

UNIVERSITY OF ZIMBABWE



**PROMOTION OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN ZIMBABWE
THROUGH MICROFINANCE INSTITUTIONS (MFIs).**

By

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DECLARATION

I, **Tawanda Ngandini**, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by 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 other university.

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ABSTRACT

The main objective of this research was to assess the role played by Microfinance Institutions (MFIs) in promoting Small and Medium-Sized Enterprises (SMEs) in Zimbabwe. Expert or judgmental and convenience sampling were used in selecting SMEs which fall under the Ministry of Small and Medium-Sized Enterprises definition. The same sampling methods were employed as well in choosing registered and licensed MFIs in Zimbabwe. Two set of questionnaires were designed to facilitate the solicitation of credible and appropriate data which was used for analysis. One set of questionnaires was done for SMEs and another one for MFIs. Sequential exploratory research design technique was used. Data presentation and analysis was done by tactically using percentage graphs such as histograms and pie charts. The outcome of the study indicates that almost all MFIs support SMEs financially with expensive loans and short tenures. Whilst SMEs recognise the positive role played by MFIs, they however lament the stringent requirements imposed on them by MFIs. Besides the financial assistance, it is recommended that MFIs should try to waive some of the requirements such as collateral security. Government and MFIs must find ways of providing cheaper funding and offering training programmes that suite SMEs in Zimbabwe so as to improve the viability of SMEs and our economy as a whole.

Key words: Small and Medium-Sized Enterprises (SMEs); Microfinance Institutions (MFIs); Credit/Loan

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LIST OF ACRONYMS

SMEs – Small and Medium-Sized Enterprises

MFIs – Microfinance Institutions

FI - Financial institutions

USA – United States of America

US – United States

CBN _ Central Bank of Nigeria

SEDCO – Small and Enterprises Development Corporation

UN – United Nations

OECD – Organisation for Economic Co-operation and Development

UNIDO – United Nations Industrial Development Organisation

WSBI – World Savings Banks Institute

SMME – Small Macro and Medium Enterprises

ADB – Asian development Bank Institute

CHAPTER ONE

1.0 INTRODUCTION

The focus of the study is to assess how microfinance institutions have been promoting the development and growth of the Small and Medium Enterprises (SMEs) sector in Zimbabwe. Small and Medium Enterprises are key to economic development, job creation, innovation and generation of foreign currency (Oghojafor & Ifekwen, 2012). Thus efforts should be made to promote SMEs because of their potential as Zimbabwe's engine of growth (Reserve Bank of Zimbabwe, 2006). Since the year 2000 to date, the economy has witnessed retrenchments and closure of companies due to low capacity utilisation which is hovering around 10-30% and other socio-economic challenges which have led to a high unemployment rate of 93% (United Nations, 2011). It is also largely acknowledged that the SMEs sector has provided a safety net for the unemployed (Garbold, 2008).

SMEs are essential if a country aims to achieve economic growth and development, attain a favourable balance of payment position and employment as well as poverty alleviation and improving standards of living. The role of (SMEs) is critical for strengthening economic performance and employment creation, particularly in developing countries such as Zimbabwe (Reserve Bank of Zimbabwe, 2007). Unfortunately SMEs potential remains untapped due to the financial difficulties that the country finds itself in. There is therefore need to explore ways of supporting the sector and Microfinance Institutions (MFIs) are expected to bring solutions to the need of SMEs as they shape an integral part of the economy.

1.1 BACKGROUND TO THE STUDY

The Government of Zimbabwe recognised the essence of SMEs and created the Ministry of Small and Medium Enterprises Development in 2000 (Zimbabwe Government, 2002). SMEs however need financial assistance to start and grow their small ventures into medium size and eventually into large enterprises. SMEs require low start-up capital. This study attempts to establish the role played by Microfinance Institutions in promoting SMEs in Zimbabwe. Furthermore the study endeavors to evaluate the impact of MFIs on SMEs development and examining the challenges faced by SMEs in accessing loans from the MFIs.

Funding has been acknowledged in various business sectors as one of the major vital factors shaping the survival and development of SMEs in any country (Beck et al, 2008). Access to cheap credit allows SMEs to embark on fruitful investments that lead to the growth of businesses and to acquire the latest technologies and machinery, thereby ensuring their competitiveness and that of the nation as a whole (Aberejijo & Fayoni, 2005). Poor financial systems can badly weaken the economic fundamentals of a nation, leading to inferior growth in income and employment.

Despite their potential role in economic transformation, SMEs continue to face difficulties in obtaining formal loans. This is because the tenures of microfinance and bank loans advanced to SMEs are generally limited to a period of six to twelve months and interest rates are quite steep (Reserve Bank of Zimbabwe, 2012). This period is far too short and borrowing rates are exorbitant which makes it difficult for SMEs to pay off their debts. Furthermore, banks in many developing countries are traditionally biased towards big company borrowers, who are able to furnish financial institutions with better business proposals, have proper documentations, more reliable financial information and demonstrate better likelihood of achieving higher profits for the banks (Aberejijo & Fayomi, 2005). For this reason, financial institutions have shunned the majority of SMEs borrowers and at the same time increasing the requirements for accessing funds.

According to Beck, Asli, & Soledad, (2007) the traditional financial institutions and investors are not keen to support SMEs financially for various reasons. SMEs are regarded by financial intermediaries as high-risk borrowers because they lack sufficient collateral security, have low capital levels, are exposed to market variations and high mortality rates. Information irregularities emanating from SMEs' lack of appropriate financial records often lead to poor business plans. These challenges make life difficult for creditors and any other financial services to evaluate creditworthiness of a potential SME proposal. Above all, high administrative and transaction costs of lending do not make SME financing attractive (Bell, Harper, & Mandivenga, 2002).

Despite the fact that everyone recognises the critical role of SMEs in job opportunity creation and success of the economy, government, banking and Microfinance Institutions seem not to give befitting support. SMEs lack the essential credit support from banks and microfinances institutions, since they are viewed as not credit worthy and too risky.

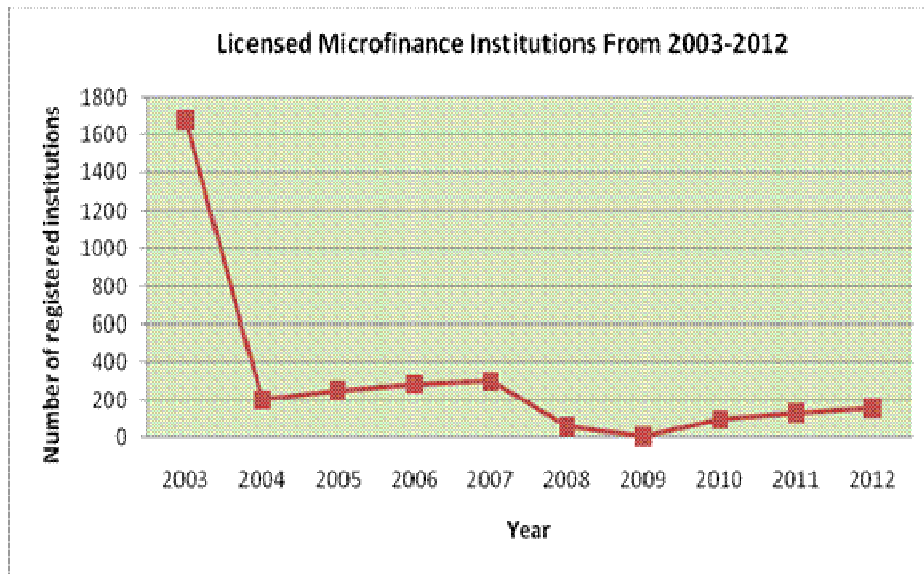
SMEs in Zimbabwe just like their counterparts elsewhere in Africa continue to face challenges in their attempt to get financial backing to realize their full potential compared to Europe and United States of America (USA). In Zimbabwe the issues are worsened mostly due to absence of structures that can assist SMEs access capital finance, the economic spell that our nation has gone through as well as the dollarisation which has affected almost all businesses particularly the small players. It is unfortunate that we do not have a credit culture in Zimbabwe and that is the other reason why it is difficult for an entrepreneur to get support from the banking institutions. An overview of Zimbabwe's Microfinance industry is given next.

1.1.1 MICROFINANCE INSTITUTION (MFI) IN ZIMBABWE

Microfinance refers to the entire flexible structures and processes by which financial services are delivered to micro entrepreneurs as well as the poor and low income population on a sustainable basis (Umar, 2009). According to Jamil, (2008) MFI recognises poor and micro entrepreneurs who are ordinarily disqualified and deprived of access to financial services on account of their inability to provide tangible assets as collateral for credit facilities. Ideally MFIs are supposed to increase credit accessibility to micro-entrepreneurs with a view to increasing their income, provide technical support through training, advice and provide counselling and provide basic training in project management and business skills to the target groups (Bharathi, 2009).

1.1.2 ZIMBABWE MICROFINANCE INSTITUTIONS REGULATION

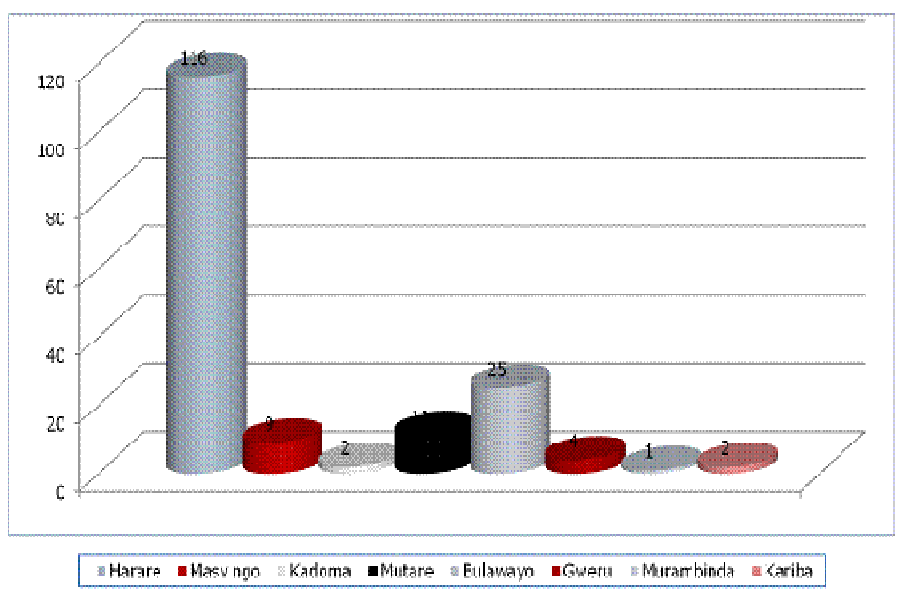
In Zimbabwe Microfinance Institutions are regulated by the Ministry of Finance under the Money Lending and Interest Rates Act [Chapter 14:14] and Banking Act [Chapter 24:20] (Act No.9 of 1999) (Microfinance Bill, 2012). To date there are 150 registered MFIs in Zimbabwe (Reserve Bank Of Zimbabwe, 2013). The Ministry of Finance has however mandated the RBZ to monitor, supervise, issue and cancel licenses for the MFI sector. The Ministry of Finance is in the process of finalising the Microfinance Bill Act through the Reserve Bank of Zimbabwe, so that they are monitored just like banks. It is also believed that there are many more operating underground away from the eyes of regulators (ZAMFI, 2012). Some MFIs members voluntarily participate under Zimbabwe Association of Microfinance Institutions (ZAMFI) (Microfinance Monitor, 2007). Figure 1.1 shows the number of licensed MFIs over the period 2003-2012.



(Source; ZAMFI, 2012)

Figure 1.1 Licensed Microfinance Institutions

By end of the year 2003, Zimbabwe had close to 1700 registered and licensed MFIs. However, the figure drastically fell on the back of the worsening economic and political turmoil of 2004. Zimbabwe had approximately 200 registered MFIs in 2012 and the number shrunk as the year approached its last quarter (Reserve Bank of Zimbabwe, 2012). There are many reasons why there were so many closures. Some were due to lack of capital, failing to meet statutory requirements whilst some were forced to shut as they perennially made losses. Currently there are 150 entities registered as Microfinance Institutions (Reserve Bank of Zimbabwe, 2013). The geographical distributions of the MFIs is given in Figure1.2



(Source: RBZ, 2012 Feedback report on supervision of MF and ML Institutions)

Figure 1.2 Geographical Distributions of MFIs

More than 67% of MFIs are located in Harare, 14% in Bulawayo with the remaining percentage dotted around the country. Harare dominates the landscape since it is the capital city and most industrial activities happen there. The city of Bulawayo comes second because it is the second largest city in Zimbabwe. Bulawayo has been affected by closure of many small industries and this could have in a way forced some MFIs to relocate or shutdown (Zimbabwe National Chamber of commerce, 2011). Figure 1.2 indicates that MFIs prefer to operate in cities, towns and urban areas. This is because of availability of infrastructure such as telecommunication network, internet access, electricity and bankable security.

Zimbabwe microfinances face their own internal challenges such as; high operating costs relating to the large numbers of relatively small accounts that need to be managed and monitored. There is also the challenge of inadequately experienced credit staff. It has been shown that there is a dearth of skilled personnel who can drive product

development and engagement effectively with clients (Heather & Banham, 2010). Microfinance institutions require experienced and skilled personnel. Most institutions have no qualified personnel who can ably assess mining, engineering or agricultural projects. Poor monitoring of SMEs by microfinance houses has been known to lead to default (Burk & Lehmann, 2006).

1.2 PROBLEM STATEMENT

The hyper-inflationary environment during 2004 to 2008 was characterised by downsizing/retranchments and closure of many companies. In 2009, the dollarisation of the economy ushered a new era whereby Zimbabwe witnessed the birth of numerous entrepreneurs or SMEs. The small ventures compliment incomes and create employment for retrenchees, school leavers and graduates who could not be absorbed in the formal sector.

The dollarisation of the economy led to the proliferation of money lenders or Microfinance Institutions that offer financial and capacity building services to SMEs and any other entrepreneurs. High interest rates and shorter tenors made the borrowing of capital expensive, resulting in low levels of investment and high default rates. Therefore access to finance became a challenge to (SMEs) and this has had a negative impact on SMEs performance. In other words SMEs are not getting enough funding from the MFIs which hampers the growth of SMEs sector. An environment conducive for the growth of SMEs is required. There is therefore need to explore the role played by Microfinance Institutions in promoting SMEs.

1.3 RESEARCH OBJECTIVES

This paper will focus on the promotion of Small and Medium Enterprises (SMEs) in Zimbabwe through microfinance institutions. The specific objectives are to:

- a) Establish the role played by Microfinance Institutions towards the promotion of SMEs;
- b) Evaluate the impact of microfinance institutions on SMEs development;
- c) Identify the challenges facing the Microfinance Institutions;
- d) Proffer some strategic recommendations.

1.4 RESEARCH QUESTIONS

In order to realise the above stated objectives, the following research questions were addressed:

- a) What role do Microfinance Institutions play in promoting SMEs development?
- b) What role do Microfinance Institutions have in developing SMEs?
- c) What are the challenges being faced by SMEs?
- d) What recommendations can be offered for strategic planning purposes?

1.5 PROPOSITION

The following proposition is proposed and will be tested in the course of this study.

- I. There is a significant effect of Microfinance Institutions activities in promoting SMEs development.

1.6 SIGNIFICANCE OF STUDY

The study seeks to investigate the contribution of Microfinance Institutions towards the development and performance of SMEs in Zimbabwe. The strengths of SMEs are in their sizeable contribution towards the job creation and economic development. Stimulation of the economy may lead to enhanced disposable incomes, rising demand for goods and services and improved living standards. The Zimbabwean economy is currently characterised by disinvestment, low capacity utilisation and liquidity challenges (Chidoko, Makuyana, Matungamire, & Benami, 2011). There is need to put more attention in giving solutions to the challenges faced by SMEs in Zimbabwe through Microfinance Institutions, since SMEs are a vehicle unit for economic growth in a country. This study is very important since it is going to inform the relevant policy makers on the role of MFIs in supporting SMEs to improve the economy.

Liedholm (2002) indicates that small firms involved in non-primary activities in developing African and Latin American countries employ approximately 17-27% of the working group population. Apart from sustaining employment, SMEs are likely to offer strong grounds for linkage creation among firms in various sectors. Business linkages can also be created between local primary activities and external suppliers/exporters. SMEs are a vital component of every country's economy and their success is a critical part. Innovation is largely achieved through SMEs and for this reason they must be fully supported. It is of great importance to identify and understand the challenges faced by SMEs in Zimbabwe as well as difficulties faced by Microfinance Institutions. This is due to the fact that both SMEs and Microfinance institutes are the corner stone of the Zimbabwean economy. Therefore the essence of this study is to bring about solutions that may be adopted to assist MFIs and SMEs to cooperate and develop for the betterment of the nation as a whole.

SMEs must be looked after and financially supported to ensure their continuity, growth and development. This study is of significance to the managers of SMEs in the various sectors as well as the managers/loan officers of Microfinance Institutions. Recommendations are made to assist Microfinance Institutions and SMEs in their long term developmental growth objectives. The researcher will further explore, the role played by Microfinance Institutions in promoting SMEs development in Zimbabwe. Moreover, the study will be of benefit to the Zimbabwean government as they have committed a large amount of resources towards the establishment and success of SMEs. Furthermore the study will create awareness to SMEs on how best they can relate with MFIs.

1.7 SCOPE OF RESEARCH

For the purpose of this study only SMEs registered with the Ministry of Small and Medium Enterprise and Small Enterprises and Development Corporation (SEDCO) of Zimbabwe as well as Microfinance Institutions (MFIs) registered with the Reserve Bank of Zimbabwe were considered. SMEs operating in the informal economy were excluded from the survey. To ensure a proper survey is carried out on business in the SME class, business entities employing at least 30 to 70 workers as per Ministry of Small and Medium Enterprise Development in Zimbabwe, definition were considered. Dealing with registered SMEs made the assessment credible and the results more useable.

The study covers only MFIs and SMEs in Harare, Zimbabwe given that Harare is the Capital City of Zimbabwe and an administrative province in Zimbabwe. Harare is dominated by 67% of total registered MFIs and money lenders, retail, manufacturing and service sectors (RBZ Feedback report on supervision of MF and ML Institutions, 2012).

1.8 ORGANISATION OF THE REST OF THE STUDY

The rest of the study is arranged as follows: chapter 1 the introduction was given. Chapter 2 discusses the literature review on MFIs and SMEs. The research methodology comes in chapter 3. Chapter 4 contains research findings and discussions while conclusion and recommendations are in chapter 5. At the very end there are references and appendixes in that order.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The roles played by MFIs and SMEs supports the fact that the relevance of these two sectors cannot be overemphasized especially among the less developed economies such as Zimbabwe. MFIs and SMEs are the torch bearers of successful economies; hence their importance in relation to the growth and development of a given economy must be upheld (Organisation for Economic Co-operation and Development, 2004). Almost all countries that had focused their energies in supporting the SMEs sector and maintaining its vibrancy have ended up improving the quality and standard of living for their populations, reduction in unemployment rate and increase in per capita income (Yumkella, Kormawa, Roepstorff, & Hawkins, 2011).

There is an agreement that if Governments, Microfinance Institutions and other relevant stakeholders are to provide a serious commitment to the growth and expansion of the SMEs sector, they will witness meaningful transformation and prosperity of their economies (Lundstrom, 2009). A well oiled Microfinance sector is vital for the SMEs and the overall economic development of a nation. SMEs help to provide effective means of curbing rural-urban migration and resource utilization (Onugu, 2005). The rural community can be assisted with small income generating projects thereby reducing the number of youths looking for employment in the urban areas. This is important in the sense that it creates a balanced economy with average to better standards of living regardless of where one lives and the urban centers will not be overpopulated. Rural-urban migration is curtailed by SMEs that produce intermediate products for use in big companies as well as strengthening industrial inter-linkages and integration (Abonyi, 2005). Vibrant, efficient and effective SMEs generate benefits for government through

taxes. Other relevant stakeholders such as; employees and customers benefit through sustained income as well as greater availability of products (Ganbold, 2008).

SMEs are turning to Microfinance Institutions (MFIs) for financial assistance and their other range of financial services. This is because Microfinance Institutions are acknowledged as the prime movers to achieve some of the Millennium Development Goals (MDGs) which are poverty and hunger reduction as well as environmental sustainability (Idowu, 2010). Unfortunately, the Zimbabwean SMEs sector is not flourishing because it is not fully supported by MFIs (Entrepreneurship Africa, 2013). This has prompted the researcher to ascertain facts behind the discord between SMEs and MFIs.

One of the major setbacks in the quest for economic development over the past decade of years has been the absence of strong MFIs and a vibrant SMEs sector. A number of reasons have been highlighted as to why the SMEs have not been performing as expected. Lack of financial and technical support from the government, financial institutions and other stakeholders among others have been identified as major problems (Nyoni, 2012).

The chapter focuses on the concepts and importance of MFIs as well as challenges faced by MFIs in their operations. The essence of this chapter is to assess the theoretical and empirical links between MFIs and SMEs. The next concentration is on SMEs notion, their contribution to the economy and the challenges they are facing. This gives an idea on how SMEs are considered before accessing services of MFIs. The experiences of other countries' MFIs in promoting SMEs are also addressed. The prospects of SMEs and MFIs in Zimbabwe are explained at the end of this chapter.

2.2 DEFINITION OF MICROFINANCE INSTITUTIONS (MFIS)

An MFI is defined as a development tool that grants or provides financial services and products such as small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Ngehnevu and Nembo, 2010). This definition is very supported by the Reserve Bank of Zimbabwe, (2009) who define MFI as the provision of a range of financial services, including savings, small loans, and money transfer services to marginalised members of the population and SMEs that do not have access to finance from formal financial institutions.

All these definitions hinges on the universally accepted definition prescribed by The World Bank (2008) which says MFIs as agents and organisations that engage in relatively small financial transactions using specialised as well as character based methodologies to serve lower income households, micro enterprises, small farmers and others who lack access to the traditional banking systems. Microfinance Institutions (MFI) differ in size and function with a number of organisations focusing wholly on microfinancing, while others work as extensions of large investment banks. MFIs are financial intermediaries that assist SMEs that do not have access to other sources of financial assistance (World Savings Banks Institute, 2006).

2.2.1 FUND PROVIDERS TO MFIS

MFIs generally get their funding from donors, government and the private sector (Ngwenya and Ndlovu, 2003). According to the International Financial Corporation, (2010) a number of Microfinance Institutions (MFIs) receive their funding from financial Non Governmental Organisations (NGOs). Some MFIs work jointly with banks in collaboration with their governments to provide microfinance services to SMEs. A

handful of MFIs borrow money from banks and individuals, put a markup and end up charging high interest rates to their clients to make a margin. In Zimbabwe some MFIs enjoy synergies with banks who provide them with funds for onward lending for example Microking Finance Limited is linked to Afrasia Kingdom Bank limited (Afrasia Kingdom Zimbabwe Limited, 2012); FBC Microfinance is connected to FBC Bank (FBC Holdings Limited, 2012); Fidelity Microfinance is a subsidiary of Fidelity Life Assurance, CBZ Microfinance is also linked to CBZ Holdings Limited among others.

Funding for SMEs comes from individual investors, money markets and various organisations (McLaney, 2009). These can be funds injected by the government through the Ministry of SMEs and private owners of the MFIs. Normally funds from the government and Non Governmental Organisations (NGO) are relatively cheaper than those from private sectors. Government or NGO credit facilities are characterised by fair short tenors (Burk & Lehmann, 2006). MFIs linked to main stream banks to have the ability and capacity to underwrite more business compared to individually owned MFIs. Generally interests rate offered by individually funded MFIs tend to be on the high side compared to others and the capacity to service more businesses is very limited due to non availability of funds. The global recession contributed negatively to the cost of borrowing due to liquidity constraints which have also affected the traditional donors who supports MFIs and SMEs.

2.2.2 THE IMPORTANCE OF MICROFINANCE INSTITUTIONS (MFIS)

Microfinance Institutions (MFIs) are being recognised by different researchers as institutes that can be used to uplift the viability of SMEs by providing financial services to those who do not have access to banks or that are neglected by the formal banking sector (Klinkhamer, 2009). In essence Microfinance Institutions were established to help the poor to access loans by financing Micro and Small Enterprises (Muktar, 2009).

Microfinance Institutions tend to target economic clusters for entrepreneurs who are traders, street vendors, small farmers, hairdressers, tailors, small transport commuter operators and small retailers (Ledgerwood, 1999). The reason why MFIs focus on the above mentioned clusters is because they are not capital intense as compared to big manufacturing or mining industries. Another reason could be that the nature of small businesses is characterised with quick returns which suites short tenor lending (Brownlee, 2012). Above all, the risk is spread and concentration risk will be minimal.

According to ZAMFI, 2012 the aim of MFIs in Zimbabwe is to increase ease of access to Credit for SMEs in order to increase their incomes as well as providing technical support to such groups through training, advice and counselling. The other main objective is to provide basic training in project management and business skills to SMEs. MFIs tend to bolster a culture of saving on the target groups in line with the provisions of the Moneylenders and Interest Rates Act (Ngwenya and Ndlovu, 2003). Above all, MFIs try to seal the gap within the financial services industry by offering small loans, to people who are unable to access normal loan services (Jeantry, 2008). Despite the challenges encountered in an economy MFIs have been effective in executing their roles in other economies such as Japan (Reserve Bank of Zimbabwe, 2007). According to Byaruhanga, (2010) MFIs in India have managed to professional execute their mandates with the help of the Indian Government.

2.2.3 CHALLENGES FACING MFIS IN THEIR OPERATION

There are certain challenges faced by every MFI which need careful attention. MFIs face the risks caused by information asymmetry resulting in adverse selection and moral hazard effects (Carven, 2009). Challenges faced by MFIs affect their performance since some of entrepreneurs' misuse funds leading to defaults thereby reducing MFI profits due to provision set aside (Heather & Banham, 2010). MFIs struggle to safe

guard repayment prospects once the client has the money in their bank accounts or hands (Froeb, 2010).

2.2.3.1 ADVERSE SELECTION

Adverse selection is a problem caused by information asymmetry before a transaction occurs (Garven, 2013). It is very common in SME lending when the borrower intentionally submits wrong information in order to get a loan from a financial institution (Anderson, 2013). An entrepreneur may inflate sales figures, profit levels and balance sheet size. This misinformation puts the Loan Officer in an adverse selection situation because the inflated figures will make the project look better than the actual sales figures. The adverse selection challenge drives away good projects, hence creating a 'market for lemons' on the loan books of MFIs. (Bleach, Moorhead, Lee, & Becher, 2010). This is the reason why MFIs now focus more on the Know Your Customer (KYC) principle and require collateral security. Collateral leaves the lender with compensation which can be sold to make up for the losses on the loan (Hyytinen & Vaananen, 2006).

2.2.3.2 MORAL HAZARD

Other major constraints faced by MFIs are a poor regulatory environment, inadequate capacities, lack of coordination and collaboration, and no specific set of criteria developed to categorise beneficiaries. Worldwide, most MFIs lack linkages with formal financial institutions, have inadequate skills and professionalism as well as inadequate capital (Asiama, 2007). Operating an MFI is not just a matter of disbursing loans. The MFIs themselves need to be viable and profitable, they need experienced and skilled personnel that are able to professionally assess, approve or decline facilities and offering advisory services.

MFIs are struggling with high operating costs as a result of the large numbers of loan applications that need to be processed, managed and maintained. The huge costs emanate from repayment collections that need to be made from several points in different locations. Loan defaults are another cancerous problem that is affecting the sustainability of MFIs. Non-repayment of loans discourages staff and deprives access to funding to other valuable borrowers (Muktar, 2009). Above all, they lack capacity to lend at affordable rates due to high cost of money and in the case of Zimbabwe liquidity challenges affects the smooth progression of MFIs (ZAMFI, 2012).

Microfinance Institutions themselves have a problem in that they are also competing for customers (borrowers) with fully fledged banks but are grossly lacking in the most important aspect of its operations and pricing models. According to Microfinance Africa, (2008) some operators of MFIs believe owning a Microfinance is a short-cut to acquire and own a bank without following the due processes and rigorous exercises required by the monetary authorities to procure a banking license. Nowadays it is common to find microfinance institutions placing expensive adverts and expensive corporate imaging in daily newspapers in the hope that it will open them up to the market.

2.2.3.3 EFFECTIVENESS OF MFIs

According to Lindsay, (2010) an effective MFI is the one that loans and recovers the whole amount plus interest and it changes the business community in a positive way. Above all, the institution helps the poorest people to create wealth and develop socially. The effectiveness of MFIs in promoting SMEs is measured by using Progress Out of Poverty Index (PPI) an assessment tool for organisations and businesses to gauge whether they moved out of doldrums or not through MFIs (Fitzgerald, 2009). This has been supported by Klinkhamer, (2009) who said that MFIs have helped in reducing the widened gap between the rich and poor in many developing countries.

A research of measuring the effectiveness of MFI was carried out at University of Manchester in England using the Social Impact Assessment Index (SIAI) (Ghalib, 2009). They measured the effectiveness of MFIs in terms of the capacity to underwrite more business, creating viable assets and at the same time remain profitable (Basel Committee on Banking Supervision, 2010). However in Zimbabwe the effectiveness of MFIs in supporting SMEs is gauged through the size of loan book, market share in SMEs sector, financial performance, administrative performance and client profile (Ngwenya & Ndlovu, 2003).

2.3 DEFINITION OF SME ENTITY

There is no clear-cut definition of Small to Medium Enterprises (SMEs) and as to what constitutes an SME but it is mainly defined by basing on three key features such as the number of employees, capital invested and annual turnover. To this end we have a mixture of definitions. Makunike, (2012) the chairman of Enterprise Development Consulting Company postulates that SMEs in the Zimbabwean context, refers to formally registered distinct business entities with full time employees ranging 6 to 80, operating in any sector of the Zimbabwean economy and with an annual turnover falling between US\$100,000 to US\$5 million.

According to the Ministry of Small and Medium Sized Enterprises Development in Zimbabwe, (2002) SME is a registered firm that employees between 30 to 70 workers and this varies with the type of business being done. The SMEs Association of Zimbabwe explained the meaning of Small enterprise as well as the Medium enterprises. SME Association of Zimbabwe defines small enterprise as those entities with turnover less than \$240 000 or assets less than \$100 000 and medium enterprises has turnover and assets above the thresholds for small enterprises, but less than \$1 million each (Small and Medium Enterprises Association of Zimbabwe, 2012). Unfortunately, Zimbabwe never made sufficient definitional demarcation of what

constituted an SME in the Zimbabwean context and there is a lack of up-to-date metrics on the size and nature of the SME sector in Zimbabwe (Zindiye, 2008).

The European Union describes SME as a small firm that employs less than 50 employees and a medium firm has fewer than 250 employees (European Union, 2004). In South Africa they define SME as any business with at most 200 employees, recording at least R5million in sales per annum as well as a balance sheet size of less than R2 million, and the owners are directly involved in the management of the business (Cronje, DU Toit, & Motlatla, 2005).

The Office of Advocacy in the United States of America (USA), a department of the Small Business Administration (SBA) defines SMEs as firms with fewer than 500 employees. The department of SBA went further to set basic definition criteria using parameters such as the number of employees and annual firm revenue (Basefsky & Sweeney, 2006). Firms designated as small businesses for government programs such as contracting must meet size standards specified by the USA Small Business Administration (SBA) Office of Size Standards (United States Department of Commerce, 2012).

The SME Department of the World Bank provides a standard definition of the SME; which views small enterprises as those formal sector entities with up to 50 employees and total assets and total annual sales of up to US\$3 million (World Bank, 2007). Quite a number of local and International definitions describe SMEs in monetary terms, mainly turnover and capital levels (Ayyagari, Beck, & Demirgiic-Kunt, 2005). The Zimbabwe government defines SMEs basing on number of employees. Furthermore, Micro, Small and Medium Enterprises (MSME) Policy and Strategy Framework in Zimbabwe defines small and medium enterprises as those who are 'registered in terms of their legal status'

and 'employing people between 6 to100 (MSME, 2010). However, the definitions of SMEs have common words such as employees, turnover, assets and that the enterprise must be registered.

2.3.1 CHARACTERISTICS OF SMEs

Characteristics of SMEs differ as per country's definition; however there are some traits that are universally accepted in the definition such as number of employees, asset base and turnovers (Ayyagari, Beck, & Demirgiic-Kunt, 2005). Table 2.0 summarises the features of SMEs.

Table 2.1 Characteristic of SMEs

FACTOR	INDICATOR
Asset base	\$10,000 to \$2m
Employment	5 to 20 people
Annual Turnover	\$30,000 to \$5m

Source: RBZ Monetary Policy Statement, January 2013

Table 2.1 clearly indicates that the capital bases of SMEs are much smaller in comparison with capital levels of large corporates (Steingold, 2001). They often operate under very tight budgets to the extent of doing business activities at business owner's home to cut the cost of renting office space (Hanly, 2012). Asset base have a strong bearing in accessing loans.

SMEs have fewer employees and employees are more often expected to help in variety of duties with no specific job descriptions (Tyson & Schell, 2008). SMEs have simple business structures, which make the entity more flexible. Most SMEs focus on a small

number of products and services and this limited focus results in established strong relationships with business counterparts.

2.3.2 MANAGEMENT OF SMEs

The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms because big firms offer a sense of job security (Brownlee, 2012). The shortage of management ability is proving to be a challenge in the Southern-African region and it has a huge bearing on the performance of SMEs (Mishi & Kapingura, 2012). SMEs lack appropriate cost-effective management skills (Abor & Quartey, 2010). This is mainly attributed to SMEs inability to appreciate the importance of investing in skills due to complacency or ignorance. The majority of SMEs especially in Zimbabwe, do not want to go for SMEs management training courses instead they want to attend training courses that gives incentives in return (Small Enterprises development Corporation of Zimbabwe, 2004).

Many companies suffer financial losses due to managerial deficiencies such as poor planning; lack of control and at times this is attributed to poor leadership (Burrow, Kleindl, & Everard, 2008). In the recent research done by Dumbu & Chidamoyo (2012) on SMEs managerial deficiencies, it was noted that SMEs face management problems in key areas such as finance and marketing. The situation with SMEs is that they lack planning in handling finances because they do not have an accounting background. Marketing of products is very weak and some products are bought by chance (McVay, 2011). The solution is to find someone with a strong accounting background who can prepare financial statements in a more understandable manner as well as forming clusters for easy marketing of products.

2.4 SMEs AND ECONOMIC DEVELOPMENT

The booming economies of developed countries are attributed to vibrant SMEs sector. In the United State of America (USA) SMEs account for the vast majority of firms and approximately half the gross domestic product (GDP) generated by non agricultural sectors (Hammer, 2010). The economic success of the USA is mainly due to the embracing of the concept of SMEs. (Hammer, 2010) further postulates that the significant value of USA exports came from SMEs, particularly among the smallest SMEs.

SMEs have transformed most countries' businesses and society through economic growth, improved standards of living and poverty reduction. Notable examples are Brazil, Thailand, Singapore, South Africa, United Kingdom and USA (Reserve Bank of Zimbabwe, 2007). SMEs fuel economic growth thereby creating employment as discussed below.

2.4.1 SMEs CREATE NEW EMPLOYMENT OPPORTUNITIES

In South Africa, SMEs have been identified by the government as a priority in increasing jobs so as to reduce the high unemployment rate which is estimated at 25.5% (Statistics South Africa, 2010). The rapid development of SMEs has helped to soften the pain of disappearing jobs by creating new jobs to replace those that are lost (Fakoti & Asli, 2011). Since 1980, the US has added 34 million new jobs. When SMEs are able to create more jobs, they cut unemployment rates and ensure that less people depend on welfare since they are employed. SMEs represent about more than 90 percent of domestic business activity in Brazil.

Small and medium sized businesses play an important role in economic development, in both developed and developing countries. SMEs collectively make a noteworthy economic contribution to employment. It is the larger but still small-sale ventures that employment prospects are more promising. SMEs also accounted for more than 68 percent of China's exports and 75 percent of the new jobs created nationwide each year (Hilgers, 2011).

In light of the above, SMEs must therefore be fully supported by the government and Microfinance Institutions (MFI) as well as commercial banks. SMEs have the potential to ease the unemployment problems being faced by Zimbabwe and other developing countries.

2.4.2 SMEs' SIZE AND ACCESS TO CREDIT

Firm size is one of the most important variables in literature related to access to credit. Among firms that apply for credit, it has been found that an approved firm is older, larger, and grows faster than a denied firm; is less likely to be organized as corporations but more likely to have an external auditor; is more likely to be run by a more experienced management team (Rebel & Dietrich, 2012). Dietsch & Petey, (2004) analyse a set of German and French SMEs and conclude that they are riskier but have a lower asset correlation with each other than large businesses. This was also true for both developed as well as developing countries. Steingold, (2001) postulated that small and medium enterprises are financially more constrained than large firms and when the entity is small the restrictions on credit are greater. A research by Michigan Business Network in 2006 on "access to capital survey" hinted that about 53% of SMEs then faces challenges in raising capital than established large corporates (National small

Business Association, 2006). This is also the current situation in Zimbabwe where Financial Institutions stamped to finance large corporates.

In United States of America about 500,000 SMEs failed to access their desired credit in 2011 due to their unfavourable small sizes (National Federation of Independent Business, 2012). As this study is focused on MFIs and SMEs, it does not seem rational to consider size as a determinant of access to finance. This is because all these favoured big firms started small and eventually grow. Above all, being a large corporate does not necessarily mean huge profits and being a small entity does not translate to marginal profits. MFIs must consider the capacity to make profits and to repay loan, not size of the enterprise. The SME size varies in terms of number of employees. Majority of small enterprises are unable to provide financial statements and do not have enough collateral to take loans from the bank (Venter, Urban, & Rwigema, 2008). When the firm is small, most of the time it is owned and operated by the person who started it and there is no such legal requirement to regularly report financial statements and many SME firms do not maintain audited financial accounts (Ngehnevu & Nembo, 2010). The other reason is some SMEs do not have immovable assets to offer as collateral and security. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument (Garven, 2013). The collateral is an assurance to the bank in case of default and it also ensures the borrowers commitment to the loan repayments.

2.4.3 LOCATION AND ACCESS TO CREDIT

SMEs that are more likely to get funding are those located in a large city and in a country with lower inflation and GDP per capita but higher GDP growth (Abor & Biekpe, 2007). Firstly, there may be an absence of financial institutions in the rural areas.

Sometimes, there may be a lone bank branch available to the location, which may enjoy a monopoly power in the area, and small firms may not have much financing alternatives available. Due to this, they may end up paying high interest on loans or may have to adhere to restricted covenants such as collateral and other conditions (Minh-Le, 2012).

The Microfinance branch administrator assigned in the remote areas may have limited delegation of authority. In the case of Zimbabwe the majority of MFIs head offices are in Harare and decision are made at head office (Reserve Bank of Zimbabwe, 2012). As a result, there may be delays in approving loans requested by rural firms or high amount of loan rejections, as the bank loans are processed and approved by head office officials who have no personal knowledge of customers or projects based in rural locations. Microfinance Institutions may be reluctant to lend to small firms located in rural areas, as the assets offered as collateral by these firms may have less market value, and in case of default, they may find it difficult to realise these assets (Minh-Le, 2012).

However, previous studies on “British SMEs” and “North-South and Urban-Rural Variations in performance and growth” done by Keeble D with the university of Cambridge in this topic have contradictory views which are discussed below: Keeble, (2003) investigated the constraints to growth experienced by urban and rural firms in the UK and suggest that the problems facing firms in urban and rural areas are broadly similar except finance. They reported that the only significant difference is that rural firms feel themselves more constrained in terms of finance compared to the urban firms. The Canadian Bankers Association, (2012) gave an opinion why Canadian banks appear to be more reluctant to lend to small firms in remote areas, because if the entrepreneur fails, the bank considers that it will be more difficult to recover the money lent. Kumar & Francisco (2005), also found that there is a large variation in branch

density across different regions in Brazil and argued that well branched regions in Brazil would be expected to ease physical access and also lower information asymmetry problems as a consequence of greater ratios of banks per firm and they argued that the firms located in these regions have easier access to credit.

However, in New Zealand they found no clear evidence suggesting that small firms in a rural region are marginalised in accessing debt finance (Corner, 2001). Also a study carried out by Tucker & Lean (2001) examining the relationship between firm location and success in obtaining external finance, by dividing the firms into two groups, the first containing firms located in the north of the England and the second containing firms in the south. They found that no significant variations exist, although there is some indication that firms in the south of England are more successful in obtaining term loans guaranteed under the Small Business Loan Guarantee Scheme. However, a difference of opinion was found and according to Rand Corporation, (2007) probability of accessing credit is higher in rural than in urban areas. He further states that most of government bank credit is allocated towards rural areas this might be because local governments often are particularly protective of firms in rural areas (Rand Corporation, 2007).

Technology has transformed the world into a global village. Therefore, the distance between lenders and borrowers is argued to have no influence on financing small businesses in developed countries as they have embraced the advancement of new technologies (United Nations Industrial Development Organisation, 2006). The appreciation of technology has led to increased efficiency in terms of production for SMEs and turnaround time for MFIs. Technology has gone to the extent of lowering search costs enabling easier access to lenders through internet, video conference for interviews (United Conference on Trade and Development, 2005). However, this argument has not got much relevance with the SMEs located in the developing

countries due to limited developments in the information technology and limited usage of such services by the SMEs (Oghojafor & Ifekwem, 2012). As discussed in the above section, SMEs in Zimbabwe affected by the location (Chidoko, Makuyana, Matungamire & Benami, 2011). The solution to this challenge is for the Government of Zimbabwe to built technological infrastructures that covers even the remote areas, however it will take long for the Government of Zimbabwe to implement this solution to lack of capacity.

2.4.4 BARRIERS TO FINANCE FOR SMEs

The following section will first look at the reasons why regular microfinance institutions and banks fail to provide sufficient debt to SMEs. It will demonstrate that poor access to finance is a complex problem driven by several factors including low returns, higher risk perceptions, an uninspiring regulatory environment, and a lack of intermediary skills, experience and capacity (Bouri, Breij, Diop, Kemper, Klunger, & Stevenson, 2011).

Financial Institutions are not adequately providing SMEs with capital in developing countries (Minh-Le, 2012). There is a large financing gap for SMEs in developing countries. The top five banks serving SMEs in non- OECD countries reach only 20% of formal micro enterprises and SMEs (International Finance Corporation, 2011). World Bank, 2010 further approximates that, in Sub-Saharan Africa, the number of banks serving SMEs are even lower, than 5%. This deterioration has been further worsened by the 2008-2010 financial crisis and Eurozone debt crisis. SMEs in emerging markets have a loan but are financially constrained and do not have a loan overdraft, but need one (International Finance Corporation, 2010).

Microfinance Institutions have limited information, skills and regulatory support to engage in SME lending (Bouri et al, 2011). There is a bouquet form of financing SME such as order financing, lease financing, invoice discounting, bridging finance, loan and overdraft (Brealey, Myers, & Marcus, 2001). MFIs should come to the assistance of SMEs by genuinely advising them on the right form of funding.

The lack of collateral for some SMEs can complicate the possibilities to do lending (e.g. asset-based, real-estate or equipment lending). Finally, banks need specific skills to engage in the different forms of SME lending. A recent survey showed that the difficulty in establishing credit-worthiness was a key barrier, with 80% of banks stating challenges in this area Dalberg Global Development, (2011). Most developing countries often have weak accounting standards, and the SMEs have little to no accurate financial statements on their revenues, profits and ability to pay (Taketa & Udell, 2007). Therefore, microfinance and banks assumes SMEs carry greater defaults risk, thereby lending basing on existing relationship and form of collateral-based lending as well. In Zimbabwe, there is no general market data available on the SME market default rates (ZAMFI, 2011).

2.4.5 BARRIERS TO SMEs DEVELOPMENT

The SME sector faces a mixture of problems that hinder its growth and development. Lack of marketing skills and poor knowledge of the market retards the functions of SMEs as they fail to attract and retain customers. Furthermore, a lack of managerial and entrepreneurial skills hampers the growth of SMEs in developing economies (Makunike, 2012). The principal areas of concern affecting the development of the SME sector are identified as the lack of access to infrastructure; lack of information; and a

hostile regulatory environment; lack of suitable training and leadership development (Zindiye, 2008).

SMEs have difficulties in securing adequate finance which is mainly due to a lack of collateral and the banks' reluctance to finance their operations. The cost of financing SME operations is very high in terms of the interest rates that they pay at credit institutions (Bartlett & Burkvic, 2001). High interest rates are as a result of expensive deposits collected by Financial Institutions. However, in Zimbabwe it is anticipated that interest rates will come off following the directive to the Financial Institutions by the regulator Reserve Bank of Zimbabwe to reduce their interest rates (Reserve Bank of Zimbabwe, 2013).

The growth of the SME sector is also affected by the inadequacy of infrastructure such as land, buildings, poor railway and communication networks, machinery and equipment to effectively carry out their operations (Administrator, 2010). Inadequate, inefficient, and at times, non-functional infrastructural facilities, tend to increase operational costs as SMEs are forced to resort to private provisioning of utilities such as water, electricity, transportation and communication (Asian Development Bank, 2006). The issue of poor infrastructure is blamed on the Governments who failed to maintain the existing infrastructures making the transportation and communication expensive for SMEs (Dumbu & Chidamoyo, 2012).

SMEs are often short of appropriate and adequate managerial and entrepreneurial skills, lack a strategic plan, business plan, succession plan and transparent operational systems (Administrator, 2010). Many of the SME promoters purchase outdated and inefficient equipment thereby setting the stage for lower productivity and substandard

product quality with terrible consequences on product output and market penetration as well as acceptance (Dumbu & Chidamoyo, 2012)..

Developing nations abound with many training institutions across the world for example Nigeria, India and South Africa among others (Bowen, Morara, & Mureithi, 2009). It is unfortunate that they rarely address the relevant needs of SMEs especially in the areas of accounting, marketing, Information Technology, technological processes and development, international trade, administration and management of Small and Medium-Sized Enterprises. Basically, SMEs are left most often on their own to deal with huge operational difficulties and operational shortcomings inherent from the poor government systems (Onugu, 2005).

A lack of information in the market and changing customer trends negatively affects SMEs, whilst a hostile regulatory environment also contributes to the poor performance of SMEs in developing countries. This is due to the continuous changes in government policies which make it difficult for SMEs to function properly (Hanga Consulting, 2012). Since the SMEs sector faces this financial quagmire, the section below will explore challenges encountered to finance SMEs.

2.5 EXPERIENCES OF OTHER COUNTRIES IN PROMOTING SMEs

2.5.1 UNITED STATES OF AMERICA (USA)

The small and medium-sized enterprises (SMEs) sector of the economy plays a pivotal role in the USA export markets. SMEs accounted for about 30 percent of produce exports between 1997 and 2007. Most US SMEs primarily focus on exporting computer and electronic products, machinery, and chemicals. However, unlike larger firms, SMEs

tend to concentrate more in exporting their goods in high income destination markets such as Hong Kong, Israel, and Switzerland, and in labor intensive product categories such as wood products and apparel and accessories (Hammer, et al., 2010).

The Barrack Obama administration noted the value and importance of SMEs by establishing National Export Initiative (NEI) in 2010, with an ambitious goal of doubling United States (US) exports by the end of 2014 to support an additional two million jobs through SMEs. At least 97 percent of manufacturing exporters are SMEs. These companies represent nearly one-fifth of the manufacturing sector's \$683 billion known value of exports in 2010 (Executive Office of The United States Trade Representative, 2009). Above all, SMEs accounted for 98 percent of all identified exporters in 2010 (USITC, 2012).

According to Basefsky & Sweeney (2006), more than half of Americans work for SME firms. SMEs have generated 60 to 80% of net new jobs annually over the last decade. However, wages at SMEs are lower than at larger firms, and the frequency of on the job injuries or fatalities is higher at SMEs than at their larger counterparts. The role of MFIs and other Financial Institutions has played a pivotal role in uplifting SMEs since the USA government provides the cheaper funding through financial intermediaries (Executive Office of The United States Trade Representative, 2009).

2.5.2 BRAZIL

According to IMF Statistics, 2011, in Brazil SMEs account for 98% of the total businesses and produce 20% of the Gross Domestic Product (GDP) for the country. However, it is a fragmented market that is dominated by the smaller players. In Brazil

percentage of employment through SMEs is 31% and SME businesses account for 6% (The Brazil Business, 2011).

To date there is much focus on SMEs in Brazil since two thirds of investment in ICT is being focused specifically on small and medium businesses (Rossiter, 2011). This has forced the Brazilian government to support the SMEs sector to the extent of assisting numerous small businesses out of the informal economy into the formal economy thereby creating revenue to the fiscus.

Despite the flourishing of the SMEs market, small businesses in Brazil face various challenges that include registration and start operating a business entity in Brazil takes up to 185days whilst to start operating in China would take approximately 40days (The Brazil Business, 2011). In Brazil MFIs support the small and medium enterprises with lines of credit/loans significantly. According to World Enterprise Survey (2011) about 43% of small enterprises and 68% of medium sized businesses had access to loans and MFIs are propelling the Brazilian economy.

2.5.3 RUSSIA

SMEs business has become institutionally positioned in Russia. As the basis of its economy; it has assumed important social and economic functions (European Union, 2006). There are 1,7million micro, small and medium enterprises and 4,1million private entrepreneurs. The SMEs sector employs more than 19million people which constitutes 25% of total employment in Russia. The Russian SMEs sector has grown much to the extent of recording an annual turnover of more than (Euro) €765billion and contributing a 21% share the country's GDP (Russian State Statistics Services, 2012).

In the year 1999 the Federal government established the Russian Bank for Small and Medium Enterprises Support (SME Bank) and the bank is on the Federal Budget since then. Literally the SMEs are fully supported by government, financially and various programs earmarked to develop small entrepreneurs (The Ministry for Economic Development of the Russia Federation, 2011). Every year the Russian Government increases financial assistance aimed at improving small business. To date the Russian Federation has contributed close to US\$1billion in support of SMEs. Programs such as construction of business incubators, support of export-oriented small enterprises among other programs were implemented by the Russian government. Incentives earmarked towards the development of small entrepreneurship in regions are co-financed by the federal government and regional authorities on a 50/50 basis (OPORA EUROPE, 2012).

Despite the support rendered by federal government to their SMEs, the sector also faces numerous problems just the same as the developing countries SMEs. Ketting, (2006) highlighted the following as obstacles facing Russian SMEs; Poor physical infrastructure (gas, water, electricity, heat); Poor enforcement of contractual and ownership rights; Administrative and legislative ambiguity (bureaucracy); Strong entrenched “informal” networks between legislative, executive, judiciary and business; Protectionist attitude of big business and Corruption.

This is enforced by Furtuna & Ruvinskaya, (2012) who noted that the regulatory environment is uneven in addition to problems relating to an unhelpful bureaucracy, corruption and poor credit conditions. Furthermore they said their country faces a drought of talented individuals and an aging population. According to Sinodov (2009) the future of SMEs in Russia is doubtful unless corruption and credit obstacles are removed. Sinodov laments poor systems on access to capital and unreliable federal

government legal structure where "laws can be enacted at any moment and are constantly changing," hence the future of SMEs is bleak.

2.5.4 CHINA

The Chinese government started promoting its small- and medium-sized businesses soon after the Asian financial crisis. An SME department was created in the State Economics and Trade Commission. Credit systems through financial institutions were set to assist in furthering the growth of new entities. To date, there are five recognized SME sectors in China – industrial, construction, retail, transportation and hospitality (Hilgers, 2009). These SMEs are vital to China's economy as they generate employment, revenue and encourage innovation.

By 2007, it is believed that China had at least 42 million SMEs, which accounted for 99.7 percent of the total number of enterprises in the country. SMEs also accounted for more than 68 percent of China's exports and 75 percent of the new jobs created nationwide each year, while registering more than 65 percent of China's patents (Yang, 2011). According to The People's Bank of China, (2011) it is the financial institutions that played crucial roles in supporting the SMEs. To this end, MFIs in China are financially and morally promoting SMEs. MFIs have also gone to the extent of creating incubators to grow the SMEs sector that has changed China's economic landscape significantly (Hilgers, 2009).

2.5.5 JAPAN

There are 4.69 million SMEs in Japan. These entities constitute 99.7% of all enterprises and account for 70% of all employment in the Japanese economy (Reserve Bank of Zimbabwe, 2007). Japanese SMEs are totally supported by their government and a large proportion of Japan's Foreign Direct Investment (FDI) is made up of SMEs. Above all, the majority of overseas investments are made by SMEs.

Japan has a clearly defined MFI policy which governs their operations. The Japanese government guarantees a large portion of MFIs loan book and they set the interest rates (Izumida, 2013). The whole idea of reducing interest rates was to cushion the entrepreneurs thereby encouraging them to expand into fully flagged corporates.

2.5.6 INDIA

In India, the SMEs sector is the second largest employer after agriculture, providing employment to 28 million people. This sector plays a pivotal role in the growth of the economy, accounting for a 40% share in industrial output and producing over 8 000 different types of value added products. The SMEs sector in India also constitutes more than 80% of total number of industrial enterprises and forms the backbone of industrial development (Reserve Bank of Zimbabwe, 2007).

It is the government of India that supports SMEs by imparting entrepreneurial education and training. They set institutions that work closely with the local industrial associations and MFIs. In addition, the government provides financial assistance for researches, studies, marketing assistance, vendor development programmes, and Small Industry Cluster Development Programme (Byaruhanga, 2010).

2.5.7 NIGERIA

In Nigeria, the Federal and State governments have recognised that for sustainable growth and development, the financial empowerment of rural areas is vital and in particular the SMEs (Ketu, 2008). About 70 percent of the population is engaged in the informal sector or in agricultural production. Nigerian SMEs are fully supported by Microfinance Institutions and government. According to (Central Bank of Nigeria, 2008) microfinance loans granted to clients have increased since 2007 to date and most of these loans have gone towards financing micro-enterprises in rural areas. The researcher ought to assess whether Zimbabwean Microfinance Institutions have been doing the same since the dollarisation.

The Central Bank Of Nigeria, (2008) acknowledges microfinance as an important tool for poverty alleviation through empowering the micro and small entrepreneurs. They vow to see sustainable financial services being availed to those who do not have access to formal financial resources.

2.5.8 SOUTH AFRICA

SMEs in South Africa have contributed positively to economic growth, employment and poverty alleviation. Researchers have estimated the total economic output of SMEs to be 50% of the GDP and employment to be 60% of the labour force (Fakoti & Asli, 2011). SMEs are therefore an important contributor to the economy and are considered a driver for reducing unemployment, given that the formal sector continues to shed jobs. On the other hand, the failure rate of SMEs in South Africa is very high due to non-availability of debt financing.

The South African government has appreciated the importance of SMEs and a framework for SME support and development has been developed. The SME sector is actively promoted by various government arms such as the National Small Business Council and the Ntsika Enterprise Promotion Agency (Ntsika). Khula Enterprise Finance also has a mandate to improve the SME sector's access to finance, primarily through the provision of 'wholesale finance' or guarantees to retail financial intermediaries. The government went further to launch Skills Development Programme. Through skills development programme, SMEs are able to obtain assistance in business management skills and developing customer relations skills. By improving skills it leads to better productivity, efficiency and therefore to a more stable organisation as well as increased profits (BANKSETA, 2012).

The financial services sector also supports the SMEs with Amalgamated Banks of South Africa (ABSA Bank) launching SME Index aiming to provide valuable information on the current state of SMEs in the country and the level and challenges of employment in South Africa. The Absa SME Index data is extrapolated from Statistics South Africa's information on various economic indicators that are issued regularly. The data collected is used to measure the number of people that have been employed by companies versus the unemployment figures in the country over the last two decades (ABSA Group Retail and Business Banking, 2012). ABSA Group Chief Executive for Retail and Business Banking; Malabie, (2012) believes that it is through entrepreneurship that South Africa will create the much needed 5 million jobs by 2020. He further concurs with government that SMEs are the engine room for job creation. "This SME Index is a further demonstration to our commitment of becoming part of the solution towards job creation" (Malabie, 2012).

2.5.9 SUMMARY

Experiences from other countries have shown that most economies with vibrant SMEs sector are a result of government support through MFIs. In USA the government fund SMEs through MFIs and in Russia they recognised the essence of SMEs and MFIs but they gone a step further by opening an SME Bank. In Japan the government control and cushion MFIs against exorbitant finance costs. India fund training programs for SMEs through Financial Institutions and MFIs Over and above, the role of MFIs have been significant in assisting SMEs to grow.

2.6 PROSPECTS OF SMEs AND MFIs IN ZIMBABWE

The developing countries fully appreciate the importance of the SMEs sector and their contribution towards economic development. They are also aware of the constraints faced by SMEs sectors in their operations (Zimbabwe Government, 2002). This clarifies why the Reserve Bank of Zimbabwe in 2007 established various support initiatives and measures earmarked to provide assistance to SMEs that minimise the constraints they faced (Reserve Bank of Zimbabwe, 2007). The institutions and partnerships established by the government of Zimbabwe towards supporting SMEs is evidenced by such longstanding institutions such as SEDCO, Empretec, and UNIDO to provide technical capacity building and financial support to the SMEs sector (Small Enterprises Development Corporation of Zimbabwe, 2004). Despite all these initiatives, it is disheartening that our SMEs sector is not flourishing.

The year 2013 is full of promise for SMEs as various organisations and institutions start to appreciate the essence of the SMEs sector (Mutambanengwe, 2012). The Zimbabwe National Chamber of Commerce (ZNCC) has joined hands with the Small and Medium

Enterprises Association of Zimbabwe (SMEAZ) to promote greater cooperation between SMEs and large enterprises (Zimbabwe National Chamber of Commerce, 2012). These two organisations have signed an agreement to promote SMEs by providing trainings focusing on business proposal writing, cashflow projections as well as income statements. They will be imparting skills that will improve professionalism in the running of small businesses.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This section describes the format and theoretical structure under which this study was carried out. Research methodology is important in research since it covers the research philosophy, research design, sample and sampling procedures and a description of the research instruments used in the collection of data (Kumar, 2005). In addition, the researcher will discuss the data collection technique used. Furthermore the chapter discusses the steps taken in order to safeguard the validity and reliability of the study findings. This research methodology chapter was arranged as follows; research philosophy first followed by research design, questionnaire and sampling techniques used was explained. Various appropriate techniques were applied at different stages depending on the situation.

3.2 RESEARCH PHILOSOPHY

A research philosophy is the technique through which the researcher derives knowledge in the perspective of the research (Lancaster, 2005). There are primarily four forms of research philosophy which are positivism, anti-positivism, pragmatism and realism. The purpose of this art is to understand the process of transforming data believed into information known (William, 2006). Due to the nature and purposes of this study the researcher dwelled much on one of the major research philosophy that have been identified in the Western tradition of science, namely positivist also known as scientific approach (Howitt & Cramer, 2011). The reason of adopting this philosophy is because it is applicable to both qualitative and quantitative research methods. In using the

scientific approach what matters most is the end purpose of the observation which is under investigation.

In positivism research philosophy, researcher is objective analyst (Lancaster, 2005). This philosophy believes that reality is stable and can be observed and described from an objective viewpoint without interfering with the phenomena being studied. The researcher preferred the positivism philosophy because it adopts a clear qualitative approach to investigating the observable fact. The aim was to describe and explore in-depth phenomena from a qualitative perspective (Clarke, 1998). In this study, there was a strong element of multiple realities since the views of MFIs and SMEs are incorporated. The fundamental logic of positivism assumes that an objective reality exists which is independent of human behaviour and is therefore not a creation of the human intellect (Frank, 2002).

3.3 RESEARCH DESIGN

Research design is the conceptual structure within which research would be conducted (Walliman, 2011). According to Saunders, Lewis, & Thornhill (2009) research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research question or problems. The plan is the full scheme or program of the research. It includes an outline of what the researcher will do from writing the hypothesis and their operational implications to the final analysis of data (Kerlinger, 1986). According to Letts et al (2007) research design refers to the method of research planning for the purpose of gathering the most appropriate information on a particular research issue in the correct way and to analyze the results effectively. The above definitions are supported by Brewerton and Millward (2001) who postulated that the design of a study pertains to the strategy or schedule used to collect evidence and to analyze the findings from which to draw conclusions.

There is no consensus in the literature on what research design is (Howitt & Cramer, 2011). It means different things to different people, however there is a general agreement; it is a process of enquiry and investigation that is systematic and methodical (Walliman, 2011). A research design is therefore a plan and structure of conducting a research (Saunders, Lewis, & Thornhill, 2009). The study involved the participation of both MFIs and SMEs hence a sequential exploratory research design was used.

3.3.1 SEQUENTIAL EXPLORATORY RESEARCH DESIGN

It is one of the major types of mixed methods design. Sequential explanatory design, involves collecting and analysing quantitative and qualitative data in two successive stages in one study (Creswell, 2009). Given the nature of the subject under study, a combination of the qualitative and quantitative research design elements enhances the quality of the research (Howit & Cramer, 2011). The researcher combined both quantitative and qualitative research design elements because they are complimentary and increased validity (Ahmadnezhad, 2009).

The researcher focused on the qualitative part whereby the information gathered from the MFIs assisted the researcher in gaining a deeper understanding of the problem and the connection between the MFIs and SMEs by looking at common subject matter in the study. In the process the qualitative data was linked with quantitative data in the data analysis phase of the investigation, since quantitative data is used to enhance what will be found in qualitative data (Hanson, Creswell, Clark, Petska & Creswell, 2005). It was necessary to briefly discuss the quantitative research design and it follows below since it is applicable in sequential exploratory research.

3.3.1.1 QUANTITATIVE RESEARCH DESIGN

Quantitative research entails collecting of primary data from large numbers of respondents, analysing, and interpreting data. The aim is to quantify data by applying statistical analysis as well as discovering patterns and to understand the variable underlying the trends; however the researcher did not apply quantitative models. The whole idea was to generalise a specific population, using the results of a representative sample of the population. The research findings are subjected to statistical manipulation to produce broadly representative data of the total population and forecasts of future events under different conditions (Cant, Gerbel-Nel and Kotze, 2003). The quantitative approach is in tandem with sequential exploratory research design and is appropriate since the study was engrossed with the use of structured questions as well as sizeable numbers of respondents are involved. The quantitative and qualitative research strategies were therefore entirely suitable for this study as the focus was on both 'significance' as well as numbers (De Vaus, 2001). A discussion on qualitative research design is addressed.

3.3.1.2 QUALITATIVE RESEARCH DESIGN

Qualitative research is a generic term for investigative methodologies described as ethnographic, naturalistic, anthropological, field, or participant observer research (James, 1997). It stresses the significance of looking at variables in the ordinary setting in which they are found. Comprehensive data is collected through open ended questions that provide direct quotations (Hindle & Klyver, 2011). Qualitative differs from quantitative research because quantitative attempts to gather data by objective methods to give information about associations, contrasts, and forecasts and attempts to remove the researcher from the study (Sandelowski, 2000).

In this study, the researcher had a common understanding of the research problem. The researcher had to provide convincing evidence by collecting genuine information from the MFIs and SMEs in order to determine a real solution. Research techniques used in this study were structured and qualitative. The primary relationships of the problem are known, qualitative research propositions or questions often exist, but they may be uncertain and exploratory (Hindle & Klyver, 2011).

3.4 DATA COLLECTION PROCESS

A research strategy is a “course of action that gives direction to your efforts, enabling the conduct of research systematically rather than randomly” (Letts et al., 2007). This is confirmed by Saunders, Lewis and Thornhill (2009) who described research strategy as the way or procedure and the overall plan to be followed by the researcher in addressing the research questions. Similarly, Niemann (2005) acknowledged research strategy as “a set of guidelines and instructions to be followed in addressing the research problem”. According to Zina (2005) research strategy, provides the complete course of the research with the method by which the research is performed. The research objectives and research questions must be used as the basis of choosing an appropriate research strategy. The moral behind the study, time to be consumed and availability of resources as well as the level of existing data on the subject area under study must be considered in selecting a research study (Saunders, Lewis and Thornhill, 2009).

For the purposes of this study the researcher ought to embrace the survey research strategy, since it is common and simple to conduct (Collis and Hussey, 2009). This is a suitable research strategy, since the main objective is to establish the role played by Microfinance Institutions towards the promotion of SMEs.

3.4.1 SURVEYS AND QUESTIONNAIRES

The researcher used the survey and questionnaire approaches. A survey is a data gathering method that is utilized to collect, analyze and interpret the views of a group of people from a target population (Mae Sincero, 2012). According to Cooper & Schindler (2003), the survey method is a fact-finding study that involves adequate and accurate interpretation of findings. Surveys are widely accepted methods and have been used in different fields of research, such as sociology, marketing research, politics and psychology (Saunders, Lewis & Thornhill, 2009). In order to fully understand the problems encountered by SMEs in receiving support from Microfinance Institutions, an empirical survey will be conducted in Harare.

In survey research, a questionnaire is an instrument that is comprised of a set of questions to be asked to the participants of the survey (Mae Sincero, 2012). Questionnaires are used to extract information and behaviors, preferences, characteristics, thoughts and facts.

The researcher used primary data gathered using questionnaires in collaboration with interviews. The interviews were done with the Loan Officers and Credit Managers and the essence of interviews was to get some clarity on interest rate and other MFIs requirements. The questions were very open allowing further probing for more answers to come out.

The questionnaires in this study had a combination of closed and open ended questions. The questionnaire targeted MFIs and SMEs to respond. The responses were fairly good from both MFIs and SMEs although some chose not to respond from the targeted sample of population.

Secondary data was collected from the Zimbabwe Association of Microfinance Institutions (ZAMFI) and the Ministry of Small and Medium Enterprises in Zimbabwe as well as from SEDCO of Zimbabwe. It is unfortunate that government officials were not cooperating. They demanded several letters of request to be sent to the director of research. Even a minor enquiry was referred to the director.

3.5 POPULATION AND SAMPLING TECHNIQUES

Unit of analysis

The essence of this study was to address the role played by MFIs in promoting SMEs. Therefore, the unit of analysis for this research is MFIs but for the researcher to sufficiently gather much information SMEs were relevant to the equation, hence SMEs was the unit of data collection for this study.

3.5.1 POPULATION

A population is generally a large collection of individuals or objects that is the main focus of a scientific query (Bhattacharjee, 2012). All individuals or objects within a certain population usually have a common, binding characteristic or trait (Castillo, 2009). The population under study was 152 MFIs and approximately 200 registered SMEs. The researcher could not test every character in the population due to the costs associated in carrying out a study of this magnitude and it would not be practical. For this reason the researcher will apply sampling techniques (Wheather & Cook, 2000).

3.5.1.1 TYPES OF POPULATION IN RESEARCH

There are mainly two types of population in research that is target and accessible population (Bhattacharjee, 2012). Target population refers to the entire group of individuals or objects to which researchers are interested in generalising the conclusions (Mae Sincero, 2012). The target population has varying characteristics and it is also known as the theoretical population. Secondly, is the accessible population which is the population in research to which the researchers can apply their logical conclusions (Walliman, 2011). The selected MFIs and SMEs were a subset of the targeted population and also known as the study population. MFIs and SMEs in Harare formed the part of accessible population that the researchers drew his samples (Cooper and Schindler, 2003).

3.5.2 SAMPLING VARYING

Sampling is the procedure of selecting part of the population elements to represent the entire set/population. Wegner (2007) defines a sample as a subset of all observations. Sampling was therefore an important process undertaken as part of the research process. A representative sample is one which is not biased and therefore adequately reflects or exhibits the characteristics or features of the population from where it is chosen (Kusek and Rist; 2004).

On another note, the sampling approach tends to limit the ability of researchers to generalisation. Given the size of the population targeted by this study, access to the entire population was not possible as per the observations by Brewerton and Millward (2001). The technique of sampling is more ideal when dealing with researches that have infinite population. It will be impossible to study the whole population. The researcher had to resort to sampling since it is fairly easy to manage, hence improving accuracy as

compared to using the whole population. Above all, it is inexpensive as the researcher was confined to Harare and less time involvement.

With the nature of the study, the researcher sought to get an inexpensive approximation of the truth by selecting a sample on the basis of convenience and judgment. In this regard, the researcher made a deliberate move to draw the entire sample from one representative city which in this case was Harare despite the fact that the target population is spread over the entire nation. The researcher used a combination of both convenience and judgmental or expert sampling techniques in drawing a sample from the target population. The study covers only MFIs in Harare as well as SMEs falling under the Ministry Of Small And Medium Enterprise Development definition.

The reason of choosing Harare is because it is the capital city of Zimbabwe and an administrative province in Zimbabwe. Harare is dominated by MFIs and SMEs outfits. The chosen sample was a representative of the entire population. It is believed that the survey results from carefully selected sample would reflect closely to what would have been obtained had the entire population provided data (Saunders, Lewis, & Thornhill, 2009).

3.5.2.2 EXPERT OR JUDGMENTAL SAMPLING

This is a non random sampling technique in which the researcher had a direct control over which elements to be included in the sample. The researcher used his own discretion to come up with an ideal sample. It is the most appropriate technique, since

the researcher feels that some population (MFIs and SMEs) members have better or more information than others. For this reason, the researcher chose to make use of it.

3.5.2.3 CONVENIENCE SAMPLING OR AVAILABILITY SAMPLING

The convenience sampling technique was also adopted basing on the proximity of the MFIs and SMEs to the researcher. Elements nearby were selected, and those not in close physical or communication range were not considered. The researcher chose this method because it allowed the use of elements that were close to him and these are Harare SMEs and Microfinance Institution respondents. Drawing the sample in Harare was convenient and further reduces costs.

3.6 DATA COLLECTION METHODS

Data collection procedures are steps taken in administering research instruments and collection of data from subjects of the study. The data collection procedure to be followed in this study entails the identification of data based on primary and secondary sources of data (Kotler and Armstrong, 2003). The primary sources of data in this study will be mainly information collected through questionnaires and interviews. The secondary sources will be the already available information on Zimbabwean SMES and MFIs, literature obtained from the Ministry of Small and Medium-Sized Enterprise Development in Zimbabwe, Small Enterprise Development Corporation (SEDCO) of Zimbabwe and Zimbabwe Association of Microfinance Institutions as well as the generally available literature on MFIs worldwide. The data collection procedure implemented will be in line with a deliberate strategy meant to ensure the collection of comprehensive data.

3.6.1 THE QUESTIONNAIRE

A questionnaire is a research tool which contains questions designed to obtain information for analysis. It is a list of all questions, which seeks to source data from the people to answer certain laid down research objectives. It can also be seen as an instrument for raw data collection. The design of questionnaire is critical to ensure that the correct research questions are addressed and that accurate and appropriate data for statistical analysis is collected (Kothari, 2004). The researcher opted for this tool because of anonymity in it which will facilitate the obtaining of accurate information as much as possible. Questionnaires allows for data to be presented in a structured and standardised manner making the tool much more objective than other instruments. Each respondent receives the identical set of questions, thus uniformity which makes responses standardised.

The researcher will use questionnaires to gather data and it is believed to be the most appropriate method of obtaining the views of the relevant head/loan officers from MFIs which constitute the sample. The information obtained from MFIs will help the researcher to gather relevant data from SMEs through questionnaires which will be completed anonymously by the identified individuals. The questionnaire which the researcher designed has both open ended and closed questions in order to adequately capture information from the respondents. The open ended questions will be mainly for clarification on whether the Microfinance Institutions have done justice in uplifting the SMEs. The closed questions will shape the basis for statistical analysis.

The questionnaires are to be physically administered by the researcher and distribution is done through hand delivery, emails, and other electronic social medias to help get in touch with all the relevant people at the least possible cost. An explanation of the purpose of the research was written on the cover note and instructions given in simple language as to how the questionnaire will be completed. The telephone/cellphone will be used to make follow ups and to check on progress on the questionnaire. In selected

cases, telephonic discussions will be made to get more information on some interesting issues highlighted in the responses to the questionnaires or areas which need clarifications.

The structure of the questionnaire is such that it would capture primary data from the sample under study. The challenge likely to be faced in the design of the questionnaire will be translating the research objectives into specific primary data gathering questions. The content of the question and the response format is therefore of paramount importance and two sets of questionnaires will be attached on appendices.

3.6.2 THE INTERVIEWS

According to Niemann (2005) interview methods are methods which illicit primary data responses through direct questioning. Two main types of interviews will be used in this study and these are personal interviews and telephone interviews. The interviews will be carried out with selected interviewees and will be used to compliment the questionnaire. By conducting interviews the researcher is likely to get a high question completion rate, because of the personal contact as well as the fact that the respondents are less likely to ignore a person sitting in than a written questionnaire by itself. The interview will also provide the researcher with an opportunity to understand non verbal responses from certain identified respondents. Above all, there is more room for probing (Van Vuuren et al, 1998)

The researcher will not attempt to influence any interviewees as this would negatively affect the correctness of the information given. As the researcher already knows, the key to effective interviews is establishing an understanding with the interviewee in order

to gain confidence. Interview questions have been carefully designed to ensure that significant information is drawn out (Gordon and Fleisher, 2001).

3.6.3 PRE-TESTING THE QUESTIONNAIRE

Getting the questionnaire right for the first time is a challenge so pre-testing the questionnaire was done at one of the Microfinance Institution in collaboration with SMEs. This helped to determine strengths and weaknesses concerning format of questions, wording and the order of the questions. Pre-testing of questionnaire minimises response errors. Hence, validity and reliability plays a pivotal role in a research study and is explained below.

3.6.4 VALIDITY AND RELIABILITY OF THE QUESTIONNAIRE

The validity of the questionnaire depends on the formulation of the right questions which must be phrased in a manner which is not ambiguous. Validity relates to the extent to which the data collection method or research method describes or measures what it is supposed to measure (Lancaster, 2005). Remenyi et al (1998), postulates that validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure. The questionnaire tends to be weak on validity because peoples' real feelings are hard to take hold of in terms of areas like 'yes/no'.

According to Remenyi et al (1998), reliability is the extent to which an experiment, test, or any measuring procedure yields the same result on repeated trials. It is the degree to which observations or measures are consistent or constant. Saunders et al (2003)

observed that without the ability to use research tools and procedures that yield consistent measurements, researchers would be unable to satisfactorily draw conclusions, formulate theories, or make claims about the general ability of their research.

Data validity and reliability was however, enhanced by personally administering questionnaires and assuring respondents that information collected is being used for educational purposes and could not be traced back to individuals since they did not reveal their names. The researcher also ensures reliability of data by making sure that responses are meaningful, replicates reality and could be applied more generally. Consistency of responses to similar or follow up questions will also make certain that data will be valid and reliable. The wording of the questions was simplified with the assistance of supervisor to make sure they are understood the same way by all respondents completing the questionnaires.

3.7 RESEARCH PROCEDURE

Obtaining information from various institutions is a mammoth task especially government departments who seem not keen in assisting with relevant information. An application letter to access information was sent to the director of research under the SMEs ministry. Unfortunately it took weeks to receive responses. Some MFIs and SMEs companies requested a covering letter from the Graduate School of Management (GSM) University of Zimbabwe (UZ), explaining the nature of the research and assuring respondents that information collected from them would be kept in firm confidence. A covering letter was also provided to the respondent to read before the personal interview was conducted. The letter from GSM in a way motivated the respondents to cooperate by answering questionnaire.

3.7.1 DATA PRESENTATION AND ANALYSIS

Data analysis involves working with data, organising it, breaking it into manageable units, synthesizing it, searching for patterns, discovering what is important and what is to be learned, and deciding what you will tell others (Bogdan & Biien, 1982). It also includes the interpretation of research findings in the light of the research questions, and determines if the results are consistent with the research hypotheses and theories (Cooper & Schindler, 2003:87).

The researcher adopted both mainly the qualitative technique. Statistical Package for the Social Sciences (SPSS) version 17 was used to analyse the data. SPSS version 20 is superb in graphical analysis and it is probably the best known most widely used software. It has numerous statistical procedures, colour graphics and interaction between the data and the user (Research Methodology 1, 2012). Cross tabulation will be done to show the distribution of respondents.

Qualitative data was analysed using qualitative techniques which are Content Analysis and Data Matching. Content Analysis is one of the most commonly used data analysis techniques of qualitative research and is defined as a research technique for making replicable and valid inferences from data to their context (Kaplan, 1964). Data matching is whereby we compared the responses to those in the reviewed literature and see if they concur.

To attain a smooth data analysis and presentation; editing, coding and processing of data is essential and it is therefore discussed below.

3.7.1.1 EDITING OF DATA

All data collected from respondents and responses from each question from the questionnaire was edited. This is done to achieve data accuracy and uniformity as well as making sure data is complete and in order to simplify coding and tabulation. The researcher considered editing as a validating and a statistical procedure. The aim was to reduce errors in data sets (Ferguson, 2008). Cooper and Schindler (2003) postulate that editing involves a thorough and critical examination of the completed questionnaire, in terms of compliance with the criteria for collecting meaningful data, and in order to deal with questionnaires not duly completed. Editing of data detects errors and omissions, thereby correcting where possible and the minimum data quality standards was achieved (Zindiye, 2008). This is confirmed by Ferguson (2008) who articulates that the emphasis of editing is to detect inconsistencies, impossibilities, and suspicious situations and correcting them. Editing of data is going to improve the quality of the data for coding (Kothari, 2008).

3.7.1.2 CODING OF DATA

According to Taylor and Gibbs (2010), coding is the process of combing the data for ideas and categories and then marking similar passages of text with a code label so that they can easily be retrieved at a later stage for further comparison and analysis. The researcher coded all the questions in the questionnaire for grouping and efficient analysis. Coding the data made it easier to search the facts and comparisons were done to identify any patterns that require further investigation. In other words coding assisted in reducing a large number of responses into a small number of classes containing important data required for scrutiny. Data was accessed directly from the questionnaire (Cooper and Schindler, 2003).

3.7.1.3 PROCESSING OF DATA

Data processing is like the backstage of a theatre and it is rarely seen. However the processing of data will be done by the researcher with the assistance of three other Masters of Business Administration (MBA) colleagues at UZ, using SPSS Version 17. The SPSS software was formally sourced from a reputable international non-governmental organisation. This statistical package is also available online website; <http://www-01.ibm.com/software/analytics/spss/>. It is well recognised and provides numerous statistical procedures, colour graphics and interaction between the data and the user (Research Methodology1, 2012).

3.8 RESEARCH LIMITATIONS

- I. It may be hard for the respondent to recall information. Telling the truth about a controversial question may also be difficult.
- II. Questionnaire is a complex instrument to use in research and, if badly designed, can be highly deceptive.
- III. The researcher must ensure that the selected sample from the population replies.
- IV. Respondents are likely to give biased responses.

3.9 ETHICAL CONSIDERATION

Participation was voluntary and confidential i.e. the respondents were free to participate or not. Responses are kept as confidential as possible and the researcher will never request names in order for the respondents to get their confidence and trust as well as

to avoid any form of intimidation. No identification is required in this process and the results obtained are treated with confidentiality.

3.10 CONCLUSION

The researcher relied mainly on questionnaires and interviews as well as desk research as this methodology will be appropriate given the nature of the study. Desk research is unavoidable as it is critical that the objectives of the study can only be met if the positions on the issue under investigation is established and understood. Interviews will therefore be structured in such a manner that they would ensure effective exchange of information. The objectives of the interview will be clearly defined in each case. The questionnaire provides useful guidelines. The next chapter will deal with data presentation and analysis.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter presents the research findings as they come out from the research field. The findings will be discussed using literature where the relationship or contradiction of respondents' view and other authors is being acknowledged. The chapter presents the findings in form of bar graphs and tables. Each section represents the research question of this study cited in chapter one.

4.2 RESPONSE RATE

A total of 50 questionnaires were administered to the management of SMEs and 30 were successfully completed and were collected by the researcher. The researcher also administered 45 questionnaires to the staff and management of Microfinance Institutions (MFIs) and 33 were successfully completed. Table 4.1 demonstrate the response rate.

Table 4.1 Response rate

Respondent	No of questionnaires administered	No of questionnaires completed	Response rate
Management of SMEs	50	30	0.6
Staff management and of MFIs	45	33	0.73
Total	95	60	0.66

The response rate from MFIs was 73% with 27% failing to answer the questionnaire. SMEs recorded a 60% response rate whilst 40% did not respond. Collectively 95 questionnaires were administered to both MFIs and SMEs and in total 66% responded whilst 34% failed to give a response.

4.3 DEMOGRAPHIC INFORMATION

This section sought to provide the demographic information of the respondents

4.3.1 WORK POSITION

The respondents were asked to show their work position. Figure 4.1 shows the results

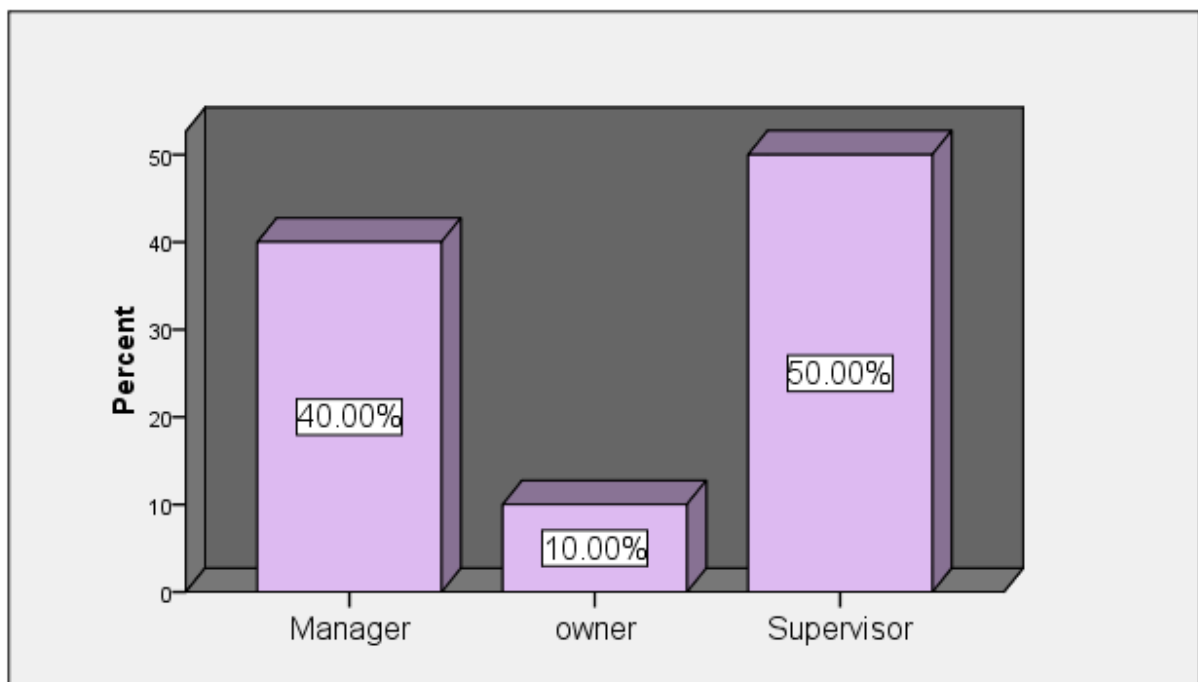


Figure 4.1: Work Positions

Figure 4.1 indicates that 40% of the respondents were managers, 10% were owners of the SMEs, while 50% were supervisors. The respondents were the management only since they are the ones who are at the helm of the organisation.

4.3.2 Main activity of the business operations

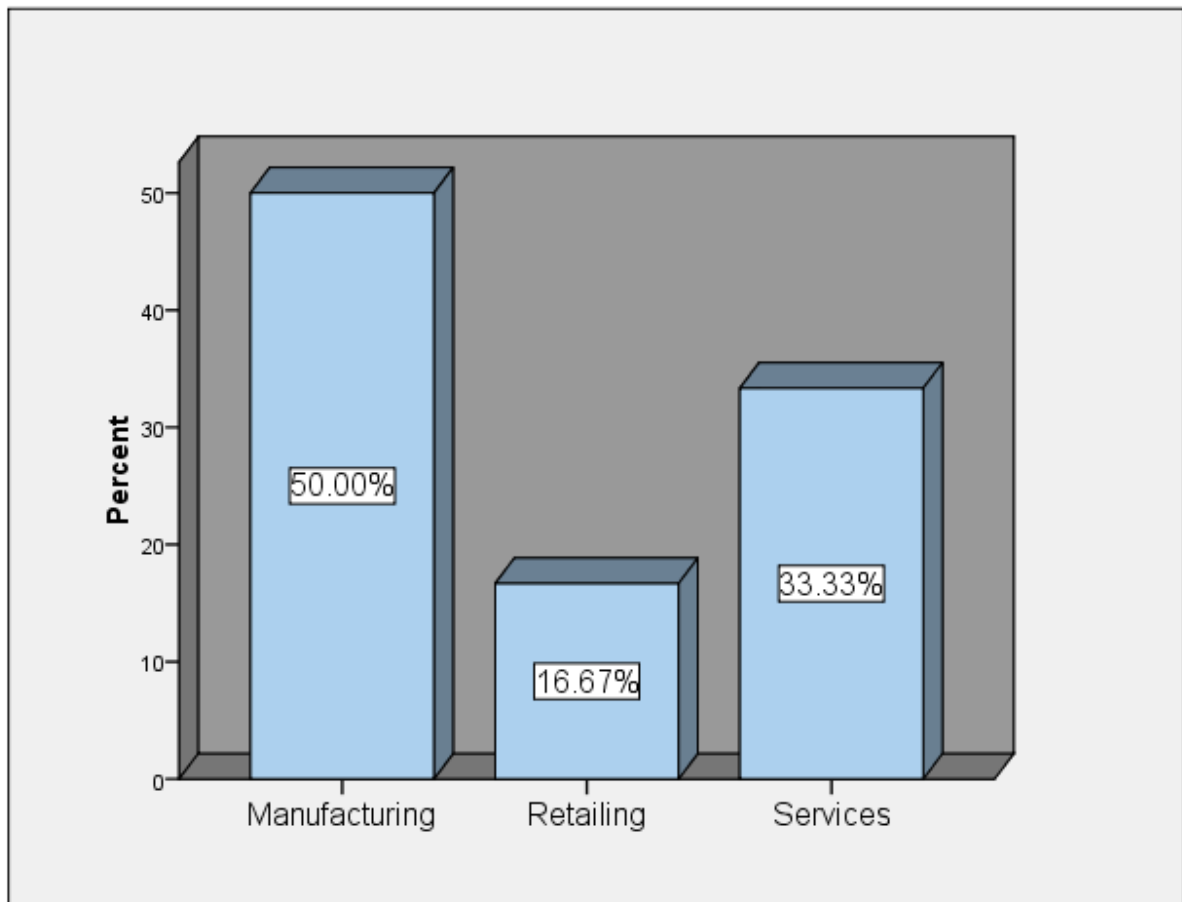


Figure 4.2: Main Activity

About 50% indicated that they are in the manufacturing business, 16.67% are in retailing while 33.33% are in service industry. This shows that the majority of the respondents of this study were in the manufacturing business. SMEs that are in the

manufacturing industry need a lot of capital for their business and they are the ones who have the highest probability of borrowing.

4.3.3 Owners of the firm

The research sought to find ownership of SMEs figure 4.3 shows the results.

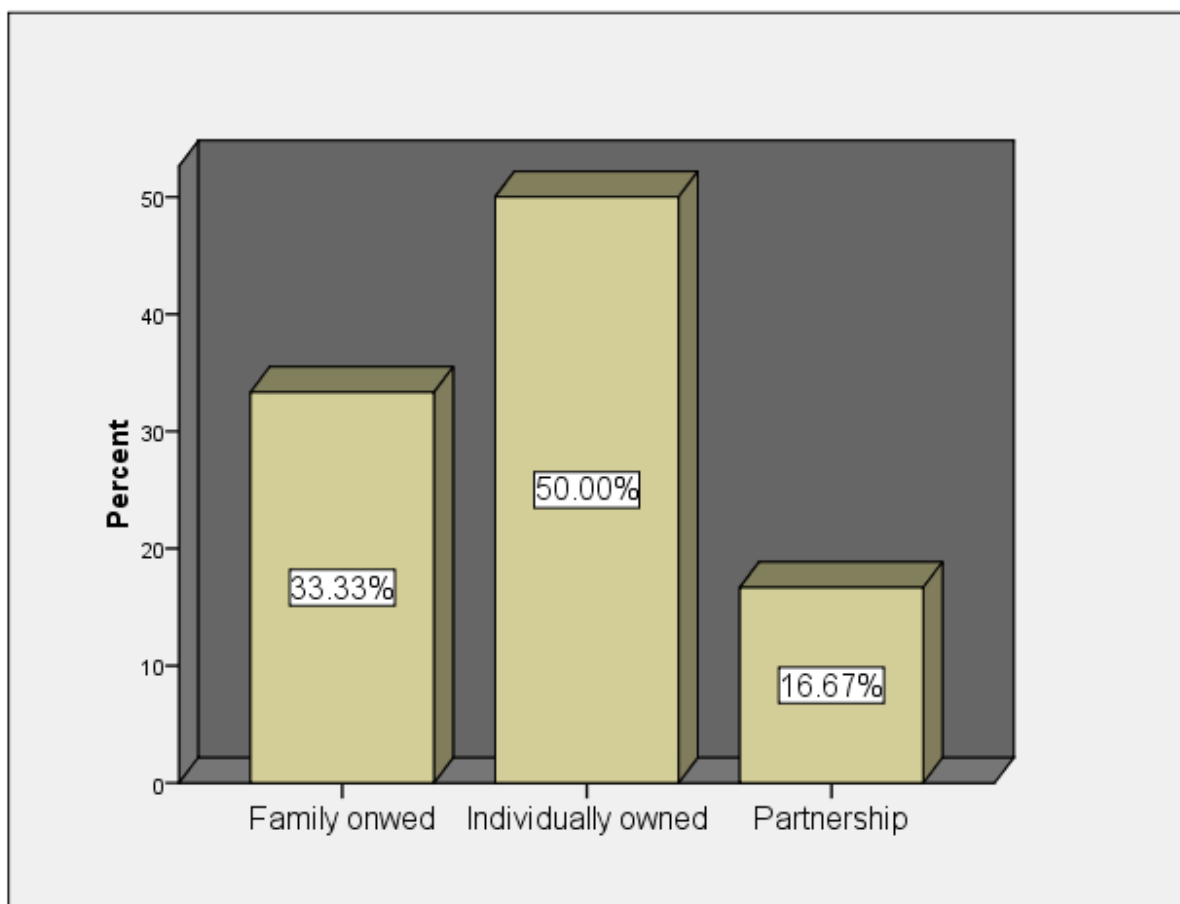


Figure 4.3: Ownership of SMEs

Figure 4.3 indicates that 33.33% state that the business is family owned, 50% state that it is individually owned while 16.67% maintained that it is partnership. The majority of respondents maintained that SMEs are individually owned. This indicates that the majority of the SMEs in Zimbabwe are individually owned.

4.3.4 Average Annual Turnover

Figure 4.4 demonstrates that average annual turnover for SMEs

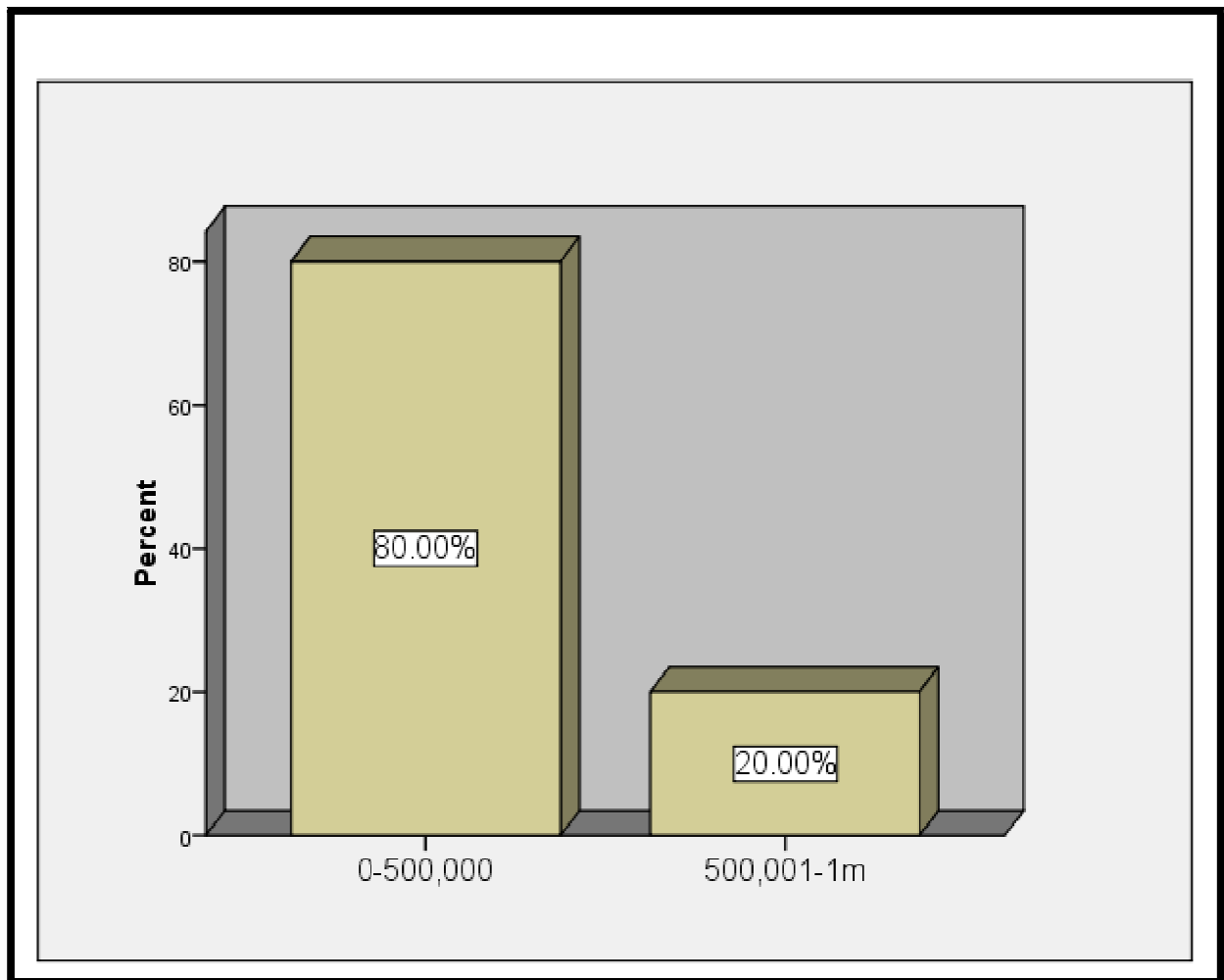


Figure 4.4 Annual Turnovers

Figure 4.4 show that 80% of respondents maintains their annual turnover is within \$0-\$500,000 while 20% said that their turnover is within \$500,001 to \$1million. The majority of the respondents have their turnovers ranging between \$0 and \$500,000.

4.4 SECTION B

This section will highlight the findings and discussions on the responses from the MFIs. (MFIs) respondents were asked if they have any special lending facility for SMEs. Figure 4.5 shows the results

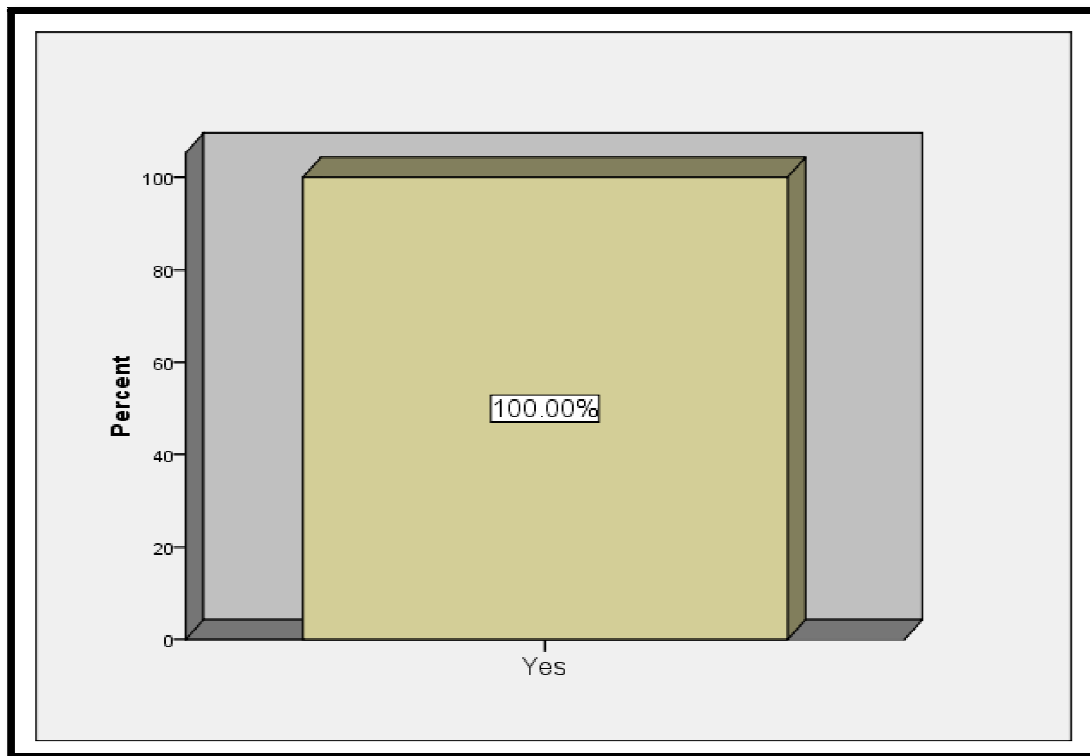


Figure 4.5: Special lending for SMEs

All respondents maintained that they have a special facility for SMEs lending. This indicates that MFIs have a target to lend SMEs as supported by Boweni, Morara &

Mureithi, (2009) that Microfinance Institutions tend to target economic clusters of entrepreneurs who are traders, street vendors, small farmers, hairdressers, tailors, small transport commuter operators and small retailers. MFIs are fulfilling their mandate which is to specifically fund SMEs.

The respondents from SMEs institutions were asked to select the two common methods of financing the business form a list of methods. The results are shown in Table 4.2

Table 4.2: Two major sources of funds

Methods of financing	Frequency	Percent
Personal funds	20	67%
Overdraft/loan	30	100%
Lease/hire purchase finance	0	0
Trade credit	0	0
Involving support from government	0	0
Grants	0	0

Table 4.2 indicates that all SMEs (100%) use overdraft/loan facilities and 67% use personal funds. The results show that overdraft/loan and personal funds are the two common methods used for financing business. This indicates that SMEs relies more on loan/overdraft funding and alternatively personal funds. This is in line with Taketa and Udell, (2007) who suggested that there are a variety of different forms of SME lending such as working capital and order financing. There are many forms such as lease financing, invoice discounting and bridging finance depending with the country, however, it is difficult to implement in developing countries. This is because most of the MFIs in developing countries have weak enforcement/compliance systems and fear that

some SMEs might end-up exploiting the system by abusing equipment on hire purchase. In general MFIs are offering the rightful products for SMEs.

4.4.1 Turnaround time for approval

The study went on to find the turnaround time for loans approval to ascertain whether the MFIs are efficient in assessing business proposals and applications. Figure 4.6 indicates the results.

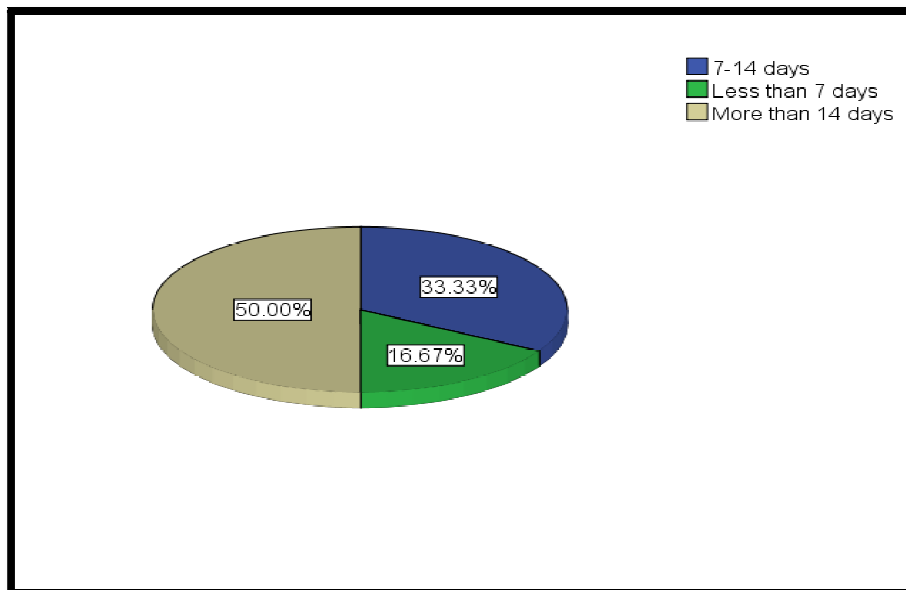


Figure 4.6: Turnaround time for overdraft/loan approval

Figure 4.6 indicates that 50% maintained that the overdraft is approved after more than 14days, 33.33% said after 7-14 days, 16.75% said after 7 days. The majority of the respondents said the loans are approved after 14 days. The reason could be that MFIs will be making detailed due diligence before approving a facility. Through experience

when it comes to money everything becomes urgent for most SMEs. International experiences show that in developed countries, turnaround time is quicker while in some developing countries like Brazil it takes more than 14 days (The Brazil Business, 2011).

The respondents were also asked to show the stage at which they request financial support. The theoretical perspective postulates that SMEs require funding as capital and especially when facing viability problems (Ngehnevu & Nembo, 2010). Figure 4.7 demonstrates the results.

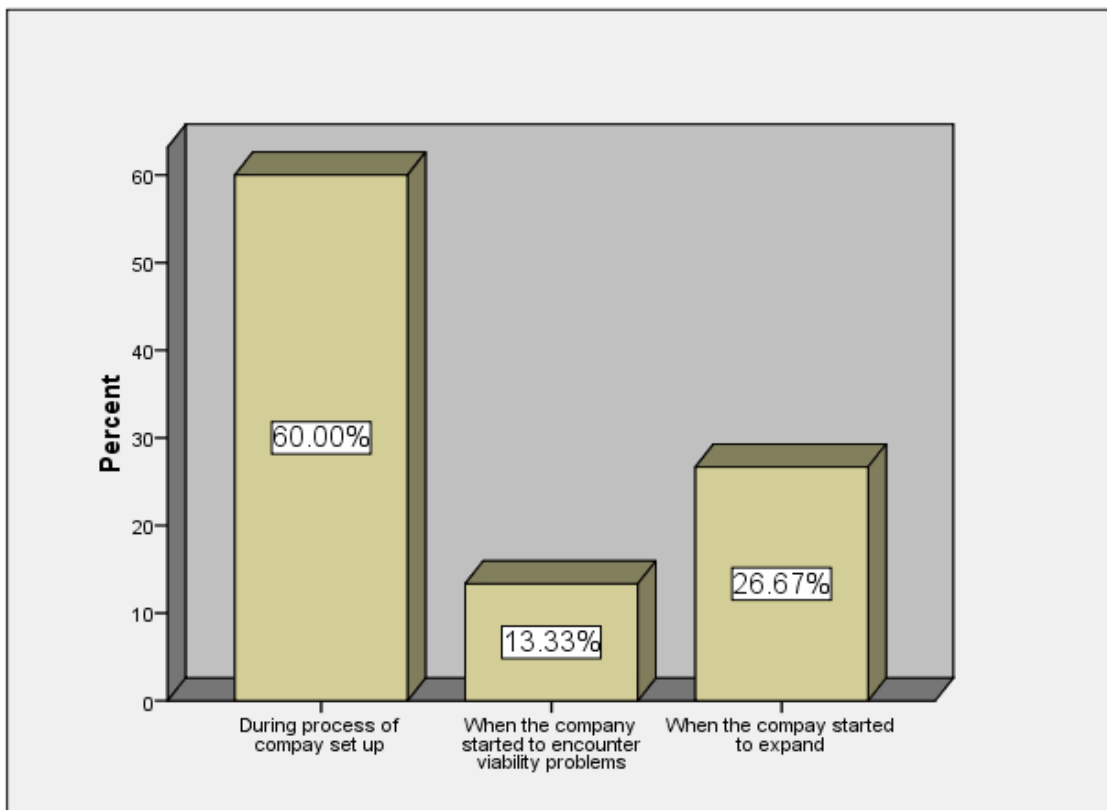


Figure 4.7: Firm request for financial support

About 60% of the respondents pointed out that they requested financial support during process of company set up, 13.33% said when the company started to encounter viability problems while 26.67% said when the company started to expand. The majority of the respondents pointed out that they request financial support during process of setting up the company. This means that SMEs borrow money for capital. Hanly (2012) pointed out that SMEs usually have much smaller capital than large corporates and they often operate under very tight budgets. These SMEs sometimes operate at business owner's home to cut the cost of renting office space. Budget limitations affect marketing and ability to reach new markets with good products.

4.5 SECTION C

This section address issues to do with criteria used to approve funding, the pricing thus interest rates and justification, barriers to credit approval and tenors offered among other issues.

4.5.1 Lending Criterion

The study investigated on the lending criterion that MFIs use to SMEs. The reason being to know factors used to screen out applicants. Table 4.3 indicates the results.

Table 4.3: Lending Criterion

The selection criterion used by MFIS to select SMEs
-ability to pay
-at least a year of operation proper location of operation,
-financial records
-annual accounts for the latest 2 years,
-company document domiciled in Zimbabwe,
-collateral security,
-viable business plan
-copies and orders of invoices
-bank account with main stream bank
-viability of project
-business existence of at least 12 months,
-two of the directors must be Zimbabweans
-active bank account for 3 months,
-pro forma invoice to support application
-good previous credit record, the business must have been in operation for more than 3 months,

Table 4.3 shows that MFIs select SMEs basing on their ability to pay, at least a year of operation proper location of operation, financial records, annual accounts for the latest 2 years, company document domiciled in Zimbabwe, collateral security, viable business plan, copies and orders of invoice, bank account with main stream bank, viability of project, business existence of at least 12 months, two of the directors must be Zimbabweans, active bank account for 3 months, pro-forma invoice to support application, good previous credit record, the business must have been in operation for more than 3 months.

The financial statements are very important for the purposes of verifying the profitability of SMEs. Financial records can give an analyst an overview and a true reflection of an organisation. Above all, financials gives a hint to whether the clients have the capacity to repay the debt or not.

Business address and the company must be domiciled in Zimbabwe; at least the MFI is able to make follow-ups on checking the business operation of an entrepreneur. Collateral security is also vital as it leaves the lender with compensation which can be sold to make up for the losses on the loan (Hyytinen & Vaananen, 2006).

Experience tells us Financial Institutions prefer to deal with SMEs whom they have a relationship with because of easy of reference through Know Your customer (KYC). At least they will have a track credit record which makes life easier when making decisions.

Respondents from SMEs were asked to rank the different options which denote the most critical aspect considered by MFIs to avail funding of a firm using the Likert scale. 1= most important, 2= important, 3=neutral, 4=less important, 5=least important

Table 4.4: Most critical aspect considered by MFIs to avail funding to a firm

Most critical aspect considered by MFI s to avail funding to a firm	1	2	3	4	5
Collateral security	67%	17%	0%	16%	%
Financial statements	0%	50%	16%	17%	17%
Projected cash flows	17%	67%	0%	16%	0%
Balance sheet size	17%	33%	50%	0%	0%
Rate of return or viability of the projects	33%	17%	50%	0%	0%
Qualification and expertise of the management	0%	17%	0%	67%	16%

Table 4.4 indicates that collateral security (84%), financial statements (50%), projected cash flow (84%), balance sheet size (50%) and rate of return or viability of the projects (50%) and qualification and expertise of the management (17%). MFIs were also asked to give the important documents that they request from SMEs in order to approve them for loan facilities. Respondents suggested that they request for adequate security, company documents, company profile, proof of residence, audited financial statements, ownership structure, independent guarantee, cash flow, invoices, copy of directors national identification documents, name and nature of business as well as project proposal.

These critical aspects considered by MFIs create barriers for SMEs to access funding. Table 4.4 shows that MFIs are more concerned with collateral security than the viability of the project. It also shows that MFIs are not much worried about the qualifications and

expertise of entrepreneurs. MFIs must seriously look into the matter as it gives an indication whether the client has the knowledge to run the project before funding.

The respondents were also asked the key barriers to the credit approval of the SMEs

Table 4.5: Barrier to the credit approval

What are key barriers to the credit approval of the SMEs	1	2	3	4	5
Insufficient security	67%	17%	0%	0%	16%
Poor documentation	17%	67%	0%	0%	16%
Project proposal not accepted	33%	50%	0%	0%	17%
Previous credit record	33%	17%	33%	17%	0%
Own contribution too small towards intended projects	33%	33%	17%	0%	17%
Negative image of SMEs	33%	0%	50%	17%	0%

Table 4.5 indicates that the key barriers to the credit approval of SMEs are insufficient security (84%), poor documentation (84%), project proposal not accepted (83%), own contributing too small towards intended projects (66%) and previous credit record (50%)

MFIs respondents were asked to provide the barriers that they have in approving SME facilities. They suggested that SMEs do not have collateral, they default, do not have success or continuity plan of their business in the event of the owners death, SMEs lack business expertise, poor marketing strategy experiences, liquidity challenges, poor credit records, lack of corporate governance, no clear physical addresses, unregistered business and some have no fixed operating offices.

The results from both the SMEs and MFIs were supported by Bartlett & Burkvic (2001) who maintained that SMEs have difficulties in securing adequate finance which is mainly

due to a lack of collateral and the banks' reluctance to finance their operations. The cost of financing SME operations is very high in terms of the interest rates that they pay at credit institutions (Bartlett & Burkvic, 2001). A lack of marketing skills and poor knowledge of the market retards the functions of SMEs as they fail to attract and retain customers. Furthermore, a lack of managerial and entrepreneurial skills hampers the growth of SMEs in Zimbabwe (Makunike, 2012).

4.5.2 Interest rate being charged by MFIS per month

The respondents were asked to provide the average interest rate being charged by MFIs per month. Figure 4.8 shows the results.

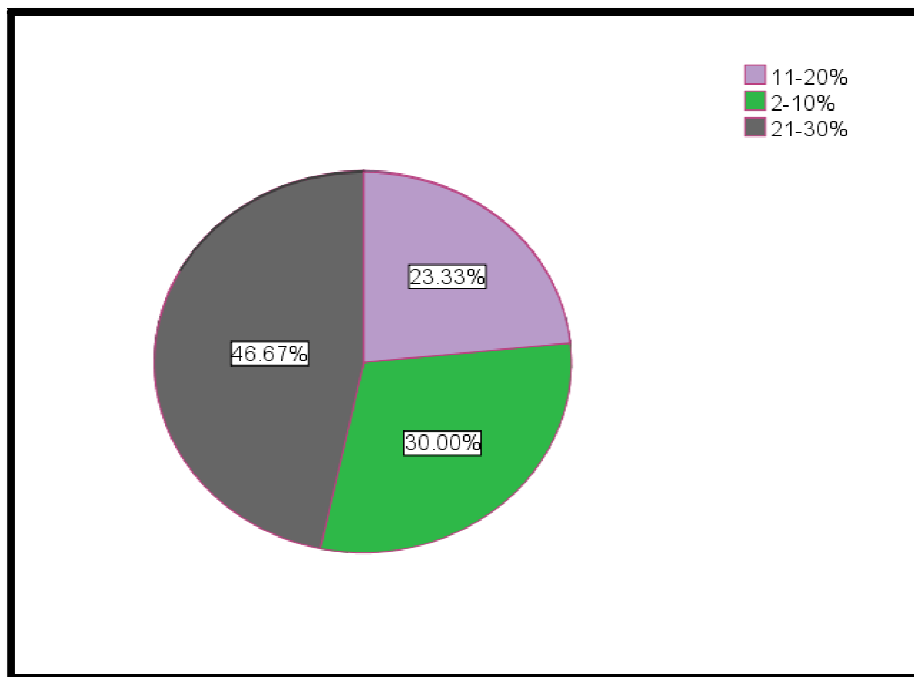


Figure 4.8: Interest rate

About 47% of the respondents claim that they are charged an average of 21-30% per month, about 23% maintained that they are charged an average of 11-20% interest while 30% are charged 2-10%. The results indicate that the interest rates vary with the MFI which offers the loan. A greater number are charged high interest rates. This means that the majority of MFIs have no access to cheaper funds for onward lending and those offering lower rates are anchored by main stream banks such as Microking Finance Limited is linked to Afrasia Kingdom Bank limited (Afrasia Kingdom Zimbabwe Limited, 2012); FBC Microfinance is connected to FBC Bank (FBC Holdings Limited, 2012); among others.

The researcher also asked the MFIs their market lending rates to match with what was claimed by SMEs and Figure 4.9 shows the results

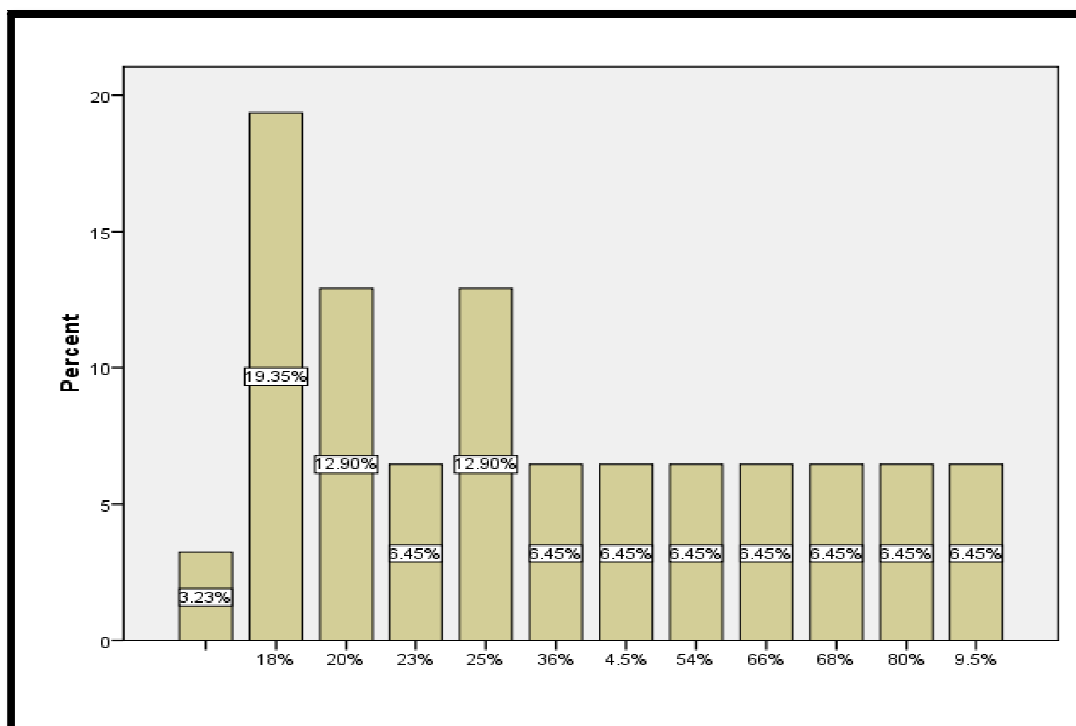


Figure 4.9: Lending rates

Figure 4.9 indicates lending rates that are used by MFIs. Rates vary from 9.5% to 80% which shows a big variation and agree with Figure 4.8 that the rates are too high.

Respondents (MFIs) were asked to justify their lending rates and 22.2% suggested that there is high risk in lending, 20% said the source of funds are expensive. The majority 28.9% suggested that the rates compensate the absence of collateral while 13.3% indicated that they considered prevailing market rates in the economy and 15.6% the cost of funds as shown in table 4.6 below. The results in figure 4.8, 4.9 and table 4.5 were reiterated in the literature that Some MFIs work jointly with banks in collaboration with their governments to provide microfinance services to SMEs. A handful of MFIs borrow money from banks and individuals, put a markup and end up charging high interest rates to their clients to make a margin. At the end high interest rates shrink the margins of SMEs.

The Table 4.6 below shows the reasons why MFIs are charging the presumed exorbitant rates as explained above.

Table 4.6 Justification for lending rates

Justification of the rates being charged by MFIs	
prevailing market rates in the economy	13.3%
cost of funds	15.6%
source of funds is expensive	20%
there is high risk associated with lending SMEs	22.2%
compensate for absence for collateral	28.9%

Tenor offered by MFIs is critical in the sense that it gives an indication of whether MFIs are taking into consideration the maturity of the project or are just concerned with repayment. Figure 4.10 shows the average tenors offered by Microfinance Industry.

4.5.3 Average tenor offered by MFIs on facilities

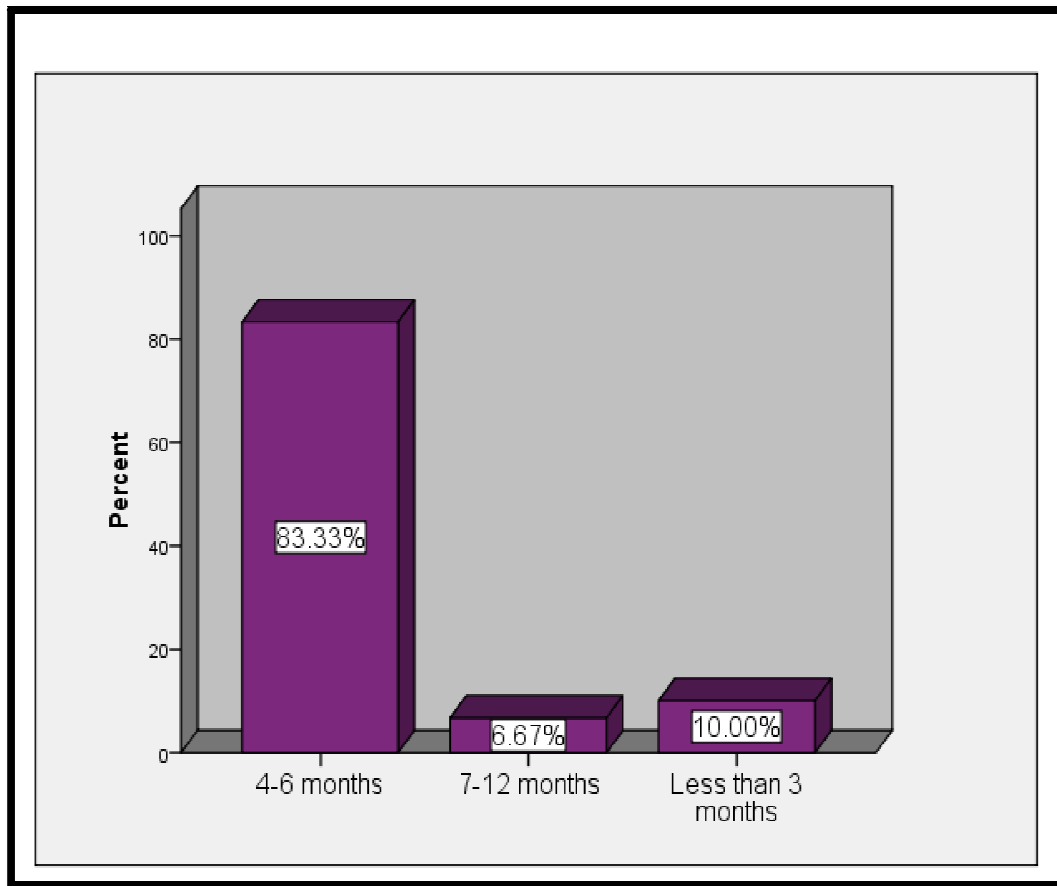


Figure 4.10: Average tenor offered by SMEs

Figure 4.10 indicates that 88.33% maintained that they offer an average tenor of 4-6 months, 6.67% said 7-12% while 10% said less than 3 months. The majority of the respondents 83.3% said that they offer tenors of 4-6 months. These results show that the tenor is short for SMEs. Short tenors are disadvantaging SMEs since most business started to generate meaningful income after a year. Short tenors are however, due to short term nature of deposits prevailing in the market.

Furthermore, it was necessary to understand the views of SMEs with regards to interest rates and tenors offered by MFIs in the market. The respondents were hence, asked if

reduction of interest rates and a widened tenor can go a long way in assisting SMEs, hence improving profitability. Figure 4.11 shows the results.

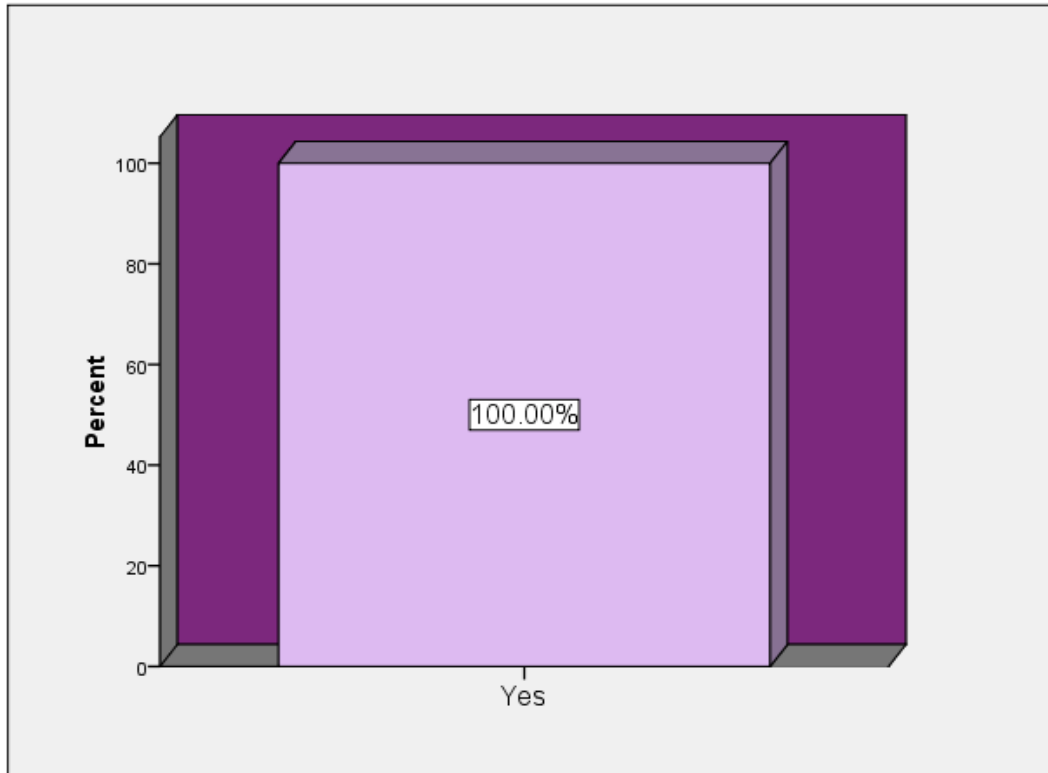


Figure 4.11: Reduction of interest rates and widening tenor hence improving profitability

All respondents maintained that reduction of interest rates and widening tenor would help to improve profitability. By reducing rates and widening of tenor means that the monthly installment is reduced and the project is given time to relinquish its debt. Reduction of interest rates will eventually lead to improved profits since cost of finance is an expense.

The relationship between MFIs and SMEs is of paramount importance as it shapes the future of both industries and the study addressed the issue. Experience of MFIs with SMEs follows;

4.5.4 Experience of MFIS with SMEs

The MFIs were asked to relate their experiences with SMEs Table 4.7 indicates the results

Table 4.7: Experience of MFIs with SMEs

Experience of MFIS with SMEs	%
-a number of SMEs defaults	55.6%
-exciting to work with because they do not hide information which is easy to make decisions	11.1%
-face liquidity issues	6.7%
-SMEs are failing to repay, because of too high interest rates being offered.	13.3%
-genuine SMEs services their loans but the fly by night entrepreneurs are very problematic	13.3%

Table 4.7 indicates that 55.6% of MFIs views SMEs as defaulters. Another 11.1% of the MFIs under the investigation hinted that SMEs were exciting to work with because they are open. While 13.3% of MFIs felt that SMEs were failing to pay their loans because of high interest rates and that genuine SMEs services their loans but the fly by night entrepreneurs are problematic. These results show that the majority of MFIs are

grappling with non-performing loan books due to non-servicing of loans. Defaulting may be due to failure of the project, economic hardships and moral hazard effects.

According to ZAMFI, (2011), microfinance and banks assumes SMEs carry a greater default risk, thereby lending basing on existing relationship and form of collateral-based lending as well. For example most Microfinance Institutions requires a 1.5 to 2 times cover security in the form of an immovable asset (brick and mortar). MFIs are trying to curb information asymmetry effects hence requesting for security (Hyytinen & Vaananen, 2006). To some extent this has helped to reduce defaulters because one will be afraid that his/her property might be sold in the event of failing to repay. Also, to a lesser extent it is not helping as most institutions are left holding on to illiquid assets. Moreso the process of disposing a defaluters property takes ages to conclude whilst MFIs have cash immediate obligations that needs to be meet.

Loan defaults are another cancerous problem that is affecting the sustainability of MFIs. Non-repayment of loans discourages staff and deprives access to funding to other valuable borrowers (Muktar, 2009). It is disheartening and demoralises staff to spend the whole day chasing wild geese, in other words some SMEs do not cooperate when they start defaulting.

4.6 SECTION D

4.6.1 MFIs fully financially supported SMEs in Zimbabwe

Respondents were asked if the MFIs fully support the SMEs. Figure 4.12 indicates the results:

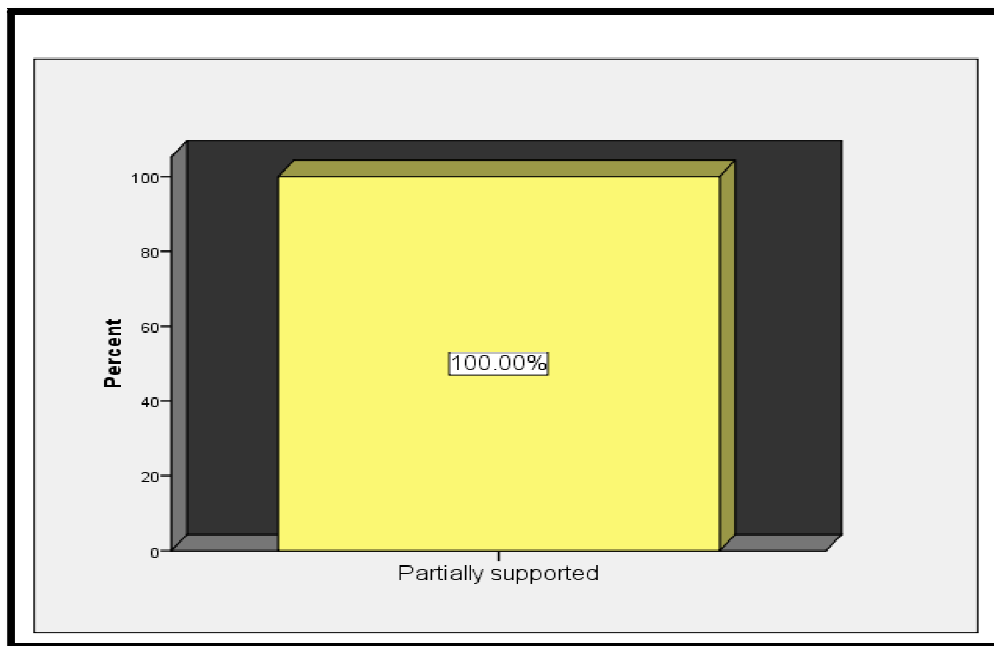


Figure 4.12: MFIs financial support

All respondents suggested that MFIs support SMEs partially meaning they are not getting the full support they would have wanted. Hilgers,(2011) argued that SMEs must therefore be fully supported by the government and Microfinance Institutions (MFI) as well as commercial banks. The full support should come in the initial stages of the business and when expanding. This is because SMEs have the potential to ease the unemployment problems being faced by Zimbabwe but this has to be done properly. Failure to support small businesses in Zimbabwe will result to a decline in economic growth; however there is need to guard against creating a dependency syndrome amongst the SMEs.

The respondents were asked to provide other form of assistance offered by MFIs. Table 4.8 indicates the results

Table 4.8 Other forms of assistance

Other forms of assistance
Advice on viability of projects
Training on management of business
Basic Accounting for SMEs

Table 4.8 shows that the other assistance offered by SMEs is advice on viability of projects, training on management, basic accounting and financial advice. This will assist SMEs in running sustainable projects or business. SMEs will be in a position to plan their staffing levels, plan their budgets in time, do cost benefit analysis. Above all, they will be able to lead and control businesses at a smaller scale (Dumbu & Chidamoyo, 2012). In essence some MFIs in Zimbabwe are providing advisory role to those SMEs whom they have a mutual beneficial relationship.

In developed countries Financial Institutions support the small and medium enterprises with education and training programs on how to run a successful enterprise (World Savings Banks Institute, 2006). This is the reason why SMEs in USA are the backbone of the economy because they have training and research institutions that specialises in advising SMEs financially and on the marketing side through from the government and MFIs (Reserve Bank of Zimbabwe, 2007)

MFIs were also asked if they offer any training programmes to SMEs. Figure 4.13 shows the results

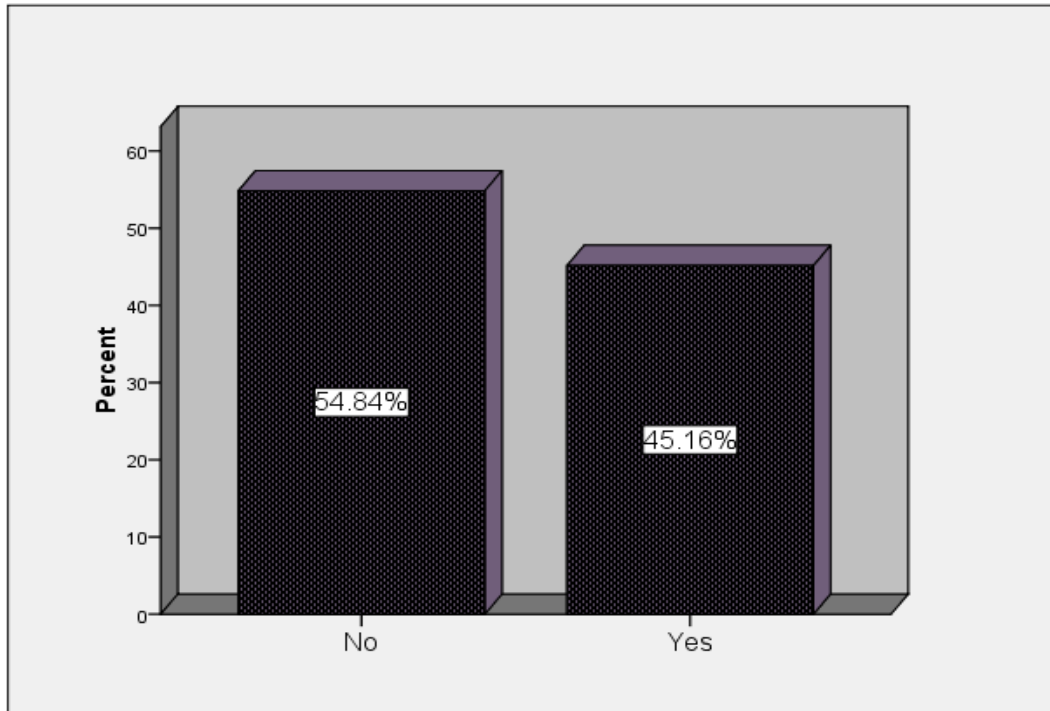


Figure 4.13 Training

Figure 4.13 indicates that about 55% maintained that they do not offer any training services while about 45% do offer. From the majority perspectives MFIs do not offer training services to SMEs which is a setback in the development of SMEs sector. By not offering any business educational training programs means that SMEs will remain stagnant and eventually fails the economy. On the other hand SMEs are not willing to participate without monetary incentives on some training programs offered by various organisations, all they want is money nothing else.

From this study it is noted that the many MFIs fail to educate their clients on general business principles. For the SMEs sector to develop MFIs and government must

establish centres that focuses on developing and nursing potential small businesses. From the literature review the Government of India should be emulated because they support SMEs by imparting entrepreneurial education and training. They set institutions that work closely with the local industrial associations. In addition, the government provides financial assistance for researches, studies, marketing assistance, vendor development programmes, and Small Industry Cluster Development Programme (Byaruhanga, 2010).

In the case of Zimbabwe, the Zimbabwe National Chamber of Commerce (ZNCC) in collaboration with Ministry of SMEs has embarked on a massive training programme for SMEs across the country (Zimbabwe National Chamber of Commerce, 2012). The training focuses on business proposal writing, cash flow projections as well as preparing income statements. ZNCC realised the importance of SMEs in the Zimbabwean economy, therefore spearheading the training programme so as to impart skills that will improve professionalism in running small businesses.

ZNCC has a noble idea however with the general caliber of SMEs in Zimbabwe; they are likely to face resistance because some SMEs want training linked to funding that is after training they want loans. Secondly the majority of SMEs do not want to pay for training programs that enhance their business skills because they do not see value in trainings.

In view of the above, it will be extremely difficult to run sustainable business trainings unless there is some form of subsidy from the government and NGOs.

The respondents were also asked if the government has taken any measures for SMEs to prosper. Figure 4.14 demonstrates the results.

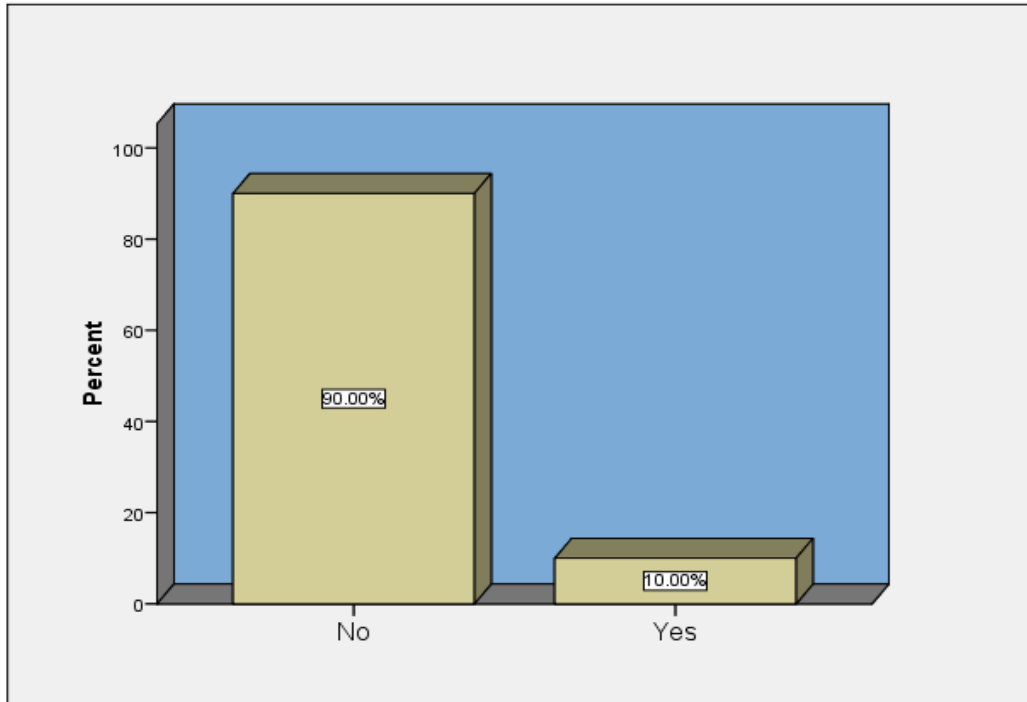


Figure 4.14 Target measures by government to help SMEs

Figure 4.14 indicates that 90% of the respondents held that there are no measures taken by the government to help SMEs. The current situation is that government is trying to assist by offering tax exemptions as well as encouraging SMEs to form clusters for assistance. It is unfortunate that the majority of SMEs want assistance in the form of loans. They have little interest in other form of assistance. Onugu, (2005) pointed out that Government, Microfinance Institutions and other relevant stakeholders are to provide a serious commitment to the growth and expansion of the SMEs sector, they will witness meaningful transformation and prosperity of their economies. A number of International Development Agencies have partnered with governments and Microfinance Institutions in trying to improve the livelihoods of poor nations. This has

been effective in availing more funding and reducing the cost of lending (Afrasia Kingdom Zimbabwe Limited, 2012).

The study went on to establish if mentorship and technical assistance from MFIs can be of much help in promoting SMEs. Figure 4.15 indicates the results

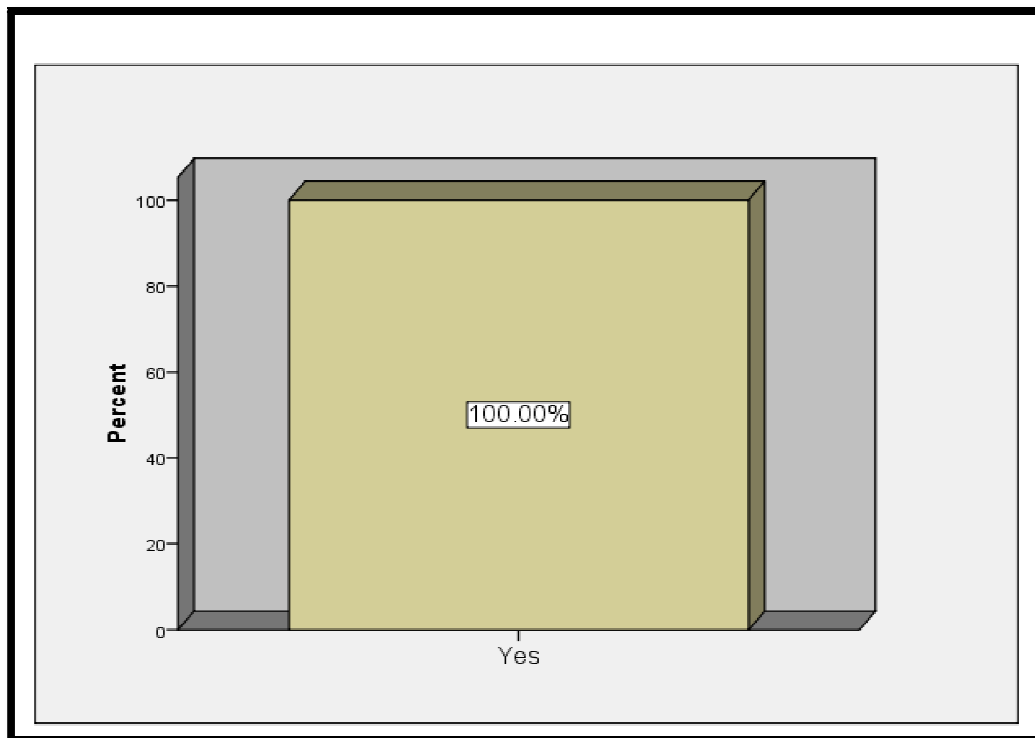


Figure 4.15 Mentorship and technical assistance

All respondents felt that mentorship and technical assistance from MFIs can be of much help in promoting SMEs. Mentorship can be done through creating incubators for those who are just starting small businesses. MFIs may have some partnership agreement with established entities to provide technical assistance. This is achievable since SMEs work hand in hand with large corporates as highlighted by (Brownlee, 2012).

4.6.2 Preferred type of financing

The respondents were also asked on the type of financing that they prefer most. Figure 4.16 indicates the results

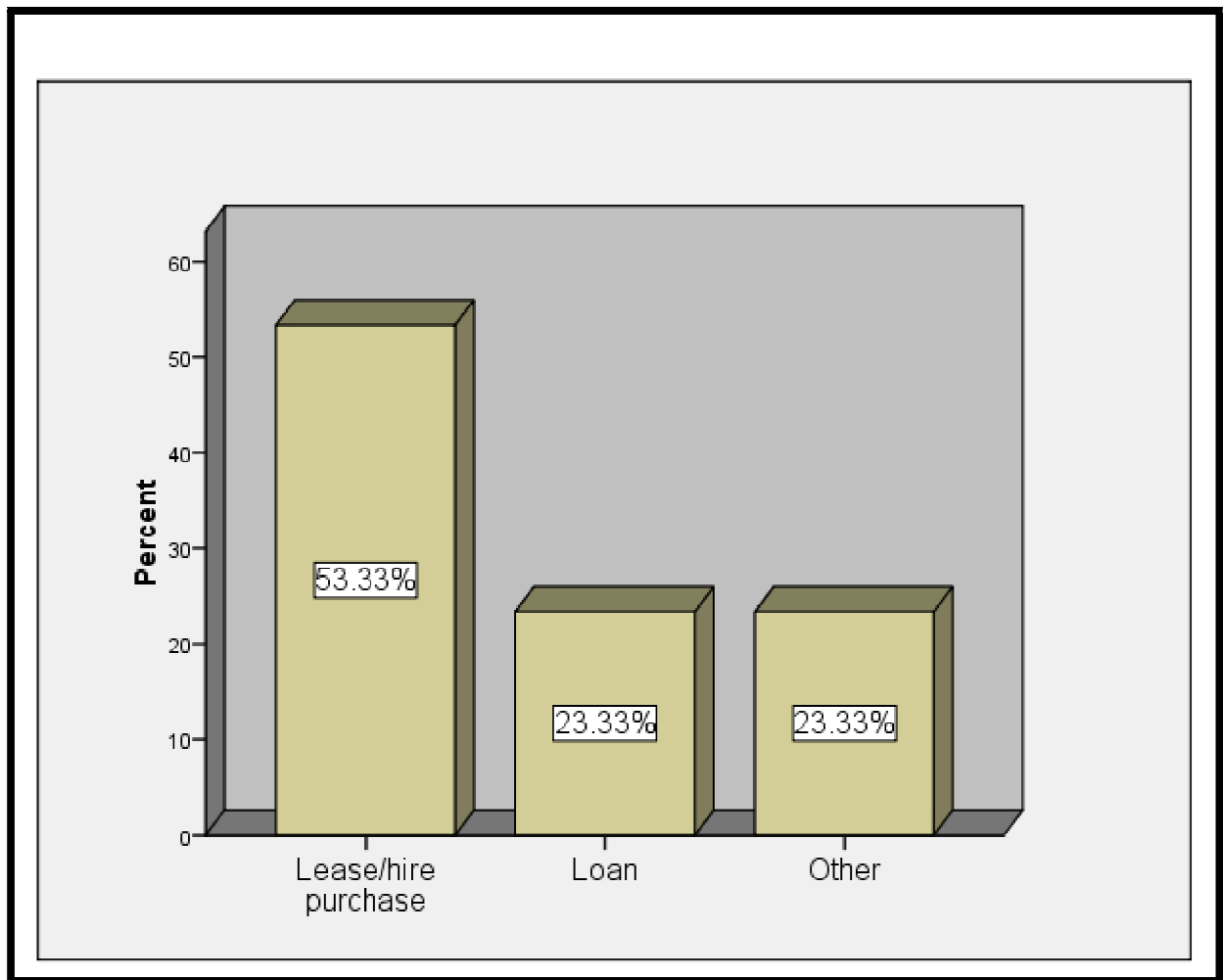


Figure 4.16: Preferred type of external funding

The findings in Figure 4.16 shows that 53.33% of the respondents preferred lease/hire purchase, 23.33% preferred loan while 23.33% preferred other funding such as venture

capital. The majority preferred lease /hire purchase funding because they will retain the machinery or equipment after full loan repayment.

4.6.3 Expected growth in the next coming 2 years

Respondents were asked about the expected growth of their business in terms of revenue growth in the next two years. Figure 4.17 indicates the results

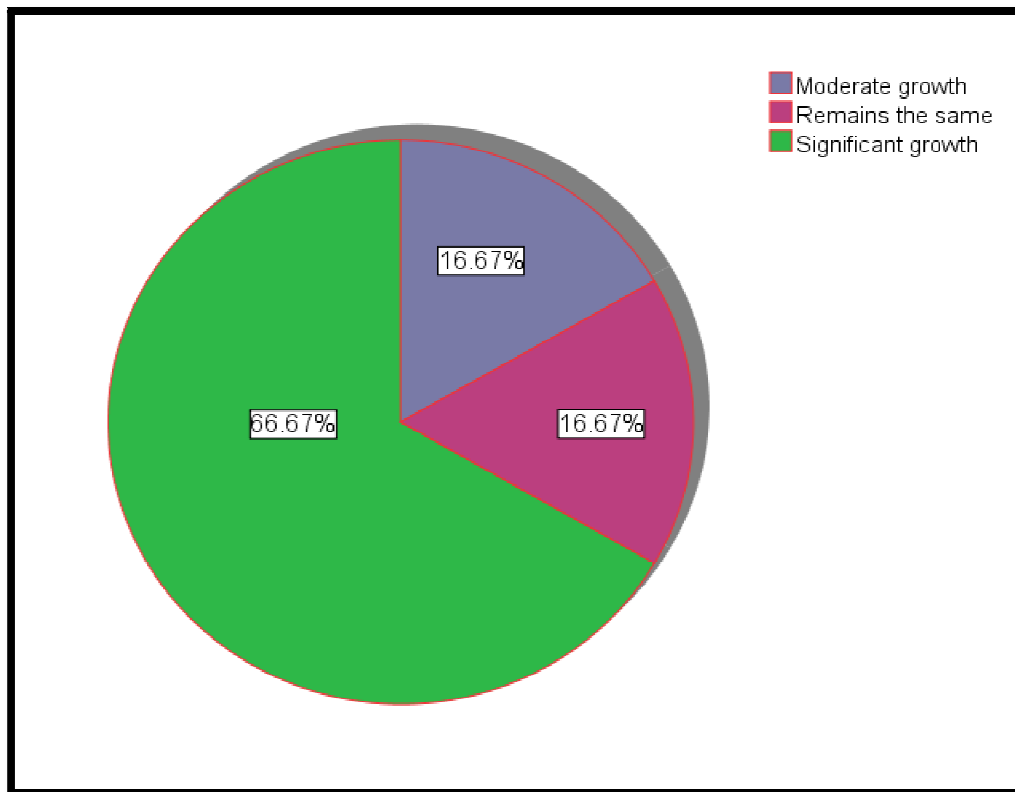


Figure 4.17: Expected growth in the next 2 years

The results from figure 4.17 reveals that 66.67% of the respondents expect significant growth, 16.7% expect moderate growth while 16.7% expect to remain the same. The majority of the respondents were optimistic that they will have a significant growth. This

is on the back of holding a free and fair election which will hopefully unlock foreign direct investment.

4.6.4 The future limiting factor to get financing from SMEs

The researcher went on to investigate the future limiting factor of to get financing from SMEs. Figure 4.18 indicate the results

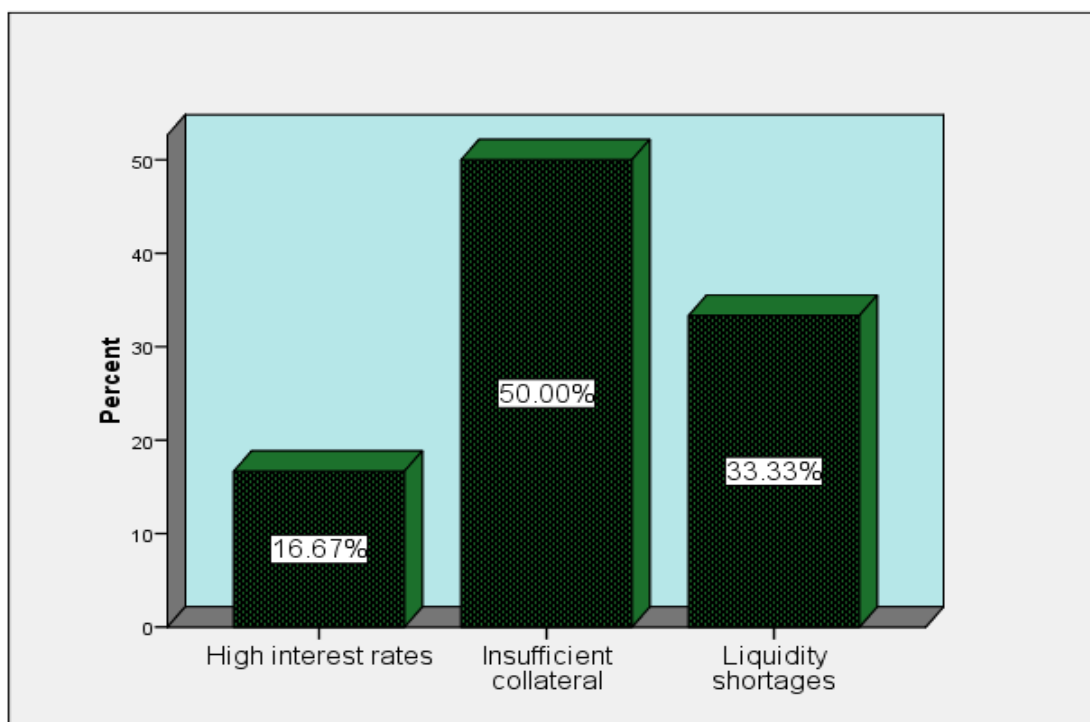


Figure 4.18: Limiting factor to get financing from SMEs

Figure 4.18 indicates that 16.67% of the respondents maintained that they will be limited by high interest rates, 50% maintained that they will be limited by insufficient collateral

while 16.7% maintained that they will be limited by liquidity shortage. The main limiting factor is the collateral as suggested by the majority of the respondents. This indicates that MFIs are demanding collateral security which most of the SMEs do not possess.

Interest rates are high not because of MFIs making but due to supply and demand dynamics. This is due to the scarcity of money in the market as supported by 33.33% who indicated that liquidity challenges limit access to funding. This challenge can be addressed by enticing cheaper offshore lines credit.

4.6.5 Future of SMEs in Zimbabwe

Respondents were asked on the future of SMEs in Zimbabwe. Respondents suggested that;

Table 4.9 Future of SMEs

Future of SMEs
if government and MFI support SMEs the future will bright
SMEs are promising if there is adequate funding
SMEs are future corporate if there is government support
Stagnant growth

Table 4.9 indicates that respondents felt that if government and MFIs support SMEs the future will be bright. Respondents also highlighted that SMEs show more promise when

there is adequate funding. Respondents also pointed out that government support will determine the bright future of SMEs while other still felt that SMEs will not grow. From the findings it is clear that if MFIs and the government support SMEs. The future will be successful and the challenges will remain if there is no adequate funding from the government and MFIs.

4.7 Performance of SMEs

MFIs were asked on the performance of SMEs. Figure 4.16 show the results

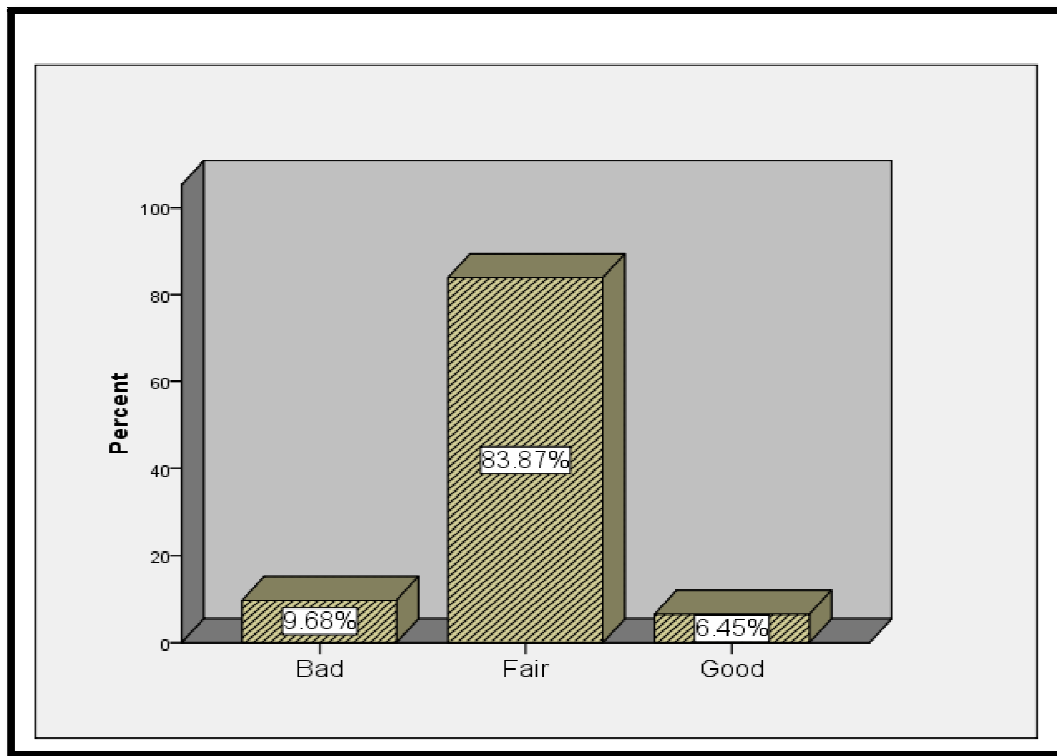


Figure 4.19 Performances of SMEs

About 9.68% maintained the performance is bad, 83.87% maintained that its fair, 6.45% maintained that it is good. According to this study the majority of the MFIs respondents

maintained that the performance of SMEs is fair. MFIs measure the performance of SMEs through their ability to pay off debts as well as profitability of the entity.

4.8 What MFIs and government are expected in alleviating SMEs plight?

Table 4.10 What is expected from MFIs and government

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid acquire off shore financial at reasonable prices and tenures to minimise on cost of funding	6	20.0	20.0	20.0
cheap funding is needed	4	13.3	13.3	33.3
government should not politicize SME funds	4	13.3	13.3	46.7
Mentoring of SMEs	6	20.0	20.0	66.7
Government must promote a buy in Zimbabwe policy	6	20.0	20.0	86.7
requirements for collateral security should be flexible	4	13.3	13.3	100.0
Total	30	100.0	100.0	

Table 4.10 indicates that MFIs and Government may acquire off-shore finances at reasonable prices and long tenor to minimize on cost of funding (20%). This might not

be feasible at the moment considering Zimbabwe's relations with other international countries. Cheap funding is needed (13.3%) and government should not politicise SMEs funds (13.3%). Government must promote a buy in Zimbabwe policy (20%) and requirements for collateral security should be flexible (13.3%). These results indicate that SMEs have a feeling that affordable funds and long tenor as well as government involvement in SMEs will reduce the problems that SMEs are facing.

4.9 CHAPTER SUMMARY

The chapter has provided the research findings and analysis. The findings were from the management of SMEs and those from MFIs as well. It has been noted that MFIs are partially executing their role in supporting SMEs financially and to some extent providing advisory role to SMEs. It is however mentioned that MFIs requirements are on the steep side which hinder them from playing their role more significantly. The requirements were set to weed out fly by night entrepreneurs so that much effort is drawn towards the genuine SMEs. Costs of funds are inhibiting both MFIs and SMEs in playing their roles in the economy. The next chapter provides the research findings and conclusions.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter provides the conclusions and recommendations of the study. The conclusions were drawn from the findings presented in chapter four. From these conclusions recommendation are made. An area of further study is also presented in this chapter.

5.2 CONCLUSIONS

The research provided the following conclusions.

5.2.1 Role played by Microfinance Institutions (MFIs) towards the promotion of SMEs;

The research found that MFIs have special lending for SMEs. It has also been noted that MFIs provide loans for SMEs based on collateral lending.

The research concluded that MFIs provide capital through overdrafts and loans for SMEs to start their projects as well as allowing continuation of the businesses. Besides financial assistance MFIs offer advice on the best projects that are viable in the market and how best they can be implemented, provide training courses on business management and accounting principles. This helps SMEs in the management of their businesses. The research also found that MFIs provide mentorship and technical assistance to SMEs.

5.2.2 Evaluate the impact of Microfinance Institutions on SMEs development;

The research concludes that MFIs are assisting SMEs partially and their funding is not enough for the development of SMEs. The majority of the MFIs are not providing training facilities to SMEs. SMEs rely on funding and if the funding is limited SMEs will not grow due to lack of capital. SMEs need mentorship and technical assistance from the MFIs and failure to provide the mentorship and the technical assistance to SMEs will result in them not prospering. Viability and flexibility of MFIs in their services to SMEs will cause SMEs to grow.

5.2.3 Examine the challenges of accessibility to capital for the development of SMEs;

There are a number of challenges that are affecting SMEs in their quest to access capital. The study concludes that SMEs have insufficient security and are not able to provide the collateral requested by the MFIs. SMEs lack proper documentation whereas the MFIs request proper company documents registered by the Companies Act of Zimbabwe. SMEs also face the challenge of their project proposals not being accepted due to lack of technical knowledge and the project proposed not being considered sufficiently viable to warrant a loan facility. The other challenges are that SMEs are often already saddled with debt when they approach potential funders which become a hindrance since the MFIs request for previous credit records.

5.2.4 Identify the challenges facing the Microfinance Institutions;

The research established that MFIs are unable to provide cheap funding as they in turn source deposits from expensive sources. As a result their lending rates tend to be steep. MFIs are also facing liquidity challenges because of the credit crunch experienced in the economy.

The research established that MFIs are facing challenges of high risk in lending to SMEs because often SMEs do not have the required collateral. SMEs have an unfortunate reputation for defaulting on loan conditions and this becomes a challenge for MFIs to finance them. SMEs do not have business continuity plans in place, hence it becomes difficult for MFIs to finance them because in the event of death of the owner the loans may be difficult to recover. MFIs felt that SMEs lack business expertise, often run with a poor marketing strategy, lack proper corporate governance and there is often no clear physical address because some SMEs are unregistered and have no offices from which they operate.

5.3 RECOMMENDATIONS

The following recommendations were provided;

The research recommended that MFIs must be flexible in terms of their collateral security requirements. SMEs are not accessing loans due to lack of the required collateral. The collateral security must not be too big to the extent that the SMEs will have difficulties in meeting the requirements. However it will be difficult for MFIs to relax the requirement of collateral security since they also want comfort against funds loaned.

The research recommends that MFIs must increase ease of access to credit for SMEs in order to increase their incomes as well as providing technical support to such groups through training, advice and counselling. Training to increase the managerial know how in business management is very important for the success of SMEs. Since SMEs are very important in the economy, such kind of support is needed. In Zimbabwe the majority of the owners of SMEs did not acquire formal skill for the businesses they are in. There is therefore a need for the government to provide training support to increase

knowledge regarding SMEs operations. By improving skills it leads to better productivity, efficiency and therefore to a more stable organisation.

MFIs must coordinate and collaborate with other financial services providers and linkages with formal financial institutions, and of course the RBZ. MFIs must invest in adequate skills and professionalism. To be viable and profitable, MFIs require experienced and skilled personnel that are able to professionally assess, approve and or decline facilities. This can be achieved by recruiting and remunerating the rightful qualified and experienced personnel.

SMEs are also advised to fully register their companies in terms of the Company's Act of Zimbabwe. The company profiles must clearly state who owns the company and what the company offers so as to reduce the chance of failing to get funding due to lack of proper documentation. SMEs are also recommended to employ skilled people in their business and keep proper financial records. The cost of SMEs complying is very prohibitive. It will not make much business sense to entrepreneurs forking out \$500-\$1000 to register a company. The researcher recommends that the government revisit and reduces registration fees to affordable levels like \$50.

SMEs must form clusters or cooperatives for ease of access to credit facilities. Entrepreneurs are encouraged to bank/deposit their money with reputable banks. This enables banks to track deposits. This will make it easier for MFIs to approve loans for SMEs. Above all, SMEs must develop long term mutual beneficial relationship with banks and not try to only approach banks when in dire need of loans.

SMEs must be professional in the way they conduct themselves. They must keep proper business records and other documentation, manage the financial accounts properly and craft bankable business proposals. Entrepreneurs must have clear

business continuity plans and proper business addresses. Family owned businesses are prone to family disruptions due to family differences. Individually owned businesses often go down as the owner dies.

The Government of Zimbabwe should seriously consider the establishment of a SMEs Bank through the Ministry of Small and Medium-Sized Enterprises. In the meantime the government should assist SMEs by guaranteeing a certain percentage of MFIs loan books. The government must not politicize funds earmarked for SMEs. On the other hand they should vigorously fight against corruption especially in awarding contracts and tenders so that genuine SMEs benefit. This can be feasible if only our government allows professionalism and corporate governance to take charge.

5.4 AREA OF FURTHER STUDY

An area of further study is recommended to assess why the SMEs are associated with information asymmetry and moral hazard issues which often cause MFIs to shun them.

5.5 CONCLUSION

MFIs are not fully promoting the SMEs because SMEs lack collateral security. Their requirements are too steep for SMEs to acquire funding. The cost of borrowing is huge and tenors are too short for SMEs to generate sufficient income to equally service debts. The Government of Zimbabwe must fully consider the establishment of SMEs Bank and in the meantime guaranteeing a portion of MFIs loan book.

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APPENDICES

APENDIX 1: Questionnaire for MFIs

Questionnaire on “The promotion of Small and Medium-Sized Enterprises in Zimbabwe through Microfinance Institutions)”.

January 2013

Dear Respondent,

This is an academic survey questionnaire which is aimed at exploring the level of promotion of Small and Medium-Sized Enterprises (SMEs) in Zimbabwe through Microfinance Institutions (MFIs). Your kind assistance and objective response as the Manager/Loan Officer of a MFI will be greatly appreciated to ensure that accurate and relevant information are obtained to assist the researcher to make the correct conclusions and recommendations.

In order to ensure confidentiality do not put down your personal and company name on the questionnaire but please kindly answer all questions honestly and objectively so as to come with a genuine tool that can assist SMEs, MFIs as well as the Government of Zimbabwe.

INSTRUCTIONS TO ANSWER THE QUESTIONS

- 1. Kindly tick the appropriate box and fill the blanks where appropriate**
- 2. Kindly attempt to answer all questions**

SECTION A

1. Does your institution have a special lending facility for SMEs?

Yes

No

2. Do you have an institutionalized risk mitigation scheme for lending to SMEs?

Yes

No

3. In lending to SMEs, do you employ?

Cashflow-based lending

Collateral based lending

4. Does your institution have a credit rating system?

Yes

No

If Yes, do you use this as a basis for:

Approval? Yes No

Pricing? Yes No

Monitoring? Yes No

5. What are your lending rates and justification to those rates?

Rate: _____

Justification _____

6. What is the most challenging problem that MFIs faces from the SMEs?

I.

II.

III.

IV.

V.

7. What information does the MFI request from SMEs?

I.

II.

III.

IV.

V.

8. What are the barriers in financing SMEs?

I.

II.

III.

IV.

V.

9. What percentage of your loan portfolio is with SMEs?

10. What has been your lending experience with SMEs?

11. What is the lending criterion to SMEs?

I.

II.

III.

IV.

V.

12. What is your turnaround time to process and approve/decline a facility?

13. Do you offer any training programs or workshops for SMEs?

Yes

No

14. How would you rate the performance of the beneficiaries of the SMEs Funds so far?

Excellent

Good

Fair

Bad

THANK YOU FOR YOUR TIME AND EFFORT IN ANSWERING THE QUESTIONNAIRE.

APENDIX 2: Questionnaire for SMEs

Questionnaire on “The promotion of Small and Medium-Sized Enterprises in Zimbabwe through Microfinance Institutions)”.

January 2013

Dear Respondent,

This is an academic survey questionnaire which is aimed at exploring the level of promotion of Small and Medium-Sized Enterprises (SMEs) in Zimbabwe through Microfinance Institutions (MFIs). Your kind assistance and objective response as the manager/owner of an SME will be greatly appreciated to ensure that accurate and relevant information are obtained to assist the researcher to make the correct conclusions and recommendations.

In order to ensure confidentiality do not put down your personal and company name on the questionnaire but please kindly answer all questions honestly and objectively so as to come with a genuine tool that can assist SMEs, MFIs as well as the Government of Zimbabwe.

INSTRUCTIONS TO ANSWER THE QUESTIONS

- i. Kindly tick the appropriate box and fill the blanks where appropriate**
- ii. Kindly attempt to answer all questions**

SECTION A

1. What is your position in your firm?

Owner Manager Supervisor

2. What is the main role of your position?

3. What is the main activity of your company?

Manufacturing Retailing Services

4. How many years of business operation?

Less than 3years 3years or more but less than 6years
6years or more but less than 10years 10years or more

5. Who are the owners of the firm?

Individually owned Family owned
Partnership Venture capital firm

6. What is the organisation's average annual turnover since dollarisation?

\$0 - \$500,000
\$500,001 – \$1m
More than \$1m

7. How many Microfinance Institutions (MFIs) do you have a transacting relationship with?

1 MFI more than 1 MFIs

SECTION B

8. There are two common methods of financing the business i.e. internal funds or external funding. Which of the following sources of financing has your firm used for the past 12months?

Personal funds

Overdraft/loan

Lease/hire purchase finance

Trade credit

Grants [Involving support from government/NGOs]

Other – please specify _____

9. If your firm got an overdraft (OD) or loan facility, what was the turnaround time for the OD or loan approval?

Less than 7days

Between 7 and 14days

More than 14days

10. At what stage has your firm requested for financial support?

During the process of company set up

When the company started to expand

Order financing

When the company started to encounter viability problems

Other – please specify _____

11. How many MFIs have you ever approached for credit support?

1 MFI

more than 1 MFIs

SECTION C

Answer the following questions by ranking the different options on a scale of 1 – 5, where:

- (1) = Most important
- (2) = Important
- (3) = Neutral
- (4) = Less important
- (5) = Least important

12. What is the most critical aspect considered by MFIs to avail funding to a firm?	1	2	3	4	5
Collateral security (Brick & Mortar)					
Financial statements					
Projected cashflows					
Balance sheet size					
Rate of return or viability of the project					
Qualifications & expertise of the management					

13. What are the key barriers to the credit approval of the SMEs	1	2	3	4	5

Insufficient security					
Poor documentation					
Project proposal not accepted					
Previous credit record					
Own contribution too small towards the intended project.					
Negative image of the SMEs					

14. What is the average interest rate being charged by MFIs per month?

2 – 10%

11 – 20%

21 – 30%

31 – 40%

More than 41%

15. What is the average tenure offered by MFIs on facilities?

Less than 3months

4 -6months

7 -12months

13 – 24months

25months or more

16. What is the most challenging problem your entity is facing currently?

Access to finance

Production costs

Competition

Availability of skilled & experienced staff

Other – please specify _____

17.Reduction of interest rates and a widened tenure can go a long way in assisting SMEs, hence improving profitability?

Yes

No

18.Timeously disbursement of approved facility will result in improved business efficiency?

Yes

No

Other – please specify _____

SECTION D

19.Have the FMIs fully financially supported SMEs in Zimbabwe?

Fully supported

Partially supported

Not supported

Other – please specify _____

20.Apart from accessing funding, what other form of assistance is offered by MFIs?

I.

II.

21. Has the government undertaken any targeted measures to help SMEs to prosper?

Yes

If yes, which ones: _____

No

22. Do you think mentorship and technical assistance from MFIs can be of much help in promoting SMEs?

Yes

No

23. What type of external financing would you prefer most?

Lease/ hire purchase financing

Loan

Trade credit

Equity investment

Other – please specify _____

24. How much does your company expected to grow in terms of revenue in the next coming two years?

Significant growth

Moderate growth

Remains the same

Other – please specify _____

25. Do you feel that MFIs have supported SMEs enough to obtain their desired results?

Yes

No

26. What is the future limiting factor to get financing from the MFIs?

Insufficient collateral

High interest rates

Liquidity Shortages

Other – please specify _____

27. In your own words, how do you see the future of SMEs in Zimbabwe?

28. Any Suggestions on what you think can be done to improve the performance of SMEs?

29. In your own words, what do you think MFIs and your government should do to alleviate SMEs plight?

THANK YOU FOR YOUR TIME AND EFFORT IN ANSWERING THE QUESTIONNAIRE.

