal environment in which they are operating in.

1.6 Research Justification

SMEs play an important role in the socio-economic developing of the country. A number of policies and support initiatives from the government, private sector and non Governmental organizations are being focussed towards the improvement of the sector. RBZ (2012) reveals that the prevailing liquidity challenges in the economy of Zimbabwe is partly caused by untraceable funds circulating in the informal sector, particularly SMEs. The research therefore, seeks to enumerate major causes of SMEs not to bank their revenues and try to come up with possible solutions on how
financial institutions can attract SMEs into banking. The findings from this research may help consultants, business advisors, financial institutions, local and foreign investors and SMEs owner/managers to find better ways of finding solutions to the liquidity challenges faced by the financial sector. Identifying such constraints and challenges may assist all stakeholders in taking appropriate actions to mitigate these problems, and thereby facilitate further strong growth of both sectors. These research findings can be used by policy makers to see where current policy is falling short of the desired objectives and strategies that will touch unbanked money in the circulation of the economy.

1.7 Scope of Research

The study is based in Harare. The area of study will be limited to the central business district of Harare from where the sample is drawn. The research respondents are SMEs owner/managers support institutions and banking managers/Executives

1.8 Dissertation Outline

The research document is organized into five chapters. Chapter one covers the introduction, background of the problem, problem statement, research objectives, research questions, research proposition, and justification of the research and limitations of the research. The second chapter reviews available literature whereby the theoretical and empirical concepts that underpin the topic. Issues discussed in this chapter include the definition of SMEs, importance of SMEs in the financial sector, banking SMEs, formal business structure models vs. determinants of SMEs business. Also to be discussed in this chapter is the constraints to SMEs growth vs. informal operations, roles played by financial institutions to attract SME banking. Chapter three looks at the research methodology and approach used to obtain data for the research. Chapter four presents the results of the study to answer the research questions. Finally, Chapter five provides the conclusions and recommendations and the area of further research for future researchers.
1.9 Chapter Summary

Liquidity is currently a critical area for financial institutions in Zimbabwe given the high levels of untraceable funds circulating in the economy. This chapter introduced the research and highlighted the study background as well as study objectives. In chapter two, the research reviews literature in the field of banking the informal sector, SMEs in particular. The next chapter explains both the theoretical and empirical literature surrounding roles that banks should play to attract SMEs to bank their revenues.
CHAPTER TWO

CONCEPTUAL FRAMEWORK

2.0  Introduction

SMEs have been distinguished as a force widely assumed to offer considerable development potential to most developing countries (Macintosh, 2003; Saeed, 2002; Pedersen, 1998; Tevera, 1998; 1995; Rasmussen, 1992; Helmsing, 1993). It has been argued that SMEs can offer a better option for most of the developing countries particularly their contributions in providing employment and revenue (Sunita and Mead, 2000; Mumbengegwi, 1993; McPherson, 1991). Unlike their counterparts large companies; SMEs are more flexible but informal. The informal nature in doing business has been adopted as the main cause they do not declare their revenues and therefore avoiding to pay taxes and other dues to authorities. In the same manner banks argue that the liquidity challenge in the economy is caused by the unbanked money circulating in the market, mostly by SMEs.

While the importance of the SME sector and the informal sector is acknowledged internationally, defining an SME is a challenging task, as every country has its own definition. There is no single, uniformly accepted definition of a small firm (Storey, 1994)

This chapter reviews theoretical and empirical literature into factors influencing banking the unbanked SMEs. The chapter start by providing the definition of SMEs, structures in the unbanked sector, challenges in banking the unbanked, benefits of banking the unbanked, and cases on best strategies used by other countries to bank the unbanked SMEs, .

2.1  Definition of SMEs

Beaver (2002) argues that there is no numerical definition of what constitute a small scale enterprise. Kapoor et al (1998) concurred that there is no universally agreed definition of the mall scale business in Zimbabwe either. The general definition of SMEs often varies upon who is defining and the purpose of their definition.
Storey (1994) quoted by Beaver (2002) observed that there is no single or uniformly accepted definition of small business. The technical definition of SMEs varies from country to country and industry to industry depending on the size of the economy. According to the Bolton Committee’s (1971) report cited by Beaver (2002), a small business can be defined qualitatively or quantitatively.

Osteryoung and Newman (1992) define a small business as a business in which owners must personally guarantee any existing or planned financing and in which there is no public negotiability of share ownership. The Bolton Committee’s Report on Small Business (1971) cited by Beaver (2002) defines it as a business that is managed by owners or part-owners in a personalised way, and not through the medium of a formalised management structures. They are independent. They do not form part of a larger enterprise and they have a small share of their market place.

In order to overcome problems that were encountered in defining a small business, the European Commission (EC) coined the term ‘Small and Medium Enterprise’ (SME) (EC, 2003). To qualify as an SME, the European Commission (EC) requires that both the employee and the independence criteria be satisfied, and either the turnover or the balance sheet total criteria. EC (2003) defines SMEs as indicated in Table 2.1 below.

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>Headcount Annual Work Units</th>
<th>Annual Turnover</th>
<th>Annual Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium sizes</td>
<td>&lt; 250</td>
<td>&lt;50 million Euros</td>
<td>&lt;43 million Euros</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt;10 million Euros</td>
<td>&lt;10 million Euros</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>&lt;2 million Euros</td>
<td>&lt;2 million Euros</td>
</tr>
</tbody>
</table>

**Table 2.1: The EU Commission Definition of SMEs**
Source: European Commission Recommendation (2003, P. 14)

2.2 Bank’s definition of SMEs

According to De la Torre et al. (2010) banks in developing countries generally define SMEs in terms of average annual sales, with thresholds that vary by country according to the size of the economies and structure of the corporate sector. In Argentina, banks consider a company to be an SME when its average annual sales
are approximately between US$300,000 and US$30 million. In Zimbabwe, Mukras (2003) observed that banks with more developed business models for SMEs typically distinguish between small enterprises and medium-size enterprises and that companies with average annual sales below the mentioned ranges are considered to be microenterprises and those above are defined to belong to the corporate sector.

2.2.1 Zimbabwe’s definition of SMEs

According to Mukras (2003, p. 60), the government of Zimbabwe applies the following definitions for the different classes of enterprises. Micro-enterprises are defined as those enterprises that make use of family as well as hired labour of up to five (5) workers. Small scale enterprises are defined as those enterprises which employ between five (5) and (20) twenty hired workers. Medium scale enterprises have an employment capacity of twenty (20) or more, have a capital value of US$0.05 million, fixed assets valued below US$0.05 million and US$0.1 million and an annual turnover of up to US$0.5 million and US$5 million.

SEDCO defines an SME as a business with not more than seventy five employees (SEDCO, 2003). The Confederation of Zimbabwe Industries (CZI) Newsletter (2010, April) currently defines a small business as a business with an employment capacity of one to twenty hired employees and an annual turnover below US$4 million. A medium scale enterprise is defined as a business with an employment capacity of twenty one to thirty five hired employees and an annual turnover of US$4 million dollars to US$4.5 million.

The SME sector definition has been fraught with the problem of definitional clarity (Simpson et al, 2010, p. 26 - 27). For instance, the distinction between "informal or micro-sized enterprises" and small-scale enterprises has been one source of such definitional fuzziness while the distinction between "small enterprises" and "medium enterprises" has also wrought contestation. To that extent, the SME sector in Africa has been prone to varied labelling: "micro and small enterprises" or MSEs (, 1991) and "micro, small and medium enterprises" or MSMEs and also referred to as "small, micro, and medium enterprises: or SMMEs (Gelb et al., 2009; Zimbabwe, 2002a).
However, the standard definition of the SME sector has been provided by the SME Department of the World Bank (ibid) which views small enterprises as those formal sector entities with up to fifty (50) employees and total assets and total annual sales of up to US$3 million. In Zimbabwe, an MSME Policy and Strategy Framework has defined small and medium enterprises as those who are ‘registered in terms of their legal status’ and ‘employing anywhere between six to <100 workers’ (RBZ, 2008, p. 20). The Reserve Bank of Zimbabwe is proposing a review of the current definition of SME to ensure that it includes those which have the potential to create sustainable jobs. According to RBZ (2012) the SMEs definition in terms of section 2b of the Finance Act (Chapter 23:04) is determined by reference to its employment levels, annual turnover and or asset value in terms of Act. To arrive at the conclusion, points ranging from one to four are substituted in the following formula: A+B+C where:-

- **A** - Represents the average maximum total number of full time employees during any calendar year of a firm.
- **B** - Represents maximum total annual turnover of a firm
- **C** - Represents maximum gross value of assets (excluding immovable property) of a business or enterprise.

The factors A, B and C are assigned a pre-determined number of points, such that if the total sum of the formula is nine points or less then the firm is considered an SME.

<table>
<thead>
<tr>
<th>Base</th>
<th>Range</th>
<th>Points</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment levels</td>
<td>Up to 5 employees</td>
<td>1</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>6 to 40 employees</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41 to 75 employees</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>76 and above</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>Up to $50,000</td>
<td>1</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>$50,001 to $1,000,000</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,000,001 to $2,000,000</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,000,001 and above</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Gross value of assets</td>
<td>Up to $50,000</td>
<td>1</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>$50,001 to $500,000</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$500,001 to $1,000,000</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$2,000,001 and above</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

**Table 2.2: Interpreting SMEs in Zimbabwe**

*Source: www.rbz.co.zw*

Based on the results of the formula A+B+C based on the table above, any score of:
a) 3 or 4 points means “micro-enterprise”;
b) 5, 6 or 7 points means “small-sized” business or enterprise;
c) 8 or 9 points means “medium-sized business or enterprise”.

This research will adopt Mukras (2003)’s definition of SMEs using the employment based proxy. The SMEs in Harare are said to have a different numbers of employees. Those with less than five employees are classified as micro enterprises, those with five to twenty employees are classified as small enterprises and those with employees above twenty but less than seventy five are classified as medium enterprises. The maximum number of employees (not exceeding 75) is based on SEDCO definition of SMEs. The use of the number of employees in defining SMEs is the preferred criteria by many related studies in Southern African region and outside Africa as a result of the above reasons. Compared to financial measures, employment based proxy has the advantage that the number of employees is readily visualised, relatively inexpensive and easily understood. It is also not subject to inflationary pressures (European Commission, 2003). For the purpose of this research, both formal and informal enterprises are incorporated in the definition of SME.

2.3 SME Operations

Globally, it has become apparent that small to medium enterprises (SMEs) have not only added to the volume of nation’s gross domestic product (GDP), but are by far the leading employers in many economies. European Commission (2012) suggests that more than 99 percent of all European businesses are SMEs, which hire more two thirds of the private sector personnel. Most developing nations have therefore realised the importance of conducting a big drive in the direction of creating the most favourable atmosphere for them to extract the most value. Mugaga (2011) conducted a research into operations of SMEs in Zimbabwe and noted that the SME’ story to develop into formal operations has not been successful and from the Government perception, the acknowledgment of SMEs as a prevailing part of the economic milieu is yet to fully happen. In the past, the SME sector has been referred to by the term "informal sector", and was symbolized originally as a department in the President’s Office, prior to being given full Ministry status relatively recently. Even after this credit was granted, the Ministry’s emphasis has been more on micro-enterprises, with the
proper SME sector as defined worldwide seeming to drop into no-man's land (Mugaga, 2011). From this analysis, it is apparent that the country’s failure to craft a vibrant, recognized SME sector has arisen largely from a government strategy point of view. The research conclusively proved a slow recognition of SMEs capabilities in the country. Somewhat, than put an effort to work to becoming one of the formal economy, SMEs view it as useful to stay part of the unregulated sector because of apparent advantages like not paying statutory obligations, not complying with regulations that relate to formal business, being able to take short-cuts and being accountable to no-one. Gundani (2011) noted that a critical weakness with the "informal" setup is the fact that the SMEs themselves do not keep proper accounting records of their activities. Keeping accounts is seen as a waste of time, money and effort, and is also avoided as a means of ensuring that there is no track record of what the proprietor would have done, in the event that any Government agency comes to visit. Bank accounts are also shunned for the same reason, with transactions occurring on a cash basis.

Mugaga (2013) concluded that while this approach may work in good times, it is when the bad times strike, such as now, that the weaknesses emerge. The lack of formal records means that the proprietor is unable to recognise when sales start slowing down, or costs start to rise unacceptably. Corrective measures cannot be taken in time if there is no timely recognition of problems, and this leads to poor, unguided decision-making and ultimately bankruptcy. Forward planning is also not feasible where current performance is unknown. With no banking history to talk of, and no accounting records to tell one’s tale, informal operators find that seeking funding is next to impossible to do. This is the real reason why there is the current stand-off between SMEs and the banking sector, with the former accusing the latter of refusing to cooperate, and making "impossible" demands on the SMEs (Mugaga 2013).

EC (2012) revealed that most SMEs are subsistence-oriented, or aimed at satisfying narrow goals or objectives. SMEs in Zimbabwe arose during the hyper-inflationary era, and were aimed at ensuring survival, or pursuing maximum wealth within the shortest possible time (EC 2012). Even now, a large percentage of people starting businesses are doing so because they have been retrenched, have failed to secure employment or are just looking for a way to support the family.
2.4 Financial Sector and SMEs

Historically banking has been one of the major constraints for SMEs (Ardic et al. 2012, Beck & Demirguc-Kunt 2006, Harvie 2004, Levy 1999). However, some research studies in other parts of the developing world have established other means of SME banking such as mobile banking as a suitable banking system for SMEs. The research further suggest that the commercial banks can target SME owners as a user group since SMEs retail payment is surprisingly high (Bangens & Soderberg 2011).

Provision of bank loans has also been topical in recent years as a way of banking unbanked SMEs. According to Cosh and Hughes (2003) there has been some attempt to consider access to finance in relation to personal characteristic. There is (a) plenty of finance and little or no difficulty accessing it (but the propositions are perceived as not viable, or the applicants are perceived as incapable of achieving the objectives, or there is insufficient collateral, and so the whole proposition is too risky for the banks) and, on the other, that (b) some people exhibit certain characteristics which makes it more likely that they will fail to secure the funding that they need.

Literature in Europe by Cosh and Hughes (2003) found that loans from UK banks provide the funding for around two thirds of UK businesses and the largest source for over 25 per cent of firms. The British Bankers Association (2006) reports that in the year to September 2005, term lending reached £33billion and overdraft lending had grown to nearly £9billion. Consequently, one can be in no doubt that banks are a major lender to small firms – yet there is still a debate about whether they are effectively addressing the needs of SMEs which can trigger them to start banking, particularly in Zimbabwe where confidence has been lost. It is therefore very critical to understand the decision-making process of both banks and entrepreneurs in the relationship.

In Zimbabwe, Kotey (1999) reminds us that SME growth is constrained and failure can be caused by financing constraints, and that there are both supply and demand side factors. On the supply side, it is noted that banks in Zimbabwe are less likely to
lend long term to SMEs due to risk (which is in itself caused by SMEs “lacking a track record of performance on the basis of which their credit rating could be assessed”) and cost (“administrative costs, potential interest income and to the risk of default”) and on account of lack of collateral. The demand side, Kotey (1999) continue to argue that many entrepreneurs do not wish to use long-term debt finance. Whilst this may be true for some, it is clear that many entrepreneurs in Zimbabwe are refused finance by banks.

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

Lane and Quack (1999) in the same subject, however, taking a sociological approach, reviewed an important issue in their comparative study of European SMEs’ banking and their entrepreneurs’ attitudes towards risk. It is this issue of risk which influences both entrepreneurs and banks in the deal making process: Entrepreneurs judge the level of risk with which they are comfortable whilst banks assess how risky the entrepreneur is as a lending proposition. This study will therefore bear in mind the issue of risk, given that certain personal characteristics of SMEs in the Zimbabwe’s CBD may make them more risk-averse or may lead banks to consider them more risky propositions.

Howorth (2001) investigated the pecking order when it comes to bank and SME relationship, although the theory emerged in other literature: entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends is often essential (and often regarded as quasi-equity by the banks) to unlock support from commercial institutions. Cressy and Toivanen (2001) agree that the only
relationship that can exist between banks and SMEs will eventually lead to borrowing. He say that, “better borrowers get larger loans and lower interest rates; collateral provision and loan size reduce the interest rate paid the bank is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses.” In effect, it may therefore be that simply because banks approach the lending process in a risk-averse way (in order to protect the funds of savers), and thus turn down a number of propositions perceived to be ‘riskier’, that there is an apparent ‘discrimination’ against for example women and ethnic minorities.

Research by Smallbone et al., (2001) suggested that the picture is actually quite mixed and as a group, SMEs are not underprivileged in terms of benefiting from banks and other formal sources. The study also found that SMEs were much more reliant upon informal sources of start-up finance.

2.5 Factors influencing banking the unbanked SMES

The unbanked are defined as those without an account or have dormant accounts at a bank or other financial institution. SMEs stay unbanked for a number of reasons. Some don’t see the need, others feel they do not have enough money or have had poor banking experiences in the past such as a mishandled account, overdraft fees, monthly maintenance fees, or minimum balances. Others lack appropriate identification, have language barriers or are intimidated by their lack of understanding of financial services (FDIC, 2009).

In Zimbabwe, despite the rebound from the 2008 financial crisis, banks are re-examining the strength and stability of their banking policies towards SMEs. However, they continue to concentrate on worries about market volatility, political and economic uncertainties and recent regulatory reforms. In agreement, Sibanda (2013) reported that about 43% of SMEs in Zimbabwe generated $7, 4 billion in revenue last year, have no access to financial services. Literature provide by FinScope (2013) noted that key barriers to financial inclusion were high bank charges, lack of confidence in the financial sector, small income, little business revenue, fear of debt, lack of affordability, ignorance. The report further revealed
that about 57% of start-up SMEs cited access to funding as a major constraint, 52% saying funding constrained operations/management while 43% said lack of funds affected their growth. The study found out that, of the 57% of SMEs that are financially included only 18% are actually formally banked and 14% are banked (driven by cash transactions and savings). Of those that are formally banked 7% are serviced by other financial institutions such as insurance firms, while 50% percent of the SMEs are largely driven by informal savings (Sibanda, 2013).

2.5.1 High bank charges

In banking, there are some costs associated with the service, such as account maintenance, traffic billing, commission charges and flat fees. The price has an effect on the motivation to accept or reject the service but also perceptions of price are important for customers who have not yet tried the service (Luarn and Lin, 2005 and Yao and Zhong, 2011). Recently the Reserve Bank of Zimbabwe signed a memorandum of understanding with local banks to lower bank charges as well as pay reasonable interest on deposits to promote a saving culture from SMEs and individuals. In Zimbabwe, bank charges rank from US$5 to US$15 per month for individual accounts while SMEs are charged from US$25 to US$45 per month per account (Reserve Bank of Zimbabwe, 2013). Under the new arrangement according to the signed agreement, banks will charge up to 0, 5% of cash withdrawal amount subject to minimum charge of US$2,50 while ledger fees, maintenance and service fees will cost up to US$4 per account.

2.5.2 Lack of security

According to Tobbin (2009) security or confidence is defined as the risk measured of losing money while transacting through banks. Prior to the multi-currency period in the country, businesses lost their savings through financial institutions. Tarisai (2013) reported that most people in Zimbabwe had lost confidence in the banking sector; hence there was an urgent need to change that perspective. Finscope Zimbabwe (2012) supports him and agrees that that 5,7 million people were employed by the sector amid concern of low financial inclusion. Notably, improving clients’ confidence in the sector remains beneficial to banks as the banking public would not hesitate to
deposit their hard-earned money. It is also the confidence that the banking sector should present in the clients so that SMEs will start banking with them.

2.5.3 Lack of financial support

Mutambanengwe (2013) reported that most banks offer products which primarily are meant to address their own fears and profit motive, hence the insistence on collateral and other “stringent requirements” like audited accounts, financial projections and professionally-done business plans. They have not looked to see what the SMEs need, then build products and risk mitigation measures around that need. Products such as salary-based loans, asset-backed finance and invoice discounting – backed of course by a mortgage on immovable property are what you find on offer. Invariably, such facilities also have very short tenures and long turn-around times for approvals. These are not the products that SMEs are looking for, or need. Many SMEs are also not able to provide the collateral, which is the main bone of contention at the moment.

2.5.4 Lack of capacity

SMEs generate very little sales which result in small income to save and bank. As a result most of them fail to grow and end up closing at an entry stage. Palma & Gabriel (2005) noted that the frequency with which SMEs manifest a capacity to grow and to innovate has caused higher failure and exit rates than do large firms. In part this reflects a “survival of the fittest” process in which firms lacking strong entrepreneurial skills or simply in bad market niches do not survive. FinScope (2013) reports that most SMEs’ average annual turnover rank between US$5,000 to US$100,000 with only 10% profit margin. Contrary, bank loans are accessed at more than 20% per annum excluding monthly bank charges of over US$45.

2.6 Benefits of banking the unbanked

SMEs continue to dominate the unbanked sector. According to Wyman (2011) SMEs are major contributors to a nation’s GDP. In G7 countries, SMEs contribute about 53% of the GDP. In the case of countries belonging to the European Union, the contribution is 49% of the GDP. In spite of the importance of SMEs, banks have not focused on the SME segment. However, banks, of late, are recognizing the
uniqueness of the SME segment and the need for differentiated servicing of SME customers.

2.7 Strategies that can be used by banks to bank the Unbanked SMEs

Developing a successful SME banking business is considered difficult, especially in Emerging Markets. De la Torre et al. (2010) observed that there is still a gap between the prevalent conventional view in academic and policy circles and how banks are in practice interacting with SMEs. In particular, the evidence presented characterizes a different pattern of bank involvement with SMEs, which is consistent with the arguments first articulated by Berger and Udell (2006). This new pattern goes well beyond pure relationship lending and is increasingly observable even in relatively less developed countries like Zimbabwe, where relationship lending would be expected to be more prevalent, the followings facts were concluded (De la Torre et al., 2010).

2.7.1 Relationship Management

Contrary to the belief that banks are not keen to bank SMEs, it was found find that most banks want to provide services to SMEs and also find this segment profitable, especially as margins in other banking markets narrow due to intensified competition (Berger and Udell, 2006). In particular, as the public sector and large corporations gain access to local and international capital markets and as competition in the retail sector (among banks and retail chains) increases, banks have greater incentives to incur the switching costs needed to pursue new business in the “middle” market of SMEs. In this context, SMEs emerge as a strategic sector for most banks—including large and foreign banks, not just small and niche banks. As a result, the SME market in the sample countries has become competitive, yet is still far from saturated concluded (De la Torre et al., 2010).

2.7.2 Awareness

Part of the interest in SMEs comes from the fact that, as argued by Berger and Udell (2006), relationship lending is not the only way in which banks can extend financing to these firms. Banks are increasingly applying to SME financing different transactional technologies that facilitate arms-length lending (such as credit scoring
and significantly standardized risk-rating tools and processes, as well as special products such as asset-based lending, factoring, fixed-asset lending, and leasing). According to Nichter & Goldmark (2009) SMEs remain part of the unbanked sector, and in most cases they are disadvantaged of banking facilities while at the same time contributing to economy in developing countries.

De la Torre et al. (2010) recommended that banks should therefore; approach SMEs individually with tailored products for their businesses. Banks have developed a wide range of fee-based, non-lending products and financial services for SMEs. These products and services can be very attractive in terms of profitability; in fact, the evidence suggests that lending is not always the main or the first product offered to SMEs and that it is often offered as a way to eventually cross-sell other lucrative fee-based products and services, including payments, savings, and advisory services. Cross-selling is a way for banks to maximize their scarce resource (capital). Moreover, selling products and services to SMEs deepens the engagement of banks with the firms. This is part of the efforts of banks to become the principal bank the SMEs engage with.

This will also make SME customers feel that they are dealing with specialists who understand their particular needs. Other aspect looks at differentiating the offer; where banks will also need to differentiate its SME offering from those of its competitors. The most thriving banks accomplish that through their product and service range. Price also has to be competitive; however, focussing on price competition is not a viable long-term strategy. Surveillance of competition came as another aspect where observations show that innovation and differentiation do pay dividends in the long run, it is critical to scrutinize market developments and what the rivalry is doing.

2.7.3 Access

According to Scarborough (2011), SMEs in the unbanked market make decisions based on convenience. For that reason, banks wanting to capture the unbanked are always encouraged to locate branches in places well-located for this market. While alternative branch locations will assist in reaching this market, rethinking the role of
traditional branch locations is also a wise idea. Some financial institutions, including Key Bank in the USA, have started to include financial education centres in their urban branches to educate or re-educate SMEs about the role a financial institution can play in their lives.

2.7.4 SME Mobile Banking

An empirical investigation by Aite Group (2011) showed that, SME customers are showing a willingness to subscribe to SME mobile banking services and that 30% of companies with revenues less than US$ 2 million would be ready to use mobile banking services by USA and European banks.

![Figure 2.1: Key drivers for SME Mobile Banking](image)

**Figure 2.1: Key drivers for SME Mobile Banking**

Source: Aite Group (2011)

The Aite group (2011) reported among the drivers, the following are providing the two primary thrust:

They have forecasted that mobile service penetration will reach nine billion users by 2017, while the number of actual users will amount to five billion people, 85% of which will be able to use high-speed 3G mobile internet. According to the estimates made by Ericsson In summary, currently, the positive environment allows business development adjustments with a focus on remote services for customers. But it is important to note that customers are not merely individuals but also SMEs that have not yet been covered by remote banking services. The SME share of production volume in Russia’s GDP grows year-by-year, approximating one third of GDP.
Putting two and two together, we can now talk about a warmed-up market that can be penetrated with new and interesting solutions.

2.8 Cases of Mobile Banking in Africa and the Influence of Banking SMEs

An Empirical review by Rangan (2011) in the Harvard Business School case study on mobile banking for the unbanked using two different examples of mobile financial service models: WIZZIT a third-party start up that teamed with a major bank to provide standard banking services via mobile access to poor residents of South Africa; and M-PESA, an initiative launched by the mobile network operator Safaricom offering a new type of financial service to the poor residents of Kenya.

The study noted that of the two, M-PESA is more successful after realizing that the intended customers didn't really want bank accounts at all—they wanted effective ways to send money home to their families (Rangan, 2011).

WIZZIT entered the mobile banking market in 2004 where the mobile phone penetration rate in South Africa was almost 100 percent; also taking advantage of the onset of prepaid services that offered low-cost handsets and the opportunity to buy airtime in advance. However, according to Rangan (2011) the WIZZIT was not a success given that a subscription model doesn't appeal to the poor at all and as a result individuals don't want to pay a fee for something they might not use. In addition, more than half of South Africa's population had no access to a bank account. This was largely because half of the populace lived below the poverty line, and banks, understandably, were not eager to serve a moneyless customer base.

WIZZIT's founders believed there was a noble and viable business model in bringing banking to the poor, via a mobile banking platform that could be used on even the most primitive cell phone. They succeeded in finding an engineer to develop the platform, but quickly ran into a major regulatory roadblock. According to the South African government, only licensed banks were allowed to take deposits. The cost of a license was the equivalent of $34 million—a hefty fee for a start up—and the South African Reserve Bank was wary of issuing new permits. Hence, the WIZZIT executives began searching for an established banking partner. Time and again the
top-tier banks turned them down, so the company ended up teaming with a second-tier bank, the South African Bank of Athens.

In most developing countries, including Zimbabwe the majority of the population lives in rural areas, but the common of bank branches and jobs are in major towns. To send money home, a city worker has to seal his/her wages in an envelope and pay a courier to travel for hours to the village. In other cases the worker travels to the village, but that meant paying a hefty percentage of the wages for bus fares, plus a day of lost work.

In a case study that focused on mobile banking in Kenya, in 2007, Safaricom and Vodafone built M-PESA, a money-transfer application that resides on a phone’s SIM card, as a tool for microfinance organizations to collect loan payments. ("M" stands for "mobile," and "pesa" is the Swahili word for "money."). According to Rangan (2011) M-PESA drivers understood a fundamental theorem of marketing: understand what your customers really want. They created a distribution channel, where they franchised thousands of convenience stores to act as M-PESA agents at their existing places of business. Empirical evidence by Mas and Amolo (2010) showed that Safaricom approach to developing the service has led to its success to date.

Rangan and Katharine (2012) described the workings of the two mobile banking operators in Africa; WIZZIT in South Africa and M-PESA in Kenya and concluded that it is the dimensions of strategy that make for success in the market for the unbanked. However, Mas & Dan (2011) indicated that retail payment systems require scale to get off the ground and struggle to grow incrementally and this can be due to three factors:

(i) Network effects: when it comes to payment systems, the value of joining a network is directly proportional to the number of people already on it;

(ii) Chicken-and-egg trap: in order to grow, these systems must aggressively attract both customers and cash-in/cash-out merchants in tandem, otherwise, merchants will stop offering the service due to low transaction revenue and customers will not join the system because they cannot access a convenient outlet;
(iii) Trust: customers have to become comfortable going to non-bank retail outlets to meet their cash-in/out needs and initiating transactions through their mobile phones. Until a deployment serves a large number of customers, people will lack trust in the new system, because they know few who can vouch for it.

For banks to bank the unbanked, mobile money needs to go to a critical mass of customers as quickly as possible. To do this, Mas & Dan (2011) suggest that they need to get three things right. First, they must generate enough urgency in customers’ minds to learn about, try and use the service. Second, they must spend heavily in above and below the line marketing to establish top of mind awareness of (and trust in) the service among a large segment of the population. And, third, they must incur substantial customer attainment costs (beyond marketing and promotion) to ensure that their cash-in/out merchants are adequately incentivized to promote the service (Mas & Dan 2011).

In his study, Oliveira (2011) found that 55% of today's computerized commercial banking services were first developed and implemented by non-bank firms for their own use, and 44% of today’s computerized retail banking services were first developed and implemented by individual service users rather than by commercial financial service providers. Manual precursors to these services – manual procedures that carried out functions similar to computerized services in our sample – were almost always developed by users as self-services.

2.9 SMEs Transacting through Mobile Banking

The Cost and Revenue Factor facilitates the relatively lower cost advantage by providing services through mobile devices which makes it that much more a compelling proposition for banks, as the average cost of servicing a transaction is the lowest on the mobile channel.
Figure 2.2: Cost Comparison for Banks—Developed countries
Source: The Aite group (2011)

Figure 2.2 provides a comparison of an average transaction cost across banking channels in developed countries. It is noted that the average cost of a transaction is the lowest among channels for the mobile channel.

This way banks can move routine banking transactions to the mobile channel while retaining operations which require personal interactions in the branch. In other words, SME mobile banking provides banks the opportunity to strike the most optimized balance between assisted service and cost-effective self-service.

For long, monetization of mobile offerings has been a pipe dream for banks. The icing on the cake is the potential for monetizing services being offered on mobile to SME customers. An Aite Group Small–Business Survey, Aug 2011 indicated that more than one third of SME’s (interviewed as part of the survey) showed a willingness to pay for value added services on mobile.

According to Capgemini et al., (2011) payment push has been described as the strong growth expectations on the mobile payments space. The report projects that the value of global mobile payments reached €62 billion in 2010 & is expected to grow aggressively at a sustained annual rate of 52.3% from 2009 to 2013, putting global mobile payments at €223 billion. In fact many banks such as J.P Morgan Chase, Citi and Bank of America are providing their customers the ability to transfer...
money from account to account through mobile facilities such as B2B (Capgemini et al., 2011). Additionally, the emergence of the smart phone as a mobile point of sale (POS) enabler has the potential to provide greater value to the mobile SME banking proposition.

Square, the mobile payments start-up, recently introduced the Square Register App that can replace the expensive card readers at small business shops. The Square Register app (which can be deployed on an iPad) can be used for processing credit and debit card payments. It comes with a free detailed analytics system for business owners and more integration with Card Case, Square’s consumer-facing app that allows people to pay with their smart phones just by being in the vicinity of a Square-using business. Card Case uses GPS tracking to detect when a customer is near a store and lets storeowners automatically charge them without having to swipe a credit card (King, 2012). Over a period of time banks can play the role of an acquirer for these types of Mobile POS services. King (2012) has predicted that “Within the next 3 years our phone will become the payment device of choice for paying SMEs who work in the service arena.”

Aite Group (2011) reported the Unbanked for developed and developing economies, small businesses have very limited/ no access to formal financial services. The banks have limited information on the small business owner and have a natural disinclination to provide access to formal bank services. Mobile banking is identified as a solution for unlocking the entrepreneurial potential of the informal sector. The potential of SME mobile banking can be unleashed in the following manner (Wyman (2012):

a. Development of electronic alternative (air time) to cash;
b. SMEs can build a transaction history by transacting electronically (with a link to a bank account);
c. The transaction history created can facilitate SMEs in building their bookkeeping records (through a mobile based book keeping and inventory system);
d. The transaction history and book keeping records can potentially open the doors of the SMEs to formal banking services;
Wyman (2012) concluded that the number of unbanked or under banked mobile subscribers around the world is projected to reach 2 billion by end of 2012.

2.10 SME mobile banking operations

An empirical investigation by Aite Group Small Business survey (2011) of the level of the approach that Banks take to offering Mobile Banking services to SME customers is heavily dependent on how Banks approach the SME segments itself. Traditionally, banks have classified SME customers either under the retail business or under the corporate business and therein lies the challenge faced by a number of banks today. Banks are beginning to realize that SME customers are being sub optimally served because of this approach. Consequently, a number of banks are looking to launch tailored SME segment specific solutions and offerings. Further, due to the nature of the SME segment, a single broad based solution may not serve the needs of all the customers.

The research also reveals that banks are at the starting stage of rolling out SME focused Mobile Banking services. This can also a reflection of the level of adoption of mobile devices for banking services by the SME segment. The Aite Group survey (2011) highlights that less than 20% of small businesses currently bank through a mobile device. However, the survey also indicates that the scenario is changing and more than one-third of those SMEs surveyed would even be willing to pay for a mobile-based SME Banking offering.
As the adoption of mobile devices (including tablets) increases and traditional limitations such as limited real estate of mobile phones are overcome, SME customers will look to adopt the Mobile channel for increasingly advanced Banking services. Further, it is seen that the geography also determines uptake of Mobile Banking services – for example, uptake of Mobile Banking services for all customer segments in the Singapore and Australia markets is significantly higher when compared to the US market.

2.11 Link between liquidity challenges in the financial institutions and unbanked revenue attributed to SMEs

2.11.1 Liquidity challenges

Liquidity in finance is generally shorthand for either trading (market) liquidity or funding liquidity. Following Brunnermeier & Pedersen (2009), we understand these terms as follows:

- Trading liquidity: the ease with which an asset can be traded
• Funding liquidity: the ease with which a trader or firm can obtain funding

Associated with both forms of liquidity is the idea of liquidity risk, the harmful consequences of illiquidity. The Bank of England Financial Stability Report (Bank of England (2007) finds that trading (or market) liquidity risk is present when a trader or firm “cannot easily offset or eliminate a position without significantly affecting the market price.” The Reserve of Zimbabwe (2012) defines bank liquidity as the ability of a bank to meet its immediate obligations as they fall due. In a nutshell, liquidity is the general level of liquid assets funding a certain level of economic activity.

Gono (2012) argued that it is an undisputable fact that the banking sector plays a pivotal and indispensable role in economic growth through efficient allocation of resources via financial intermediation. The intermediary role of banks is, however, effectively played in an environment epitomized by liquidity adequacy. Additionally, improved market confidence and the smooth operation of the payment systems, largely depend on adequate liquidity in the economy. As such, lack of liquidity in the banking system seriously undermines the stability of the financial system and results in loss of market confidence (Gono 2012). It is against this background that liquidity is regarded as the life blood of the economy, and in its absence financial markets cease to function efficiently. Persistent liquidity constraints in the Zimbabwean economy have resulted in reduced public confidence in the banking sector as well as increased financial disintermediation.

The negative shock of the prevailing liquidity challenges have also been felt on the inter-bank market, a key factor of the money market and the starting point of the financial transmission mechanism. Gono (2012) added that the potency of policy initiatives geared at enhancing access to finance has been severely destabilized by liquidity constraints that have remained a burden around economic healing efforts. Lack of balance of payments and budgetary support as well as limited access to offshore lines of credit have also compounded the liquidity conditions.

2.11.2 Sources of liquidity

It is important to note that, within the auspices of multiple currency regime; where the Reserve Bank does not issue currency, liquidity sources are limited (Reserve Bank
of Zimbabwe 2012). In this respect, the country’s liquidity state is dependent upon developments on the outside sector front. Other than domestic deposit mobilization, which, to a large extent, is currently limited, the major source of liquidity is export earnings, Diaspora Remittances, Offshore Credit Lines, Foreign Direct Investment inflows and Portfolio Investment inflows. Efforts to improve the country’s liquidity conditions should thus place great importance on rising assurance in the banking sector and the economy at large. Improved confidence is usually accompanied by increased investment inflows which in turn support key productive and export sectors (Gono, 2012). This will improve liquidity conditions particularly under the multiple currency system. Gono (2012) adds that Zimbabwe requires adequate liquidity for both short term and long term funding for infrastructure and the productive sectors of the economy.

2.11.3 Significance of bank deposits

As a measure of liquidity, the loan-deposit ratio of banks has traditionally been employed to assess their ability to withstand deposit withdrawals and to judge their willingness to meet loan demand by reducing their cash assets and their investments in securities (FRB NY, 1966). Reserve Bank of Zimbabwe (2012) identifies liquidity position in Zimbabwe as the loan-deposit ratio which is used to measure liquidity. It is defined as total loans less loans to banks and loans to brokers and dealers divided by total deposits less cash items in the process of collections. According to the Reserve Bank of Zimbabwe (2012), banks are required to operate not less than 80% liquidity ratio at all times. The lower the ratio, the better, hence, signifies enough capacity to lend and to deliver cash when depositors require their funds.
Conceptual Framework

Figure 2.4 provides a schematic summary of the major factors that influence SMEs operations.

From the literature reviewed, banking the unbanked is vital for financial institutions. Banks have established different strategies to attract unbanked SMEs. Innovations such as SME Mobile Banking can be a long term option as it has potential to provide tangible benefits and oriented functionality to financial institutions as well as SMEs. There is need to assist SMEs with tailor made products, training, expert advice, and access to finance, access to technology, networking and a favourable macro-economic environment for them to formally operate and bank their revenues. Banks are therefore expected to pursue more strategies that attract SMEs to banking; such
as restoring confidence, re-engagement at individual level, and most importantly constant innovation of products that suit their individual operations.

2.12 Conclusion

The paper will contribute to the literature by analyzing the viability of small business formalizing their operations and start channeling their revenues to banks, and particularly, based on existing SME accounts with pooled data from multiple financiers in Zimbabwe. The findings will provide insights as to the value of banking the unbanked. Possibility of an SME mobile banking will be analyzed in line with the country’s technological platform.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methodology used in the research and will include the research philosophy, research design strategy as well as the thorough procedure of conducting the research. The research design comprises of the research strategy, aspects to do with the population inclusive of the sampling techniques and the data collection method. It is this chapter that will give readers an understanding of what transpired throughout the research.

3.1 Research Design

The research design gives structure to the study and the phenomenon, the model that controls a project and is principally the one that proposes to examine the data; but must include the plans for measuring the major factors and gathering the data (Baker, 1999). Likewise, research design is the blueprint for fulfilling research objectives and answering the research questions (Blumberg, Cooper & Schindler, 2011). It is the logical progression that put together the experiential data to a study’s initial research questions and eventually, to its finale (Yin, 2003). This study analyzed both early and contemporary approaches to research so as to establish the appropriate approach to the development of knowledge and theory and determine a testing process in the research. According to Lancaster (2005), the two earliest approaches are epistemological and ontological schools of thought. They include the concepts of positivism and Interpretivism and the quantitative and qualitative debate. The other approaches used are Deductive versus Inductive theory as well as Nomothetic versus Ideographic approaches.
3.2 Research Assumptions

3.2.1 Ontological Considerations

Lancaster (2005) observes that an ontological approach consists of progress of views on phenomena without unfolding them to some knowledge base. It looks on the nature of social entities, whether they are objective and independent from social actors or are built up from perceptions and actions of social actors (Bryman and Bell, 2003).

3.2.2 Epistemological Considerations

Vermeulen (1998) defines epistemology as a branch of philosophy which studies the nature of knowledge and the process by which knowledge is acquired and validated. “An epistemological issue concerns the question of what (or should be) regarded as acceptable knowledge in a discipline” (Bryman and Bell, 2003 p.13). The authors deem the central issue of this approach as whether the social world can be studied using the methods, principles and procedures used in the natural sciences. The reason for the selection of these approaches comes from the understanding that the business world is real and one can get into it, examine and come up conclusions. The epistemological position would be known as positivism where methods of the natural sciences are applied to the study of social reality.

Reality is regarded as a socially constructed creation based on individuals’ cognitions. The ontological assumption of this study is that reality is prejudiced and multiple. Participants in the study may see it in different ways. Perceptions are important, because they are the basis for entrepreneurs’ actions. The epistemological assumption of this study is that the world can be understood only from the point of view of the individuals directly involved in the activities in question. Therefore, in line with this assumption, the small firm owner/manager is seen to be the most suitable informant in this research. The research method used is believed to offer valid information about the research phenomena.
3.3 Research Philosophy

3.3.1 Positivism

Gill and Johnson (1997) as cited by Saunders, Lewis and Thornhill (2003, p.83) say that, with positivism, there is an importance on a remarkably structured methodology to facilitate imitation and on quantifiable observations that provide themselves to statistical analysis. Positivists consider that certainty is established and can be described from an objective opinion.

3.3.2 Interpretivism

The contrast to positivism is known as Interpretivism and its proponents disagree that the subject matter of the social sciences, people and their institutions is essentially dissimilar from that of the natural sciences, hence the call for a different research procedure (Bryman and Bell, 2003).

Saunders et al. (2003, p.84) take the view that the social world of business and management is far too complex to lend itself to theorizing by definite ‘laws’ in the same way as the physical sciences. The dispute is that if such complexity is reduced to a series of law-like generalizations, prosperous insights into this complex world is lost. Saunders et al. (2003) add that this argument would be convincing for business and management cases since business situations are compound and are also unique to each particular situation. They are a function of a particular set of circumstances and individuals (Saunders et al., 2003 p.84). This is what the researcher took into account in taking the Interpretivism approach in this research. Gilbert (1993), cited in Lancaster (2005) insists that this approach builds theories based on gaining knowledge of the world. Thus theory is built through observation of phenomena in the real world. The author goes on to say that it is theory which follows observation.

Leedy and Ormrod (2001) argue that quantitative research is used to answer questions about relationships among measured variables, with the purpose of predicting and explaining the phenomena.
Leedy and Ormrod (2001, p.102) provide a summary of the differences between these two research approaches.

<table>
<thead>
<tr>
<th>Question</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the purpose of the research?</td>
<td>To explain and predict</td>
<td>To describe and explain</td>
</tr>
<tr>
<td></td>
<td>To confirm and validate</td>
<td>To explore and interpret</td>
</tr>
<tr>
<td></td>
<td>To test theory</td>
<td>To build theory</td>
</tr>
<tr>
<td></td>
<td>Focused</td>
<td>Holistic</td>
</tr>
<tr>
<td></td>
<td>Known variables</td>
<td>Unknown variables</td>
</tr>
<tr>
<td></td>
<td>Established guidelines</td>
<td>Flexible guidelines</td>
</tr>
<tr>
<td>What is the nature of the research process</td>
<td>Static design</td>
<td>Emergent design</td>
</tr>
<tr>
<td></td>
<td>Context-free</td>
<td>Context-bound</td>
</tr>
<tr>
<td></td>
<td>Detached view</td>
<td>Personal view</td>
</tr>
<tr>
<td>What are the methods of data collection</td>
<td>Representative large sample</td>
<td>Informative, small sample</td>
</tr>
<tr>
<td></td>
<td>Standardized instruments</td>
<td>Observations, interview</td>
</tr>
<tr>
<td>Form of reasoning used in analysis?</td>
<td>Deductive analysis</td>
<td>Inductive analysis</td>
</tr>
<tr>
<td></td>
<td>Numbers</td>
<td>Word</td>
</tr>
<tr>
<td>How are the findings communicated</td>
<td>Statistics, aggregated data</td>
<td>Narrative individual quotes</td>
</tr>
<tr>
<td></td>
<td>Formal voice, scientific style</td>
<td>Personal voice, literary style</td>
</tr>
</tbody>
</table>

Table 3.1: Distinguishing Quantitative and Qualitative Approaches
Source: (Leedy and Ormrod, 2001:101)

The difference between the two approaches is that qualitative research is inductive and quantitative research is deductive. Bryman and Bell (2003, p.25) argue that, “… quantitative researchers employ measurement and qualitative researchers do not”. In qualitative research, a hypothesis is not needed to begin research. However, all quantitative research requires a hypothesis before research can begin (Miles and Huberman 1994). Another major difference is the underlying assumptions about the role of the researcher. In quantitative research, the researcher is ideally an objective observer that neither participates in nor influences what is being studied while in qualitative research, the researcher can learn about a situation by participating or being immersed in it (Miles and Huberman, 1994).
Qualitative research sometimes focuses too closely on individual results and fails to make connections to larger situations or possible causes of the results. Quantitative research, on the other hand, often forces reactions or people into categories that might not fit in order to make meaning (Miles and Huberman, 1994).

Those who support qualitative methods often quarrel that qualitative data allows one to accurately follow proceedings successively in a way that allows one to institute relationships between such events. Good qualitative data help researchers get beyond initial conceptions and to make or revise conceptual frameworks (Miles and Huberman, 1994). Each approach has its own advantages and disadvantages depending on what the researcher's objectives are. Miles and Huberman (1994) take the view that both methods can be used to complement each other for a thorough analysis of questions. They say that rather than discounting each approach for its drawbacks, researchers should discover the most efficient ways to integrate elements of both to ensure that their studies are as correct and as detailed as possible. As shown by Hathaway (1995), the alternative of which approach to use can reflect the interests of those conducting or benefiting from the research and the purposes for which the results will be applied. The findings of research projects often guide important decisions about specific practices and policies. Decisions about which kind of research method to use may also be based on the researcher's own knowledge and inclination, the population being researched, the proposed audience for findings, time, money, and other resources accessible (Hathaway, 1995).

This study adopted a combined research approach of qualitative and quantitative methods. The research was more qualitative in nature and less quantitative hence the development of a research proposition as opposed to the research hypothesis of the quantitative approach. Hurmerinta-Peltomaki and Nummela (2004) argue that, if only one method is used, some important elements of the research problem will remain unresolved so the combined method was used to take advantage of the strength of the triangulation method. Quantitative research is used in this research to make useful descriptions of observed phenomena and explaining the possible relationship between descriptive surveys. Qualitative approach brings access to well-grounded, rich descriptions and explanations of processes in identifiable context that statistical analysis often lacks. More of qualitative approach is appropriate for the
phenomena under study, which focuses on human perceptions within a social setting. In finding out the constraints of SMEs from banking revenue in the CBD, different individuals within the SMEs may hold multiple perspectives about the factors that constrain the growth of their businesses. It is thus the intention of the study to discover and reveal the nature of the different opinions.

3.3.3 Deductive and Inductive Theories

Durrheim (1999) explains that an inductive method proposes an immersion in the details and specifics of the data to discover important categories, dimensions and interrelationships and begins by exploring genuinely open questions rather than testing theoretically derived (deductive) hypothesis. Deductive approach to research therefore uses empirical observation to test theory or hypotheses. According to Lancaster (2005, p.22), the first step in deductive research is the generation of theory or hypotheses. Leedy and Ormrod (2001) argue that deductive logic begins with one or more premises which are self-evident and widely accepted truths. From the premises reasoning then proceeds logically toward true conclusions. The theory can be generated in several ways that include a desire to work out a solution from a given problem or from an idea based on previous experience or from a literature search. The generation of theory is then followed by data collection, testing and the confirmation or rejection of the hypotheses (Bryman and Bell, 2003).

The opposing theory to deductive theory is called inductive theory. It also begins with an observation, which is used to draw conclusions about entire classes of objects or events (Leedy and Ormrod, 2001). Lancaster (2005, p.25) argues that, a researcher develops hypotheses and theories with a view to explaining empirical observations of the real world. Leedy and Ormrod (2001) dispute that separate and individual facts observed by the researcher leads to a single conclusion as indicated in figure 3.1 below.
Figure 3.1: The Inductive Process  
Source: Leedy and Ormrod, 2001, p.35  

The preliminary point for this research is a deductive approach. According to Saunders et al. (2003, p.389), the approach “….links your research into the existing body of knowledge in your subject area, help you to get started and provide you with an initial analytical framework”. The study used the deductive approach because it allows an exploration of the theory behind the subject of the research. The approach links the research into the existing body of knowledge in the subject area. An inductive approach then follows through data analysis.

3.3.4 Nomothetic versus Ideographic Research Approaches

An observation by Lancaster (2005, p.27), nomothetic methods, “…include the more highly structured research methodologies which can be replicated and controlled, and which focus on generating quantitative data with a view of explaining causal relationships”.

The basic methodological question is whether the business world is a solid real, objective reality, external to the individual or a softer, personal internal to the subjective experience of the individual. The former relates to nomothetic approach and searches for universal laws which explain and govern the reality which is being observed. The latter relates to ideographic research methodology, which is much less structured and is focused more on the understanding and explanation of phenomena with more emphasis on qualitative data (Lancaster, 2005).
Lancaster (2005) indicates that ideographic research involves an intensive study of the characteristics and behaviours of individuals as a way of understanding and evaluating them in the situation in which they live. They involve small numbers of subjects including case studies. This study adopted an ideographic research because it focuses on understanding the factors that are constraining SMEs from banking their revenues.

3.4 Research Methods

Bryman & Bell (2003) notes that a research design serves the function of preparing the research project and enhancing the soundness of the study findings by providing the research project with a specific arrangement. A research design therefore is a plan used to gather data and answer the study question. These include case studies, experiments, forecasting, subjective research, action research and surveys.

3.4.1 Case studies

According to (Zikmund, 2003) case studies entail an effort to explain interactions that exist in reality, very often in a particular establishment. Case studies are considered to be viable where it is very important to study the experience in its natural background. Bryman and Bell (2003) suggests that the disadvantage of case studies is that they are restricted to one organization and it is hard to simplify the findings.

3.4.2 Experiments

Bryman & Bell (2003) indicates that in a laboratory experiment, the researcher is permitted to classify specific associations among variables. The disadvantage is that it is difficult to make a simulation sufficiently realistic so that it resembles real world events.

3.4.3 Forecasting

Forecasting research looks at the use of methods like regression analysis and time series analysis to predict about likely future events (Neuman, 2003). Disadvantages of forecasting research are that researchers cannot assemble true visions of the outlook, but only scenarios of likely outcomes (Bryman and Bell, 2003).
3.4.4 Subjective Research

Subjective research requires the researcher to take up a innovative or provisional stance instead of an act, according to (Zikmund, 2003). It has the advantage that new theories can be built, new ideas generated and subsequently tested.

3.4.5 Action research

Lancaster (2005) observed that, in action research, the researcher attempts to expand results or a solution that is of realistic value to the people aligned to the researcher to develop academic knowledge.

3.4.6 Surveys

Bryman and Bell (2003) point out that a survey allows the researcher to get data about situations or views through questionnaires or interviews. Quantitative analytical techniques are used to evaluate data regarding existing relationships. Using the survey method brings some form of bias such as the possibility of self-selecting character of respondents, when the survey is performed. The main weakness is that it is not easy to realize insights recitation to the origins involved in the phenomena being considered (Neuman, 2003; Lancaster, 2005).

The use of surveys allows a researcher to learn more factors at one moment than is typically possible in laboratory or field environment. Comparing with other research methodologies, this has proved the most suitable when dealing with a causal effect relationship. It clarifies the dependent, independent, and extraneous variables.

This study used the survey method because of the advantages mentioned above. Since this study is about banks tapping into the unbanked market of SMEs, particularly those in the CBD of Harare. A survey method enabled the researcher to obtain views from a large group of people at one point in time through the questionnaire. The survey method allowed for more variables to be studied at one time.
3.5 Population

Saunders et al. (2003) define a population as the full set of cases from which the sample is taken. Welman and Kruger (2002) define it as an object which is being studied. It can be organizations, events, individuals, human products or the conditions to which they are exposed to. In this study, the population consisted of 1200 SME shops in the central business district of Harare.

3.6 Sampling

Wegner (1999, p.170) defines sampling as, “…the process of selecting a representative subset of observations from a population to determine the characteristics (that is, the population parameters) of the random variable under study”. Cooper and Schindler (2003) argue that with sampling, there is a greater opportunity to conduct quality interviews, achieve better supervision of the research team, investigate and verify any missing, wrong or suspicious information. Sampling enhances the speed with which information is available and it plays an important role in the process of designing a questionnaire. Saunders et al. (2003) affirmed that a sample may be appropriate where there are budgets or time constraints or where it would not be possible to survey the whole population. Due to the fact that it was impossible, for time and resources to include all the SMEs in the Harare CBD in the research, samples were drawn from the SMEs in CBD.

3.6.1 Sample Size

Leedy and Ormrod (2001) argue that the larger the sample the better. A sample should be representative enough to enable the researcher to draw reasonable conclusions, and minimise bias. The same authors say that other factors to consider for one to come up with an appropriate sample include the heterogeneity or homogeneity of the population as well as the degree of precision with which the researcher wishes to draw conclusions or makes predictions about the population under study. Leedy and Omron (2001) suggest the following guidelines for sample selection:
• For populations less than one hundred (N ≤ 100), the population is small and so there is little point in sampling. Take the whole population to be the sample (that is, population size equals sample size).
• For a population size of approximately 500, sample 50% of the population.
• For a population size of around 1500, sample 20% of the population.
• For a population that is approximately N=5000, the population size is almost irrelevant, and a sample size of 400 will be adequate.

Leedy and Omron (2001) explain that this guideline remains subjective in terms of how the percentages of population sizes are determined. The authors say that in coming up with the appropriate sample; there are other factors to be considered. These include the degree of precision with which the researcher wishes to draw conclusions or makes predictions about the population under study and the heterogeneity or homogeneity of the population (Leedy and Omron, 2000). A sample should therefore be representative enough to enable the researcher to minimise bias and draw reasonable conclusions. The exact size of the sample thus remains subjective.

Following the above argument, a sample size of one hundred and five (100) SMEs was found to be representative of the population. This was drawn from all the owner/managers of SMEs in the CBD.

3.6.2 Sampling Techniques

Blumberg, Cooper & Schindler (2011, p.501) defined a sample a group of cases, respondents or records comprising of part of the target population, carefully selected to represent that population. There are two basic sampling methods, probability and non-probability sampling.

3.6.3 Non-Probability Sampling

Saunders et al. (2003) argues that with non probability sampling, the probability of each case being selected from the total population is not known. The non-probability sampling methods include purposive sampling, snowball sampling, convenience sampling and quota sampling.
Quota sampling requires the choice of representatives of the various elements in the proportions in which they occur in the population. Saunders et al. (2003) observes that the population is divided into specific groups from which a quota of each category is selected. Silverman (2005) argues that purposive or judgmental sampling illustrates some feature or process of interest and it requires the researcher to think critically about the population parameters under study and selects the case on that basis. It enables one to use judgment to select cases which will best suit the research at hand.

Snow ball sampling technique is used when it is difficult to identify members of the desired population. Robson (1997) illustrates that one or more cases are identified which then act as informants in identifying other cases. The cases identified will also identify others. This sampling technique has a bias in of representativeness and it may prove difficult to identify the initial contact cases. Leedy and Ormrod (2001) are of the view that Convenience sampling involves selecting those cases which are easiest to obtain for the sample. It makes no pretence of identifying a representative subset of a population. It is prone to bias and is suitable for less demanding research problems.

### 3.6.4 Probability Sampling

Wegner (1999) stated that, in probability sampling, sample observations are selected on a purely random chance or basis. Simple random sampling is when all the members have an equal probability of selection. This method has got the advantage that the introduction of any bias is unlikely and it is free from human intervention. However, it is not practical in the sense that it requires a population list which may not be available (Emory, 1980). Systematic random sampling begins by selecting the first observation and then subsequently selecting observations at uniform intervals relative to the first (Wegner, 1999). Crawshaw and Chambers (1994) argue that this method is easy to check for errors and is quick to use. This method may fail to give consistent results if different intervals are used where there are periodic cycles within the survey frame. Saunders et al. (1997) describes stratified random sampling as a modification of random sampling in which one divides the population into two or more relevant and significant strata based on known attributes. Random
samples are then selected from each stratum. The sampling units in each stratum should be fairly homogenous. Stratified random sampling enables the researcher to study in detail the behaviour of elements in each stratum (Leedy and Ormrod, 2001). This has the advantage of improving the accuracy of the results. The challenge with the stratified random sampling is in the determination of the stratus and the basis for stratification.

This study used probability sampling (simple random sampling) because the SMEs at CBD are homogenous operating basically the same way. Each SME had an equal chance of being selected and so the introduction of any bias was unlikely and it was free from human intervention. This increased accuracy and precision of the sample representing the characteristics of the population of the SMEs in the CBD.

3.7 Data Collection

3.7.1 Data Sources

Data sources for statistical analysis can be primary or secondary data (Wegner, 1999).

3.7.2 Secondary Data

Wegner (1999) contends that secondary data is data collected and processed by someone else for a purpose other than the current problem. Such data is available within or outside the organization. Secondary data has the advantage that it can be accessed in a relatively short time and it is generally less expensive to acquire. The disadvantage is that the data may not be relevant to the specific problem at hand and it may be difficult to assess its accuracy. In this study, secondary data was collected from publications from organizations like the United Nations, Financial Institutions, CZI and SEDCO. It was also collected using books, journals, internet and print media.

3.7.3 Primary Data

Wegner (1999) defines primary data as data which is captured at the point where it is generated. It is the data that is captured for the first time and for a specific purpose. With primary data, it is easy to formulate structured or unstructured questions that
focus on the study topic. Primary data offers greater control over data accuracy. The disadvantage is that it is expensive to collect primary data in terms of time and resources. In this study, primary data was collected from SMEs in the CBD using questionnaires only.

3.7.4 Data Collection Methods

Data collection methods that can be employed include observations, interviews and questionnaires. These methods can be used separately or in combinations.

3.7.5 Observations

Emory (1980) stated that observation involves noticing what is going on around the researcher, through systematic observation, recording, description, analysis and interpretation of people’s behaviour. It also extends to listening and reading. Observation can be classified into behavioral and non-behavioral observation (Emory, 1980, p.314). Behavioral observation looks at non-verbal analysis, linguistic analysis, extra-linguistic analysis and spatial analysis. Non-behavioral observation encompasses observation of non-human phenomena, like records, processes or activities. Both methods of observation however are useful as ways of gathering data.

Gill and Johnson (1997) classified observation into participant and structured observation. Participant observation involves the researcher participating fully in the lives and activities of subjects and thus becomes a member of their grouping. The advantage is that it gives the researcher a better view of the social setting of the subject under study. The disadvantage is that it can pose difficult ethical dilemmas for the researcher. In structured observation the researcher is detached from the participants who are the subject of the study. The advantage is that the researcher can carry out simultaneous observations in different locations. The disadvantage is that the data is slow and expensive to collect. According to Leedy and Omron (2001:195), the researcher should be as objective as possible, despite the method of observation used.
3.7.6 Interviews

Robson (1997) refers to an interview as a situation where one person talks and another listens. Interviews serve a purpose of establishing research-relevant information and focus on content specified by the interviewer. They can be structured or unstructured interviews. Interviews can be administered using face to face or telephone. Interviews allow the researcher to observe non-verbal communication and make inferences. They also increase the response rate because the interviewer is in control of the information-gathering process (Wegner, 1999). Interviews are time consuming but thorough and produce more useful information for the research. Interviews may also raise concerns about bias, if not handled properly. They therefore, demand experience on the part of both the interviewer and interviewee.

A fully structured interview follows a predetermined set of questions and a standardized answer sheet, where the interviewer fills in the responses (Robson, 1997). A semi-structured interview is where the interviewer has pre-set questions but is at liberty to change either their ordering or their format. In unstructured interview, the interviewer maintains interest in a particular area of study but allows the conversation to develop around that area. There is no formal structure.

Wegner (1999) says that unstructured interviews have the advantage that they are more capable of yielding information that the interviewer had not planned bringing about a diversity of information for analysis by the researcher. They are also useful where the researcher wants to interview several participants at the same time. However, if different interviewees give different and diverse information, unstructured interviews may provide information that is difficult to analyze and make comparisons among interviewees. They are effective if they are conducted by an experienced interviewer so as to keep participants focused on the topic.

3.7.7 Questionnaires

Wegner (1999) defines a questionnaire as a data collection instrument that consists of questions that the respondents are supposed to answer. Questionnaires include structured interviews, telephone interviews as well as participant administered
questionnaires. Questionnaires can be used for descriptive or explanatory research (Saunders et al., 2003). The use of questionnaires as a survey method has challenges that include a low response rate. Leedy and Ormrod (2001) argue that a mailed questionnaire normally has a response rate of 50% or less. The people who return them may not be representative of the originally selected sample. The interviewer has no opportunity to probe and gather more information when using a questionnaire and therefore the questions must be well structured.

The use of a questionnaire has the advantage that it results in reduced interviewer bias, reduced administration costs, and can be administered to many participants at the same time. It can capture information from many people at the same time and can organise and group data through structured questions.

3.7.8 Choice of Data Collection Method

A self administered questionnaire was used as the primary data collection instrument for this research because of its advantages. Respondents were not comfortable to give their views in an interview due to the unfavourable political atmosphere in the country. Participants were comfortable to give information freely and anonymously using a questionnaire than in an interview. A questionnaire was found to be the most appropriate method to the topic, which required some level of confidentiality. The benefits of the questionnaire included the ability to capture information from many people at the same time and the ability to organise and group data through structured questions. A questionnaire was also used to ensure that responses were more truthful than they would be in a personal interview. Due to time constraints on the part of SMEs owner/ managers in town who are always busy, the questionnaire was considered to be the best instrument for the study due to its versatility, simplicity and provision of a list of possible answers from which the respondents could choose.

3.7.9 Structure of the Questionnaire

The questionnaire was structured such that the first section of the questionnaire asked about the general demographic information of the owner/manager. Kangasharju (2000) argues that this section is important as statistical significance variance can be checked for all demographic variables that impact business
performance and in this case, business growth. The second section asked about the factors that restrict formal transaction which include banking their daily sales given their proximity to banks. The third section requested information on experiences with financial institution since they started operations. The final section asked what SMEs expect from banks and strategies that banks should be using to attract their business.

3.7.10 Nature of Questions

Wegner (1999) highlights that when designing a questionnaire, attention should be paid to the type of questions to include, order of the questions and wording and structure of the questions to ensure that relevant, unbiased and accurate data of the correct type is gathered in line with the research objectives. In this research, a questionnaire with a mixture of structured and semi-structured questions, closed and open ended questions was used to collect information from the SMEs owner/managers. Closed multiple choice single response questions facilitated data analysis. Open ended questions provided respondents with a chance to provide detailed answers to the questions.

The inclusion of ‘other – please specify’ multiple choice type questions and a number of open-ended questions was done to make sure that qualitative and quantitative data would be received. There were also questions that asked respondents to indicate the factors influencing banking the unbanked SMEs using a five-point likely scale where 5 = very strong constraint and 1 = very weak constraint. Respondents were also asked to indicate the strategies that they believe banks should use to win them over, according to their importance using a five-point likely scale where 5 = very important and 1 = not important at all. Each question in the questionnaire was checked for its coverage, whether the respondent would be willing to answer the question. All questions were checked to ensure that they were asking relevant information.

3.8 Pre-testing of the questionnaire

Gilbert and Churchill (1988) argue that a pre-test that is done through an interview enables the researcher to watch and see if people actually remember data requested
of them. It also allows the researcher to see if some questions seem confusing or produce resistance and hesitancy among respondents for one reason or the other a pre-test was done to identify unclear, ambiguous formulated questions and to investigate the reliability of the selected instrument.

After developing the questionnaire, the researcher conducted a pilot study on a sample of six SMEs (three owners and three managers). From the results of the analysis of this pilot study, certain flaws and anomalies were identified. The reliability of the research instrument en masse although it had a statistically significant Cronbach Alpha value of 0.83, certain individual variables had alpha values less than the prescribed Cronbach Alpha minimum threshold of 0.7 (Nunally 1978). The researcher thus had to make amendments to these variables in a way to improve on their reliability. Other variables which originally had limited structured responses in the pre-testing tool, had to be revised by factoring in more possible responses for those variables in the latter research tool that was to be availed of in the final research. Eventually, the questionnaires were refined accordingly and delivered to the respondents.

3.9 Questionnaire Administration

Self-administered questionnaires can be handed out randomly wherever the target population can best be reached (Wegner, 1999). For this research, the questionnaires were distributed randomly by hand to all the owner/ managers of SMEs at their business premises. They were also collected from the same place by the researcher.

3.10 Data Analysis and Presentation

According to Zikmund (2003, p.74) editing includes checking of the data collection forms for omission, legibility and consistency in classification as well as discarding of completed responses that had missing data, identifying potential error in data collection and discussing its implications.

Upon collecting the completed questionnaires, the data had to be classified prior to analysis as either qualitative or quantitative. Qualitative responses constituted of the
open-ended questions whereas the quantitative responses comprised of the structured questions. The qualitative responses were best handled by means of the IBM SPSS Text Analytics for Surveys software, whereas the quantitative responses were handled by means of IBM SPSS Statistics software.

Data analysis began with data coding and data cleaning. The open-ended responses were pre-analysed and then classified according to the most commonly recurrent themes prior to their codification as nominal data in SPSS. The results were then expressed as percentages after being classified into answer categories. A qualitative approach was also employed for analyzing the data. This therefore means inferences and induction of findings were used in this research. Graphs were used as the most appropriate way of showing comparative and classified data in a simplified manner. These were used together with histograms, diagrams, tables and charts. Graphs were ideal and useful for illustrating and summarizing data sets. They made it possible to compare and contrast the opinions of different subjects on the same question. The use of graphs made it possible to plot each item in which the dimensions are enumerated on the x-axis and the corresponding values on y-axis. Graphs however have disadvantages. They can be very linking where numerous questionnaires are used. They are also not very helpful on large data sets. It may be inexplicable to display all the data items using graphs.

Tables were also used. They can summarise huge amounts of information and enables easy comparison of variables. They capture information and present it in columns and rows and they save space and time. One disadvantage of tables however is that they may be difficult to interpret, leading to wrong conclusions.

3.11 Validity

Validity asks the question: are we measuring what we want to measure? Validity is the term used to claim that research results have precisely addressed research questions (Somekh and Lewin, 2005). Cooper and Schindler (2003) states that validity measures the degree to which a study succeeds in measuring intended values and the extent to which differences found reflects true differences among the respondents. Researchers are interested in explanations for the effects and
interactions of variables as they occur across a wide variety of different settings. To truly understand these interactions requires special attention to the concept of validity, which highlights the need to eliminate or minimize the effects of extraneous influences, variables, and explanations that might detract from a study’s ultimate findings. What this means is that if you are studying personality through a questionnaire, then the results you gain should actually measure personality rather than an unknown variable. This can destroy scientific research as experiments have been conducted believing them to be measuring one thing, but in fact it turns out they were accidently measuring something completely different.

The relationship between the researcher and the respondents may also have an effect on validity. To ensure validity, and to inspire confidence in the respondents, the researcher included a personal letter which was dispatched with each questionnaire pledging that anonymity and privacy would be maintained by both the University of Zimbabwe and the researcher. The researcher afforded respondents the opportunity of discussing the themes of the research and ensured that respondents were aware of the confidentiality afforded to their answers. This was important to ensure that questions were answered honestly without fear of repercussions thereby increasing the validity of the research.

To ensure validity the researcher also made sure that respondents understood what was meant by pre-testing the research tool on a small group prior to the research in accordance with the guidelines set forth by Levine et al., (1994) and was convinced that they measured what they purported to measure.

3.12 Reliability

Reliability refers to the extent to which test scores are free of measurement error. Neuman (2003) revealed that reliability is the ability to constantly yield the same results under the same conditions. In other words, it refers to the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. Fisher (2010) argues that the best research is that done using multiple sources to reflect a great reliability in the research. The greater the number of sources used, the more accurate the findings will be.
Tests of reliability aim to show if the survey can be relied upon to provide the same values if the survey were to be administered repeatedly under similar conditions, and in the context of this research, the Cronbach Alpha statistic was to be employed to measure the reliability of the research instrument (Nunally, 1978). To improve on the reliability of the research, the questionnaires were given to the respondents at the same period to complete. The researcher did not vary the questions and administered the questionnaire personally. The researcher made certain that leading and confusing questions were avoided making the study fairly reliable.

3.13 Ethical Considerations

Fisher (2010) argues that when a researcher is doing a research care should be taken not to treat people unfairly or badly. He proceeds to explain that the researcher should not harm people, or use the information discovered in the research to harm them, or allow it to be used to do harm. Kaseke (2009) tells that what constitutes invasion of privacy is obviously subjective and ethical consideration in any study should consider the right to privacy. The researcher also undertook to keep information obtained through the questionnaire in strict confidence, as well as to use the data for purposes of research only. To ensure respondents' right to privacy, the questionnaires were delivered and collected directly from the respondent.

3.14 Research Limitations

There were a number of limitations to the study, these are listed below;

- Some owner/managers may have felt that some questions bordered on business confidentiality and therefore could have sieved the information provided.
- The survey was done during the month end when the owner/managers were generally busy. This could have compromised participants' responses.
- Due to resource limitations, the researcher could not take on a bigger sample. However, it is believed the research would still be of value because new information uncovered by the researcher will add to the body of knowledge in this field.
3.15 Potential Bias

A source of bias could be inherent in responses of the owner/managers whose responses may have been made in a way to spruce up their image and that of the business. Although possible effects from this potential bias cannot be completely eliminated, they might be somewhat lessened because of the benefits envisaged in the results of the survey and the guaranteed confidentiality of their responses.

3.16 Conclusion

This chapter provided the description of the methodology applied in this study. In summary this study focused on the research questions posed. The data collected was primarily based on personal responses and was collected through the research questionnaire. The data processing and analysis attempt to answer the research question through the research findings, which are presented in the following chapter.
4.0 Introduction

Bell (1996) asserts that data collection may mean very little until it’s arranged and analyzed in a meaningful manner. Chapter four analyzes, interprets and discusses the major findings of the research from the research findings from the questionnaires sent to owner/managers of SMEs. This was done in relation to the research objectives and research questions.

4.1 Response Rate

The response rate in the researcher’s view was overwhelming and satisfactory with most of the respondents actively participating in the process. From the survey carried out of 100 questionnaires sent to owners/managers of SMEs, 74 were returned. This means there was a 74% response rate from the total sample. Figure 4.1 represents a summary of the demographic statistics for the participants in the study.

![Figure 4.1: Response Rate](image)

The 24% non-response was constituted by questionnaires which were discarded due to illegible handwriting and others which had the bulk of the data missing. This spoilage might have been as a result of either poor literacy levels of the selected respondent or the respondent’s reluctance on their part to participate in the survey. This reluctance may have been because of the fear of breaching confidentiality of the organization. However, a rate of 74% is above the 70% mark which is considered...
high enough for statistical analysis. According to Rubin and Babbie (2011, pg. 388) a response rate of at least 50% is usually considered adequate for analysis and reporting while a response of at least 60% is good and finally a response rate of 70% is very good. Cochran (1977), however, reminds that bigger sample sizes generally lead to increased precision when estimating unknown parameters and having a sufficient sample size prevents results from being skewed and adds validity to a study.

4.1.1 Reliability Analysis

To establish the reliability of the research instrument, the Cronbach’s alpha statistic was computed. According to Nunally (1978) Chronbach Alpha is the most widely used objective measure of instrument reliability. The author put forward the contentions that while the debate about acceptable values of alpha rages on, the acceptable minimum threshold should be 0.6. Based on the foregoing, this study’s main data collection instrument, the questionnaire, was very reliable as demonstrated by an overall Cronbach’s alpha of 0.979.

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>Cronbach’s Alpha Based on Standardized Items</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>.979</td>
<td>.985</td>
<td>74</td>
</tr>
</tbody>
</table>

Table 4.1 Reliability Analysis - Cronbach Alpha

Subsequently, this very significant Alpha statistic implies that the research instrument that was used in this research was reliable enough and that the results would reflect a higher degree of credibility.

4.2 Demographic Characteristics

This section gives a description of business; ownership, operations, size and relations with banks. The description is intended to give an overview of the respondents to this study.
4.2.1 Ownership and Management

Respondents were asked to shed light on their position within the business structure. The responses are shown in Figure 4.2 below;

![Ownership and Management Diagram](image)

**Figure 4.2: Ownership and Management**

The sample in so far as the fielding of questionnaires was concerned comprised of business owners, managers, supervisors and others. About 41% of the respondents were owners recording the highest number amongst the target population followed by managers with 27% and supervisors with 23%. The other category comprised of book keepers and receptionists who constituted 9%. The objective of the research is within reach as key stakeholders; especially owners and managements participated in the research. The coverage was comprehensive enough, covering responses from non-managerial as well.
4.2.2 Employment

The various respondents were asked for the number of employees they have in the organization. This was meant to determine whether the respondents qualified to be called an SME. About 43% of the respondents indicated that they had less than 5 employees; 22% of the respondents showed that they employed less than 10 but more than 5; 19% of the respondents indicated that permanently employed staffs were between 10 and 30. Eight percent of the respondents indicated that they employed over 50 to 100 employees and lastly a similar percentage showing that they employed over 100 employees. The aim of the research is within reach as most respondents fall within the perceived number of employees employed by SMEs.

This research focused on SMEs in Zimbabwe, hence to bring relevance and legitimacy of the results, it is very important to make use of these responses. The results are also in line with the adopted Mukras (2003)'s definition of SMEs; using the employment based proxy. According to Mukras (2003, p. 60) the Government of Zimbabwe defines Micro-enterprises and Medium Scale Enterprises as those which employ up to five workers and have an employment capacity of twenty hired workers. On the other hand, SEDCO, a Governmental organisation for SMEs in Zimbabwe defines an SME business as one with not more than seventy five employees (SEDCO, 2003).
4.2.3 Turnover

The results show that 38% of the respondents operated an annual turnover of between US$15,000 and US$50,000 and 25% operated a revenue between US$5,000 and US$10,000 annually, whilst 16% were over US$250,000, 13% being in the range of US$55,000 and US$100,000 turnover per annum and lastly the smallest group with 8% having their turnovers ranging from US$105,000 to US$250,000.

Figure 4.4: Annual turnovers

The results represent an acceptable sample given the current liquidity challenge in the market. Again, the results are far from the definition of SMEs adopted by the researcher. According to Mukras (2003), SMEs operate an annual turnover of up to US$0.5 million and 5 million. The results show that the majority of respondents’ turnover was between US$5,000 and US$50,000. This might mean that respondents do not actually know the exact amount of money they turnover annually. According to Gundani (2011) SMEs have a critical weakness with the informal set up, where most of them do not keep proper accounting records of their activities. With most SMEs, keeping records is seen as a waste of time, money and effort. It is also avoidable as a means of ensuring that there is no track record of what they could have done in the event that any authority agency comes to visit – such as tax authorities.
4.2.4 Nature of Business

Figure 4.5: Nature of Business

About 36% of respondents pointed out that they operated registered wholesale and retail as well as distribution companies selling clothes and spare parts in the Central Business District of Harare. Figure 4.5 confirms that 36% of those who responded were of retail and trading; 18% were running the transport business; 6% were in agriculture; 4% were in mining, manufacturing, real estate and construction, financial services took up 4%. Others included professionals such as medical and law firms which collectively had a contribution of 4%.

The results were in line with the literature as reported by the National Chamber of Commerce [ZNCC] (2011) that the Harare’s Central Business District (CBD) is now dominated by small-to-medium-scale traders trading in whole and retail. Gundani (2011) supported the view in the survey conducted to identify who was occupying most space in the city centre and the majority of small traders proved to be foreigners such as Nigerians and Chinese.
4.2.5 Business Maturity

The bulk of the responses showed that their business started before the multicurrency regime between 1997 and 2009. During the multicurrency era between 2009 and 2012, 19% of the total number of respondents indicated that they started operations during that period. 5% of the respondents indicated that they started operating after independence between 1980 and 1996 while only 3% of the respondents agreed to have opened shops in 2013. None of the respondents operated before 1980, that is prior to independence. The results were supported by literature, where according to Kumbawa (2002) figures from the year of 2000, the economic downturn in Zimbabwe, resulted in some companies closing down or reducing their operations. During the same period, foreigners from Nigeria and China also came to the country looking for cheap investments. Many people in Zimbabwe lost their jobs and started their own businesses, resulting in a high proliferation of SMEs in the different sectors of the economy. The results therefore, explain why most SMEs mushroomed between 1997 and 2009.

4.3 Factors influencing SMEs from banking their revenue

In line with the core objective to evaluate factors that influence SMEs from banking their sales and savings, the researcher sought to understand reasons behind the perception.
4.3.1 Banking awareness

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>69</td>
<td>93.2</td>
<td>93.2</td>
<td>93.2</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>6.8</td>
<td>6.8</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.2: Operating a bank account

From the responses given, a significant majority (93%) of the respondents indicated that they operated bank accounts in Zimbabwe while 7% said no. The factor had the least standard deviation of 0.253, a very high positive skewness statistic of 3.517 and very high positive kurtosis statistic of 10.659 all signalling the very high degree of consistency in the responses.

Notwithstanding this high consistency in them having bank accounts, from the qualitative content analysis results, it transpired that these accounts were not being used for their day-to-day business transactions, implying that their accounts were rather dormant, and therefore that they were operating informally. This is validated by the Figure 4.7 and 4.8 below.

![Figure 4.7: Frequency of operation of Bank Accounts](image)

From the figure above, 75% of the respondents never used the bank for their transactions, whereas, only 17% of them had less than 30% of their revenue banked. However, for less than 30% of the transactions they do, signaling minimum bank
usage activity. It is worth to note that none of the respondents operated a bank account for more than 80% of their transactions.

These results do support literature in which according to Gallup Europe (2005), SMEs prefer to operate informally, hence nonexistence of financial records in banks. Gallup Europe (2005) further reports that, as a result of this informal set up, most of them are denied any access to financial support. According to the presented results, most SMEs actually had bank accounts, however, they are considered dormant.

**Figure 4.8: Frequency of operation of Bank Accounts**

From the figure above, 73% of the respondents never transacted their sales revenue through a bank account, whereas, only 15% of them channel less than US$5,000 per annum in their bank accounts. About 9% channel between US$5,000 and US$10,000 annually through their bank accounts, once again signaling minimum bank usage activity. It is also important to note that the majority of respondents never transact through their bank account. Once again, the results do support literature by Gallup Europe (2005), which says that SMEs prefer to operate informally, hence nonexistence of financial records in banks. According to the presented results, most SMEs actually had bank accounts. However, they are not transacting through them given annual average being transacted annually.
4.3.2 Access to Financial Support

The researcher further asked respondents if they had received any financial support after opening those accounts. From Figure 4.2.2, the majority, 70%, said no and the rest 30% said yes.

![Figure 4.9: Access to financial support](image)

Furthermore, the researcher asked if the support came from banks which they operate an account with, micro financiers, family, government or other sources.

<table>
<thead>
<tr>
<th>Description</th>
<th>% within code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>50%</td>
</tr>
<tr>
<td>Private individual – Family or Friend</td>
<td>36%</td>
</tr>
<tr>
<td>Microfinance Institution</td>
<td>9%</td>
</tr>
<tr>
<td>Government Related Sources</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Table 4.3: Financial support*

The researcher sought to understand whether opening of bank accounts resulted in them benefiting from financial support from banks. Responses accounts for only half of those who operated bank accounts actually received support financially from their bankers. The rest sourced funding elsewhere, such as family or friends indicating 36%, micro institutions showing 9%, government related institutions showing 0%, while other undisclosed means indicated 5%. This coincides with the Reserve Bank
of Zimbabwe Policy Statement (2012) that the total loans that were extended to SMEs by the various financial institutions amounted to a paltry US$164.4 million, and this only account for just above 5% of the total loans. The findings were supported by Mutambanengwe (2013) who reported that most banks consider SMEs as very high risk and only offer products which primarily are meant to address their own fears and profit motive, hence the insistence on collateral and other “stringent requirements” like audited accounts, financial projections and professionally-done business plans which most SMEs cannot produce.

From the broad responses that were given, only a few SMEs enjoyed support from banks despite operating bank accounts. It is also clear that SMEs needed the support as they resorted to other means such as family, micro financial institutions, Government and others.

4.4 Factors influencing SMEs not banking their revenue

From Table 4.7, about 77% of the respondents believed banks’s costs were very high and should be reduced. About 70% agreed that banks should offer loans, while 68% indicated that they did not have confidence in banks; citing recent closures and lack of corporate governance as the major reasons. The results further indicated that 65% of the respondents believed SMEs are better off transacting in cash. It is also important to note that most respondents (64%) urged banks to be geographically closer, educate SMEs and tailor make SME products. To establish the most important factor according to the survey, the researcher ranked them according to responses and results are shown below in the Table 4.5.

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks should be geographically closer to SMEs</td>
<td>9%</td>
<td>4%</td>
<td>16%</td>
<td>29%</td>
<td>35%</td>
<td>7%</td>
</tr>
<tr>
<td>Tailor make SME products</td>
<td>7%</td>
<td>4%</td>
<td>24%</td>
<td>27%</td>
<td>32%</td>
<td>4%</td>
</tr>
<tr>
<td>Avail loans to SMEs – without collateral</td>
<td>3%</td>
<td>4%</td>
<td>18%</td>
<td>30%</td>
<td>41%</td>
<td>5%</td>
</tr>
<tr>
<td>Educate SMEs</td>
<td>3%</td>
<td>7%</td>
<td>16%</td>
<td>20%</td>
<td>43%</td>
<td>9%</td>
</tr>
<tr>
<td>Costly to bank business revenue for SME</td>
<td>1%</td>
<td>11%</td>
<td>5%</td>
<td>54%</td>
<td>23%</td>
<td>5%</td>
</tr>
<tr>
<td>Not important to operate a bank account</td>
<td>19%</td>
<td>16%</td>
<td>19%</td>
<td>19%</td>
<td>18%</td>
<td>11%</td>
</tr>
</tbody>
</table>
SMEs do not have confidence in banks 10% 6% 3% 43% 24% 12%
SMEs prefer cash transactions 4% 1% 22% 35% 30% 8%

Table 4.4: Factors influencing SMEs from banking

Table 4.5 shows the degree to which respondents agreed or otherwise with the factors that influence SMEs from banking their revenues.

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>% WITHIN CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>Banks should be geographically closer to SMEs</td>
<td>64%</td>
</tr>
<tr>
<td>Tailor make SME products</td>
<td>59%</td>
</tr>
<tr>
<td>Avail loans to SMEs</td>
<td>70%</td>
</tr>
<tr>
<td>Educate SMEs</td>
<td>64%</td>
</tr>
<tr>
<td>Costly to bank business revenue for SME</td>
<td>77%</td>
</tr>
<tr>
<td>Not important to operate a bank account</td>
<td>36%</td>
</tr>
<tr>
<td>Confidence in banks</td>
<td>68%</td>
</tr>
<tr>
<td>SMEs prefer cash transactions</td>
<td>65%</td>
</tr>
</tbody>
</table>

Table 4.5: Factors influencing SMEs from banking - Analysis

Key: A: Agree+ Strongly Agree  N: Neutral+ Unknown  DA: Do not Agree+ Strongly do not Agree

In a bid to gauge the weight from responses gathered in terms of factors influencing SMEs from banking their money, or rather deterring SMEs from banking, the researcher analysed the mean ratings based on the 5-point Likely scale with a rating of 5 implying “Strongly Agree” and a rating of 1 implying “Strongly Agree.” The results are shown in Table 4.7 below.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is costly to bank business revenue for SME</td>
<td>74</td>
<td>3.48</td>
<td>.150</td>
</tr>
<tr>
<td>It is not important to operate a bank account</td>
<td>74</td>
<td>2.97</td>
<td>.171</td>
</tr>
<tr>
<td>SMEs don’t have confidence in the financial sector</td>
<td>71</td>
<td>4.08</td>
<td>.165</td>
</tr>
<tr>
<td>Most SMEs that i know prefer cash transactions</td>
<td>74</td>
<td>4.48</td>
<td>.125</td>
</tr>
</tbody>
</table>

Table 4.6: Rank Analysis; Factors influencing SMEs from banking
From the Rank analysis, the Table 4.7 above shows that the top-rated factors influencing SMEs from banking were:

1. It is costly to bank business revenue for SMEs
2. SMEs don’t have confidence in the financial sector
3. It is not important to operate a bank account

This analysis thus validated the findings from the factor analysis done earlier in Section 4.2.1, in which the same order was established as being the most dominant factors in respect to the factors that contributed largely to the deterrence of operating bank accounts by SMEs.

From these broad responses given by customers, there seems to be common agreements on factors that influence SMEs not banking their money. Luarn and Lin (2005) and Yao and Zhong (2011) note that prices have an effect on the motivation to accept or reject the service given by financial institutions but also sensitivity of price are equally significant for new customers. SMEs clearly find bank’s services out of reach and unbeneﬁcial. The results also show that despite having bank accounts with banks, they remain dormant due to perceived high costs and lack of financial support. It is also clear that SMEs do not have confidence in the banking sectors. Other common factors indicate that banks should be closer to SMEs and provide suitable products in line with their security.

From the results, it can be assumed that bank charges are deemed high hence discouraging SMEs from channelling their revenue to banks. On the same note, Kotey (1999) reminds us that SME failure to bank can be caused by financing constraints, and that there are both supply and demand side factors. On the supply side, it is noted that banks in Zimbabwe are likely to charge high cost such as administrative costs and potential interest income costs due to potential risk of default.

The respondents also brought up the view that banks should tailor make products that match SME needs. A study by Raghavan (2011) showed that, in recent years most SME customers have shown willingness to subscribe to SME mobile banking
services and that 30% of companies with revenues less than US$ 2 million would be ready to use mobile banking services by USA and European banks. Historically banking has been one of the major constraints for SMEs (Ardic et al. 2012, Beck & Demirguc-Kunt 2006, Harvie 2004, Levy 1999). Conversely, other developing countries are considering mobile banking as appropriate banking platforms for SMEs (Bangens and Soderberg 2011, Higgins et al. 2012, and Kumar et al. 2011).

### 4.5 Factor Analysis

Factor analysis is used to determine the key factors shaping the research outcome. According to Hair et al. (1995), factors recording a loading or score greater or equal to 0.5 are significant drivers while those with a loading less than 0.5 are not critical or significant determinants or variables. Using the principal component analysis (PCA), the primary factors influencing this study were computed and are shown in Table 4.2.

<table>
<thead>
<tr>
<th>Factor Affecting</th>
<th>Component</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you operate bank account</td>
<td>.360</td>
<td>-.341</td>
<td>.584</td>
<td></td>
</tr>
<tr>
<td>What is your opinion on banks in Zimbabwe</td>
<td>.424</td>
<td>.632</td>
<td>-.082</td>
<td></td>
</tr>
<tr>
<td>Banks should be geographically closer</td>
<td>.639</td>
<td>.205</td>
<td>-.118</td>
<td></td>
</tr>
<tr>
<td>Banks should tailor make SME products</td>
<td>.541</td>
<td>.057</td>
<td>-.050</td>
<td></td>
</tr>
<tr>
<td>Banks should avail loans to SMEs</td>
<td>.671</td>
<td>-.041</td>
<td>.010</td>
<td></td>
</tr>
<tr>
<td>Banks should educate SMEs</td>
<td>.715</td>
<td>.275</td>
<td>-.095</td>
<td></td>
</tr>
<tr>
<td>It is costly to bank business revenue for SMEs</td>
<td>.972</td>
<td>.033</td>
<td>.020</td>
<td></td>
</tr>
<tr>
<td>is not important to operate a bank account</td>
<td>.900</td>
<td>-.171</td>
<td>-.051</td>
<td></td>
</tr>
<tr>
<td>SMEs don’t have confidence in the financial sector</td>
<td>.904</td>
<td>.271</td>
<td>-.025</td>
<td></td>
</tr>
<tr>
<td>Most SMEs that i know prefer cash transactions</td>
<td>.818</td>
<td>.494</td>
<td>.139</td>
<td></td>
</tr>
<tr>
<td>My earnings should be paid through the bank</td>
<td>.509</td>
<td>-.139</td>
<td>-.033</td>
<td></td>
</tr>
<tr>
<td>Banks should approach us</td>
<td>.443</td>
<td>-.047</td>
<td>-.001</td>
<td></td>
</tr>
<tr>
<td>Banks should reduce charges</td>
<td>.834</td>
<td>.054</td>
<td>.009</td>
<td></td>
</tr>
<tr>
<td>Banks play a role in SME growth</td>
<td>.546</td>
<td>.002</td>
<td>.052</td>
<td></td>
</tr>
<tr>
<td>Availability of bank loans</td>
<td>.625</td>
<td>.130</td>
<td>.129</td>
<td></td>
</tr>
<tr>
<td>Banks always have funds to assist SMEs with facilities</td>
<td>.401</td>
<td>-.046</td>
<td>.738</td>
<td></td>
</tr>
<tr>
<td>Banks need SMEs to operate</td>
<td>.392</td>
<td>-.156</td>
<td>.542</td>
<td></td>
</tr>
<tr>
<td>Banks have failed to provide service to SMEs</td>
<td>.373</td>
<td>-.178</td>
<td>.747</td>
<td></td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

**Table 4.7: Factor Analysis Component Matrix**
From the above factor analysis, the researcher identified the most distinctive factors affecting the research outcome and highlighted them, the factors affecting the usage of bank accounts in their transactions being highlighted in green, and the recommendations being highlighted in orange. For the purpose of improving the reliability of the deductions that would be made with respect to this factor analysis, factor loadings that approximated the minimum prescribed 0.5 loading were considered as being marginal, and were not selected as being strong factors.

From the factors that were affecting the operation of bank accounts, the most distinctive factor loading was observed for “it is costly to bank business revenue for SMEs” which had a very high factor load of 0.972, followed by “SMEs don’t have confidence in the financial sector” with a load of 0.904, and “It is not important to operate a bank account” with a loading of 0.90. These three were the most distinctive factors that, at this juncture, can be theorised as being the greatest factors that were affecting the operation of bank accounts.

With respect to the recommendations, a total of five recommendations were deemed as being credible factors all with factor loading above 0.6. The greatest loading was observed for “Banks should reduce charges” which had a loading of 0.834, followed by “Banks should educate SMEs” which had a factor load of .715.

All these distinctive factors, they were considered as being therefore representative of their respective constructs and would be used in lieu of the entire set of variables whenever the analysis of the respective construct en bloc would be done. Thus, in respect to the factors affecting usage of bank accounts, only those variables with factor loadings above the minimum 0.5 would be considered as being reliable to represent the bank operation deterrence factor construct et cetera.
4.6 Strategies that banks can use to bank the unbanked SMEs

Figure 4.10: Strategies to bank the unbanked SMEs

In line with the researcher’s objective to assess strategies that banks can use to bank the unbanked SMEs, a thorough investigation was conducted on whether respondents believe there is still room for banks to get SMEs money. The figure 4.9 shows that 35% and 31% found it important and very important respectively to channel their earnings through the bank. About 22% responded that it was not important while 12% were not sure. A combination of 70% responded that it was important for banks to approach SMEs if they wanted their banking. 19% were not sure while 11% found it least important.

Figure 4.10 shows that reduction in bank charges topped the rank, with 57% considering the most important strategy and 22% believing it was just important. Nineteen percent (19%) were not sure while 3% suggested it was not important for banks to reduce charges. Asked about availability of bank loans, 51% of the respondents indicated that it was very important while 26% were not sure. Fifteen percentages (15%) showed that it was just important while 8% indicated that it was not an important strategy to bank their money.
The respondents responded positively and were clustered into three broad categories, enabling the researcher to establish the most banks’ possible offerings to SMEs and a return in terms of SME loyalty to bank their sales. According to the findings, respondents shared the sentiments that banks should reduce charges as a strategy to have their deposits. The second ranking showed that according to results, SMEs would want banks to approach them. Responses also indicate that SMEs are equally interested in the bank’s services, particularly loan facilities.

From the Rank Analysis above, the top-most distinctive factors that would be the best strategies for the banks to tap into the unbanked revenue that is being generated and retained by SMEs were that:

1. Banks should reduce charges
2. Banks should avail loans to SMEs
3. Banks should educate SMEs

These findings are in line with Sibanda’s (2013) remarks in the literature, that about 43% of SMEs in Zimbabwe generated US$7, 4 billion in revenue in 2012, have no access to financial services. In support, literature provided by FinScope (2013) noted that key barriers to financial inclusion were high bank charges, lack of confidence in
the financial sector, small income, little business revenue, fear of debt, lack of affordability, ignorance. The report further revealed that about 57% of start-up SMEs cited access to funding as a major constraint, 52% saying funding constrained operations/management while 43% said lack of funds affected their growth. At the core of any successful and growing enterprise, loans are very important. Howorth (2001) investigated the pecking order when it comes to bank and SME relationship and concluded that entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Cressy and Toivanen (2001) also indicated that the only relationship that can exist between banks and SMEs will eventually lead to borrowing.

The findings were also in line with Baata Ganbold (2008) who noted that SMEs find accessing finance more difficult than larger firms and identified high interest rates as the major constraints faced by SMEs. This once again supports findings from respondents who indicated that high bank charges were the major constraints they faced when dealing with banks.

4.7 The link between liquidity challenges in financial institutions and the unbanked SME revenue

The third research objective was to ascertain the nature of the relationship between the current liquidity challenges in the financial institutions and the missing revenue in circulation attributed to unbanked SMEs. According to the Reserve Bank of Zimbabwe (2012), liquidity challenges in the financial sector are mainly caused by informal operations that are a result of unbanked cash transactions. In the context of this research, the liquidity challenges construct was thus best represented by the degree of inclination of SMEs to using cash, and hence the most appropriate variable that would best model this construct was deemed by the researcher as being:

**Dependent factor:** Most SMEs I know prefer cash transactions

Whereas the missing circulating revenue would be best represented by the deterring factors; that is, the factors that are pulling them from operating bank accounts. In respect to these deterring factors, although they were many, their
degree of influence was relatively divergent and to improve on the reliability of the analysis, the researcher considered the top-most significant factors relative to the factor analysis that had been computed earlier and documented in Table 4.2. Considering the factors that build up this construct, the statistically significant factors that would best represent it were considered to be:

**Independent factors:**

1. SMEs do not have confidence in the financial sector
2. It is costly to bank business revenue for SMEs
3. It is not important to operate a bank account

### 4.8.1 Dependency of Liquidity Challenges on Unbanked SME Revenue

To establish if bank liquidity was dependent on the missing circulating revenue (preference of cash transactions), since the data was not normally distributed, a chi-square goodness-of-fit test was computed.

- **Null hypothesis** \( (H_0) \): Bank liquidity is not dependent on the missing SME circulating revenue
- **Alternative Hypothesis** \( (H_A) \): Bank liquidity is dependent on the missing SME circulating revenue

The researcher computed the hypothesized dependency of liquidity challenges on unbanked revenue using Chi-square analysis and the results are shown in Table 4.10 below.

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>95.905**</td>
<td>16</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>46.284</td>
<td>16</td>
<td>.000</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>62.926</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>69</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 4.10: Chi-square Analysis**

NB: **2 cells (5.0%)** have expected count less than 5. The minimum expected count is .10.
This study considered a p-value of 0.05 as being the maximum acceptable probability of exceeding the critical value that would form the basis of the researcher’s accepting or rejecting the null hypothesis. There were 16 degrees of freedom, and with reference to the Chi-square probability distribution tables, the minimum statistically significant Chi-square statistic would be correspondingly 26.296.

Since the Chi-square statistic computed above, 95.905, is significantly greater than the critical value, that is, 26.296, we therefore reject the null hypothesis that there is no dependency and conclude that variables under study were dependent.

From these analyses, we can safely reject the null hypothesis and conclude that bank liquidity challenges arising from informal trading involving unbanked transactions by SMEs were strongly dependent on the missing circulating revenue.

4.8.2 Correlation Analysis

To further establish the degree of linearity of the relationship between the two constructs under study, the researcher performed the Pearson correlation analysis, and the results detailing the correlation matrix are shown in Table 4.11.

<table>
<thead>
<tr>
<th></th>
<th>It is costly to bank business revenue for SMEs</th>
<th>It is not important to operate a bank account</th>
<th>SMEs don’t have confidence in the financial sector</th>
<th>Most SMEs that I know prefer cash transactions</th>
<th>My earnings should be paid through the bank</th>
<th>Banks should approach us</th>
<th>Banks should reduce charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is costly to bank business revenue for SMEs</td>
<td>1</td>
<td>.933</td>
<td>.916</td>
<td>.816</td>
<td>.880</td>
<td>.898</td>
<td>.895</td>
</tr>
<tr>
<td>It is not important to operate a bank account</td>
<td>1</td>
<td>.800</td>
<td>.680</td>
<td>.942</td>
<td>.880</td>
<td>.883</td>
<td></td>
</tr>
<tr>
<td>SMEs don’t have confidence in the financial sector</td>
<td>1</td>
<td>.911</td>
<td>.793</td>
<td>.865</td>
<td>.780</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Most SMEs that I know prefer cash transactions</td>
<td>1</td>
<td>.708</td>
<td>.740</td>
<td>.781</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My earnings should be paid through the bank</td>
<td>1</td>
<td>.848</td>
<td>.863</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks should approach us</td>
<td>1</td>
<td>.802</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks should reduce charges</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.11: Correlation Matrix Table
With respect to the relationship between the inclination to use cash transactions (bank liquidity construct) and the deterrent factors prohibiting operation of bank accounts, “confidence in the banking system” had the highest Pearson correlation coefficient of 0.911, signaling a very high positive correlation. This was followed by “It is costly to operate a bank account” with a correlation coefficient of 0.816, and lastly, the non-necessity for a bank account, with a coefficient of 0.680.

From this analysis, it can be concluded that there is a very high positive correlation between potential bank liquidity (measured by the preference of cash transaction) and the missing circulating revenue. The results also contribute to the school of thought that the unbanked market represents tens of millions potential customers most of whom have dormant accounts (Synergetic Research Corporation 2005). The Reserve Bank of Zimbabwe does not issue currency hence liquidity sources are limited (Reserve Bank of Zimbabwe, 2012). In this respect, the country’s liquidity state is dependent upon developments on other sector front such as domestic deposit mobilization which, to a large extent, is currently limited.

The results further show that most SMEs are not sure of the link between banks and SMEs as well as the subsequent consequences of operating informally to the financial sector. Furthermore, the results show us that SMEs have no idea of the current liquidity challenges in the financial sector and the potential improvement if they banked their money. Literature as put forward by Gideon Gono (as cited in Reserve Bank of Zimbabwe Policy Statement, 2012), indicates that it is an undisputable fact that the banking sector plays a pivotal and indispensable role in economic growth through efficient allocation of resources via financial intermediation.

### 4.8 Conclusion

This chapter was mainly concerned with reporting the research findings and discussing these findings, their implications. Multiple views were shared on the subject matter and related to current literature. Low charges, tailor made products and loans for SMEs came out strong as an attribute that can influence SMEs to bank their revenues. The following chapter covers the conclusions made through the research, recommendations, the study limitations and areas of further research.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0  Introduction

In this chapter the researcher makes inferences and conclusions of the research using the information obtained from the findings as discussed in chapter four. Appropriate reference is made to sections of this document in support of the conclusions drawn. The researcher also make recommendations based on the findings and areas of further study also be given in this chapter.

5.1  Conclusions

Findings show that most SMEs do have bank accounts but are dormant. It was also noted that SMEs formulate the unbanked section in the market. The following conclusions were drawn based on the objectives for this study as set in chapter one.

5.1.1  Factors influencing banking the unbanked SMEs

The researcher concludes that there are a number of factors that influence SMEs not banking their revenue, such as high bank charges and lack of confidence.

It was apparent from the findings that SMEs do not bank largely due to perceived high bank charges, drawn as a major constraint by unbanked SMEs in the sample. Due to previous experiences and persistent liquidity challenges that have seriously weakened the stability in the sector have resulted in reduced SME confidence and do not believe deposits with banks are well secured and refundable when required.

Market conditions have set the notion amongst SMEs and it has become a foundation for their “cash-culture”. Therefore, SMEs do not find it important to bank their money. Although theoretically and practically it is important for them to operate bank accounts for their day-to-day businesses, the perception is that of cash transactions until motivated otherwise.
5.1.2 Strategies that banks can use to bank the unbanked SMEs

It was established that SMEs’ revenues are very small and so is their profit margin. Therefore, high bank charges worsen absolute costs and shrinks potential profits. The research has established that SMEs consider bank loans as one of the most determining factor for them to bank their sales. SMEs fall short to expand their operations due to rigorous lending conditions by banks and as a result they prefer transacting in cash because of lack of support by bankers. Banks continue to observe a more risk-averse attitude, consequently, the foremost feature responsible for low exposure to SMEs.

It was recognized that the need to develop their skills set to enable them to provide the segment more effectively would result in enhanced banking solutions by the particular institutions in promoting SMEs.

5.1.3 Relation between liquidity challenges in the financial institutions and the unbanked SME revenue

The research established that there is a very strong positive correlation between bank liquidity challenges and the deterrence to banking by SMEs. It can be concluded therefore, that improved bank’s confidence will result in SMEs banking their revenues, therefore, restoring liquidity challenges in the formal system. However, the confidence should be supported by SMEs’ unique offerings for reciprocal benefits.

5.2 Research Proposition

The research proposition was as follows:

To determine factors that can influence banking the unbanked SMEs given the informal environment in which they are operating in.

The study confirms the proposition because the respondents confirmed that SMEs prefer cash transactions over banking due to various reasons such as, high bank charges, unavailability of bank loans and low confidence among others. There is
therefore strong business case that banks will benefit from SME deposits if there is improvement in their product offering evidence by the strong relationship that exist.

5.3 Recommendations

From the research findings the following recommendations are put forward to financial institutions in pursuit of unbanked SME revenues.

1. Pricing
Financial Institutions need to re-price their charges and interest income to accommodate SMEs. Banks need to adopt more innovative ways of pricing their services to accommodate SMEs, such as community or group based product models in order to attract their deposits through formal banking transactions.

2. Avail loan to SMEs
Banks in Zimbabwe need to continuously provide and uphold support to the SME sector. The relationship which can be mutual will enforce SMEs to bank all their sales revenue as part of the support conditions. Banks will need to develop and implement appropriate credit evaluation techniques that accommodate SMEs.

3. SME education
Banks need to initiate programs that provide vital information mostly to consultants who are active in SME development about how to examine, build or fix financial gaps for their target SME customers to make them better qualified for the various banking products. The same idea can also be extended directly to SMEs.

4. Innovation
Banks need to swing from conventional the banking approach towards SMEs to the provision of more tailored and differentiated financial products and services to go well with different SME segments.
SMEs have no need for a savings account but they do need a financial service that banks compete to supply. Banks should meet customers' actual needs. SMEs do not need traditional banking services, but rather a simple way of transacting money to sell and obtain products. Mobile-based banking has the prospective to help SMEs run their businesses smarter. This entails a new prospect that can unlock services that create returns for banks and SMEs. The comparatively lower cost of giving services through mobile makes is much a more a convincing offers for banks, as the average cost of servicing a deal is the lowest on the mobile channel. The Mobile banking is therefore, recognized as a key for unlocking the entrepreneurial potential in the informal sector.

It can be concluded that that banks have failed to provide services that attract SMEs, hence, the need for banks to innovate and make available SME products that match their needs.

5.4 Study areas for further research

The major limitation was the time frame in which the research was carried out. In addition, with limited time and financial resources, the study was not able to cover all SMEs in Zimbabwe, thus convey a true representative picture of the factors that constrain banks from banking SMEs.

From the research it can be seen that there are other further studies that can be carried on to tap into strategies that can be offered to tap into the unbanked segment of the entire economy. The interactions and impact of these factors can therefore be studied to assist in developing solutions to the liquidity challenges faced by financial institutions.
REFERENCES


88


76. Oliver Wyman Business Analysis Report (2011)


APPENDIX 1 - QUESTIONNAIRE

Questionnaire Covering Note

My name is Oliver Habonimana and I am doing an MBA program with the University of Zimbabwe. As part of the program, each student is required to conduct a research on a topic of their choice. I am carrying out an investigation into factors that constrain banks to bank the unbanked SMEs particularly those in the Harare CBD. May you kindly assist by completing this questionnaire? Please be assured that all information provided shall be treated with strict confidentiality and will be used solely for academic purposes. The research will go a long way in finding out how liquidity challenges being faced by banks can be addressed.

Thank you for your assistance.

Section A: General company information

Please indicate your answer by an X in the appropriate block, or write in the space provided. You may tick more than one block where necessary.

1. Position in the Company
   - Supervisor
   - Manager
   - Owner/Shareholder
   - Other

2. How many employees are in the company?
   - Less than 5
   - Between 5 and 10
   - Between 10 and 30
   - Between 50 and 100
   - Over 100

3. What is the main activity of your company?
   - Mining
   - Construction
   - Manufacturing
   - Whole or Retail Trade
   - Transport
   - Real Estate
   - Agriculture
Financial services ☐
Other ................................. ☐

4. What was the average annual turnover of your company

- US$5,000 – US$10,000 ☐
- US$15,000 – US$50,000 ☐
- US$55,000 – US$100,000 ☐
- US$105,000 – US$250,000 ☐
- Over US$250,000 ☐

5. In which year was your firm registered ..........

Section B: Business Issues

6. Do you operate a bank account in Zimbabwe

- Yes ☐
- No ☐
- Other ................................. ☐

How often do you deposit your revenue?

- Daily ☐
- Weekly ☐
- Monthly ☐
- Yearly ☐
- Never ☐

How much do you deposit on average annually? US$ .................

7. What is your opinion on banks in Zimbabwe in relation to your operations?

- 5 = Very important ☐
- 4 = Important ☐
- 3 = Sometimes ☐
- 2 = Indifferent ☐
- 1 = Not important ☐

8. Please indicate if you recently applied for a loan facility

- Yes ☐
- No ☐

If Approved indicate type ....................... Tenor ...................... Interest rate ......% p.a.

9. Who provided you this loan?

- Bank ☐
- Private Individual – family or friend ☐
Other sources (e.g. microfinance institution, government-related sources) □

For each of the statements given below tick in the response that best suits your opinion/feelings from the six point like’s scale varying from:

<table>
<thead>
<tr>
<th>STRONGLY DISAGREE</th>
<th>DISAGREE</th>
<th>NEUTRAL</th>
<th>AGREE</th>
<th>STRONGLY AGREE</th>
<th>UNKNOWN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

1. Banks should be geographically closer to SMEs
2. Banks should tailor make SME products
3. Banks should avail loans to SMEs
4. Banks should educate SMEs
5. It is costly to bank business revenue for SME
6. It is not important to operate a bank account
7. SMEs do not have confidence in the financial sector
8. Most SMEs that I know prefer cash transactions

Read and rank the statements below in line with the degree of importance according to your strongest opinion.

<table>
<thead>
<tr>
<th>Least Important</th>
<th>Important</th>
<th>Very Important</th>
<th>Not Sure</th>
</tr>
</thead>
</table>
9.9 My earnings should be paid through the bank
9.10 Banks should approach us
9.11 Banks should reduce charges
9.12 Banks play a role in SME growth
9.13 Availability of bank loans

Read and answer the following questions by ticking Yes, No or Not Sure

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Not Sure</th>
</tr>
</thead>
</table>
9.14 Banks always have funds to assist SMEs with facilities
9.15 Banks need SMEs to operate
9.16 Banks have failed to provide service to SME
10. In your opinion, what are the main factors that constrain SMEs from formally banking their revenues?

End of Questionnaire

Thank you once again for your co-operation
### APPENDIX 2: STATISTICAL ANALYSES

#### Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Error</th>
<th>Mean</th>
<th>Std. Error</th>
<th>Mean</th>
<th>Std. Error</th>
<th>Mean</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you operate bank account</td>
<td>74</td>
<td>1.07</td>
<td>.029</td>
<td>.253</td>
<td>3.517</td>
<td>.279</td>
<td>10.659</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>What is your opinion on banks in Zimbabwe</td>
<td>74</td>
<td>2.16</td>
<td>.115</td>
<td>.993</td>
<td>.267</td>
<td>.279</td>
<td>-1.074</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks should be geographically closer</td>
<td>71</td>
<td>3.85</td>
<td>.151</td>
<td>1.272</td>
<td>-1.029</td>
<td>.285</td>
<td>.131</td>
<td>.563</td>
<td></td>
</tr>
<tr>
<td>Banks should tailor make SME products</td>
<td>74</td>
<td>4.04</td>
<td>.103</td>
<td>.883</td>
<td>-.326</td>
<td>.279</td>
<td>-.506</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks should avail loans to SMEs</td>
<td>69</td>
<td>3.55</td>
<td>.136</td>
<td>1.132</td>
<td>-.286</td>
<td>.289</td>
<td>-.869</td>
<td>.570</td>
<td></td>
</tr>
<tr>
<td>Banks should educate SMEs</td>
<td>72</td>
<td>4.17</td>
<td>.112</td>
<td>.949</td>
<td>-1.258</td>
<td>.283</td>
<td>1.789</td>
<td>.559</td>
<td></td>
</tr>
<tr>
<td>It is costly to bank business revenue for SME</td>
<td>69</td>
<td>3.48</td>
<td>.150</td>
<td>1.244</td>
<td>-.610</td>
<td>.289</td>
<td>-.552</td>
<td>.570</td>
<td></td>
</tr>
<tr>
<td>It is not important to operate a bank account</td>
<td>69</td>
<td>2.97</td>
<td>.171</td>
<td>1.424</td>
<td>-.011</td>
<td>.289</td>
<td>-1.290</td>
<td>.570</td>
<td></td>
</tr>
<tr>
<td>SMEs don’t have confidence in the financial sector</td>
<td>66</td>
<td>4.08</td>
<td>.165</td>
<td>1.339</td>
<td>-1.410</td>
<td>.295</td>
<td>.681</td>
<td>.582</td>
<td></td>
</tr>
<tr>
<td>Most SMEs that I know prefer cash transactions</td>
<td>69</td>
<td>4.48</td>
<td>.125</td>
<td>1.038</td>
<td>-2.136</td>
<td>.289</td>
<td>3.990</td>
<td>.570</td>
<td></td>
</tr>
<tr>
<td>My earnings should be paid through the bank</td>
<td>74</td>
<td>2.34</td>
<td>.111</td>
<td>.955</td>
<td>.141</td>
<td>.279</td>
<td>-.896</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks should approach us</td>
<td>74</td>
<td>2.58</td>
<td>.107</td>
<td>.922</td>
<td>-.137</td>
<td>.279</td>
<td>-.765</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks should reduce charges</td>
<td>74</td>
<td>3.04</td>
<td>.093</td>
<td>.801</td>
<td>-.402</td>
<td>.279</td>
<td>-.497</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks play a role in SME growth</td>
<td>74</td>
<td>2.81</td>
<td>.103</td>
<td>.886</td>
<td>-.343</td>
<td>.279</td>
<td>-.555</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Availability of bank loans</td>
<td>72</td>
<td>2.90</td>
<td>.099</td>
<td>.842</td>
<td>-.686</td>
<td>.283</td>
<td>.200</td>
<td>.559</td>
<td></td>
</tr>
<tr>
<td>Banks always have funds to assist SMEs with facilities</td>
<td>74</td>
<td>1.91</td>
<td>.082</td>
<td>.706</td>
<td>.135</td>
<td>.279</td>
<td>-.947</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks need SMEs to operate</td>
<td>74</td>
<td>2.08</td>
<td>.107</td>
<td>.918</td>
<td>-.164</td>
<td>.279</td>
<td>-1.818</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Banks have failed to provide service to SME</td>
<td>74</td>
<td>2.05</td>
<td>.110</td>
<td>.949</td>
<td>-.110</td>
<td>.279</td>
<td>-1.913</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>What are the main factors that constrain SMEs from</td>
<td>74</td>
<td>1.95</td>
<td>.117</td>
<td>1.005</td>
<td>.776</td>
<td>.279</td>
<td>-.495</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>formally banking their revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>So SMEs formulate the unbanked sector in Zimbabwe</td>
<td>74</td>
<td>1.24</td>
<td>.060</td>
<td>.518</td>
<td>2.083</td>
<td>.279</td>
<td>3.607</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>What role can banks play to bank the unbanked SMEs</td>
<td>74</td>
<td>2.77</td>
<td>.210</td>
<td>1.810</td>
<td>.481</td>
<td>.279</td>
<td>-1.390</td>
<td>.552</td>
<td></td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>66</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Factor Analysis

### Component Matrix

<table>
<thead>
<tr>
<th>Question</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you operate bank account</td>
<td>.360</td>
<td>-.341</td>
<td>.584</td>
</tr>
<tr>
<td>What is your opinion on banks in Zimbabwe</td>
<td>.424</td>
<td>.632</td>
<td>-.082</td>
</tr>
<tr>
<td>Banks should be geographically closer</td>
<td>.639</td>
<td>.205</td>
<td>-.118</td>
</tr>
<tr>
<td>Banks should tailor make SME products</td>
<td>.541</td>
<td>.057</td>
<td>-.050</td>
</tr>
<tr>
<td>Banks should avail loans to SMEs</td>
<td>.671</td>
<td>-.041</td>
<td>.010</td>
</tr>
<tr>
<td>Banks should educate SMEs</td>
<td>.715</td>
<td>.275</td>
<td>-.095</td>
</tr>
<tr>
<td>It is costly to bank business revenue for SMEs</td>
<td>.972</td>
<td>.033</td>
<td>.020</td>
</tr>
<tr>
<td>It is not important to operate a bank account</td>
<td>.900</td>
<td>-.171</td>
<td>-.051</td>
</tr>
<tr>
<td>SMEs don’t have confidence in the financial sector</td>
<td>.904</td>
<td>.271</td>
<td>-.025</td>
</tr>
<tr>
<td>Most SMEs that I know prefer cash transactions</td>
<td>.818</td>
<td>.494</td>
<td>.139</td>
</tr>
<tr>
<td>My earnings should be paid through the bank</td>
<td>.509</td>
<td>-.139</td>
<td>-.033</td>
</tr>
<tr>
<td>Banks should approach us</td>
<td>.443</td>
<td>-.047</td>
<td>-.001</td>
</tr>
<tr>
<td>Banks should reduce charges</td>
<td>.834</td>
<td>.054</td>
<td>.009</td>
</tr>
<tr>
<td>Banks play a role in SME growth</td>
<td>.546</td>
<td>.002</td>
<td>.052</td>
</tr>
<tr>
<td>Availability of bank loans</td>
<td>.625</td>
<td>.130</td>
<td>.129</td>
</tr>
<tr>
<td>Banks always have funds to assist SMEs with facilities</td>
<td>.401</td>
<td>-.046</td>
<td>.738</td>
</tr>
<tr>
<td>Banks need SMEs to operate</td>
<td>.392</td>
<td>-.156</td>
<td>.542</td>
</tr>
<tr>
<td>Banks have failed to provide service to SMEs</td>
<td>.373</td>
<td>-.178</td>
<td>.747</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

a. 3 components extracted.
### Reliability Analysis

#### Item-Total Statistics

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Scale Mean if Item Deleted</th>
<th>Scale Variance if Item Deleted</th>
<th>Corrected Item-Total Correlation</th>
<th>Cronbach's Alpha if Item Deleted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you operate bank account</td>
<td>56.03</td>
<td>300.399</td>
<td>.000</td>
<td>.981</td>
</tr>
<tr>
<td>What is your opinion on banks in Zimbabwe</td>
<td>55.08</td>
<td>274.563</td>
<td>.913</td>
<td>.977</td>
</tr>
<tr>
<td>Banks should be geographically closer</td>
<td>53.27</td>
<td>259.955</td>
<td>.942</td>
<td>.977</td>
</tr>
<tr>
<td>Banks should tailor make SME products</td>
<td>53.12</td>
<td>273.862</td>
<td>.934</td>
<td>.977</td>
</tr>
<tr>
<td>Banks should avail loans to SMEs</td>
<td>53.55</td>
<td>264.313</td>
<td>.963</td>
<td>.977</td>
</tr>
<tr>
<td>Banks should educate SMEs</td>
<td>52.94</td>
<td>270.827</td>
<td>.910</td>
<td>.977</td>
</tr>
<tr>
<td>It is costly to bank business revenue for SME</td>
<td>53.62</td>
<td>260.577</td>
<td>.967</td>
<td>.977</td>
</tr>
<tr>
<td>It is not important to operate a bank account</td>
<td>54.15</td>
<td>255.638</td>
<td>.966</td>
<td>.977</td>
</tr>
<tr>
<td>SMEs don’t have confidence in the financial sector</td>
<td>52.95</td>
<td>260.936</td>
<td>.870</td>
<td>.978</td>
</tr>
<tr>
<td>Most SMEs that I know prefer cash transactions</td>
<td>52.58</td>
<td>272.217</td>
<td>.777</td>
<td>.978</td>
</tr>
<tr>
<td>My earnings should be paid through the bank</td>
<td>54.89</td>
<td>275.081</td>
<td>.928</td>
<td>.977</td>
</tr>
<tr>
<td>Banks should approach us</td>
<td>54.62</td>
<td>274.793</td>
<td>.914</td>
<td>.977</td>
</tr>
<tr>
<td>Banks should reduce charges</td>
<td>54.11</td>
<td>276.219</td>
<td>.921</td>
<td>.977</td>
</tr>
<tr>
<td>Banks play a role in SME growth</td>
<td>54.36</td>
<td>274.297</td>
<td>.926</td>
<td>.977</td>
</tr>
<tr>
<td>Availability of bank loans</td>
<td>54.23</td>
<td>275.686</td>
<td>.897</td>
<td>.977</td>
</tr>
<tr>
<td>Banks always have funds to assist SMEs with facilities</td>
<td>55.14</td>
<td>287.043</td>
<td>.506</td>
<td>.980</td>
</tr>
<tr>
<td>Banks need SMEs to operate</td>
<td>55.06</td>
<td>272.796</td>
<td>.890</td>
<td>.977</td>
</tr>
<tr>
<td>Banks have failed to provide service to SME</td>
<td>55.09</td>
<td>272.699</td>
<td>.861</td>
<td>.978</td>
</tr>
<tr>
<td>What are the main factors that constrain SMEs from formally banking their revenues</td>
<td>55.33</td>
<td>278.349</td>
<td>.866</td>
<td>.978</td>
</tr>
<tr>
<td>So SMEs formulate the unbanked sector in Zimbabwe</td>
<td>55.88</td>
<td>293.216</td>
<td>.431</td>
<td>.980</td>
</tr>
<tr>
<td>What role can banks play to bank the unbanked SMEs</td>
<td>54.61</td>
<td>254.458</td>
<td>.856</td>
<td>.979</td>
</tr>
</tbody>
</table>