INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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DETERMINING THE CHALLENGES FOR SMALL AND MEDIUM ENTERPRISES (SMEs) IN ACCESSING FINANCIAL RESOURCES IN A RURAL DISTRICT OF ZAMBIA USING MULTIVARIATE ANALYSIS

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ABSTRACT

Entrepreneurs face a lot of challenges in carrying out their important roles but the challenges are still not very well understood. This study set out to determine those challenges in a rural Zambian town which has become a centre of entrepreneurial activities in the country. A case study was conducted with a sample composed of entrepreneurs and financial institutions which are supposed to provide financial resources to them. To collect the data, questionnaires were designed and administered and the data analysed both qualitatively and quantitatively. The study shows that entrepreneurs in Solwezi faced many challenges which mainly revolved around lack of access to credit from banks. It is recommended that both the banks and the government put in place measures to make access to credit easier for the entrepreneurs.

JEL CODE
L26

KEYWORDS
enterprise, entrepreneurship, finance, SMEs, Zambia.

1. INTRODUCTION

Entrepreneurship is now the buzz word all over the world because many people have come to recognize the critical role it plays in economic development and growth. At the centre of the entrepreneurial process is the entrepreneur who brings together the factors of production in order to create new wealth and jobs. She does that by creating an organization which has come to be known as the small and medium enterprise (SME). But entrepreneurs face a lot of challenges in carrying out this important role, challenges which are still not very well understood (Zimmerer & Scarborough, 1988).

The small and medium enterprises (SMEs) play an important role in a nation's economy, for both developed and developing countries. SMEs also constitute a high proportion of a nation's business activities and generate more employment opportunities than the large corporations in recent years. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005 globally. Despite their significance, access to relatively cheap and effective sources of finance has been identified as one of the major factors hindering their contribution to the economic development of a country.

Though SMEs play an important role in economic growth and employment creation, they are commonly constrained by finance. How to solve their financial constraint is a worldwide problem. Early in the 1930s, Senator Macmillan in his report to congress concerning SMEs' development pointed out that SMEs were distressed with a finance gap (Cook & Nixson, 2000). Much empirical study has shown that SMEs were faced with not only an equity gap but also a debt gap. In China, SMEs are also suffering from a finance gap, because SMEs' financing mainly relies on bank sources.

The most important obstacle to getting bank financing is information asymmetry between borrower and lender, e.g., the borrower has private information about the firm that lender doesn't have. For SMEs, because of their small size, short history, obscure accounting, etc, the extent of information asymmetry becomes more serious.

All small businesses face the same major issue in their early days and that is finding the money to enable them to start and build up the business and their products and services. A survey conducted by the World Bank on Enterprise Development in Zambia (2007) identified poor access to finance as a major impediment to SME startup and growth in Zambia (The IBRD/ World Bank. 2008). Only 16% of firms surveyed reported having a loan or line of credit from a financial institution, compared with 23% for the region and 35% for all countries surveyed. Therefore, while Zambia's cost of doing business index has progressively improved in recent years, access to finance continues to feature among the three key constraints to investment and growth.

The SME sector is arguably the lifeline of the economy, because it is the largest domain for employment creation and service provision especially in areas which the larger-scale sector shuns. It is not surprising therefore that the country's economic development agenda which has been anchored on the development and expansion of the private sector, places a lot of emphasis on the development of this sector.

SMEs contribute positively towards the Gross National Product (GNP) and produces inputs consumed by large industries. Although it was recognized in the early 1980s that small and medium size businesses required financial support from commercial banks, the lending terms prescribed by financial lending institutions are not favourable to the sector.

Financing is necessary to help SMEs set up and expand their operations, develop new products and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their money and probably turn to family and friends initially for financial help in return for a share in the business. If they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. Generally, financial inclusion, or broad access to financial services, is defined as an absence of price and non-price barriers in the use of financial services (The IBRD/ World Bank. 2008). Improving access, then, means improving the degree to which financial services are available to all at a fair price.

The difficulties that SMEs encounter when trying to access financing can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, and lack of information on both the bank's and the SME's sides. Banks may avoid providing financing to certain types of SMEs, in particular start ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns but at a substantial risk of loss.

SMEs tend by their nature to show a far more volatile pattern of growth and earnings, with greater fluctuations, than larger companies. Their survival rate is lower than for larger companies. Manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than large firms. Thus, SMEs are at a particularly severe disadvantage when trying to obtain financing relative to large and more established firms (OECD, 2006).

1.1 BACKGROUND TO THE STUDY

Zambia has achieved important progress in terms of strengthening its policy framework for investment over the past years from 1992. Zambia began to liberalize its trade regime in the early nineties, and embarked on a privatization programme. In 2004, Zambia introduced the Private Sector Development Reform Programme, with its first phase (PSDRP I, 2006-2009) aiming to improve the investment climate to boost the private sector's contribution to economic growth. It focused on strengthening public agencies that support public sector development; improving the investment code and regulatory framework; encouraging private investment in infrastructure; business facilitation and economic diversification; trade expansion; and citizens' empowerment. The successor to this programme, PSDRP II, was scheduled for the period between 2009 and 2014. The Government has articulated the country's long term development objectives in the National Long Term Vision 2030.

Zambia undertook reforms that made it easier for enterprises to do business. These included the abolition of price controls, liberalization of interest rates, abolition of exchange rate controls, 100% repatriation of profits, free entry of investment in virtually all sectors of the economy, trade reforms aimed at simplifying and harmonizing the tariff structure, and removal of quantitative restrictions on imports. Moreover, it shortened the time taken for business name registration and company incorporation from 21 days to 3 days. It has also improved its ranking on the Doing Business Index, moving from 90 in 2009 to 76 in 2010; cut the number of days to start a business and the time required to register property virtually by half; and made notable progress in strengthening legal rights and making it easier for companies to hire workers. However, a key challenge remains: spurring more domestic and foreign investment, and subsequently enhancing Zambia's economic diversification and development. To that end, the Government undertook an assessment of Zambia's investment-related policies against the OECD Policy Framework for Investment (PFI) in 2010-2011, which allowed for an integrated evaluation of the different policy areas affecting the country's investment climate.

A number of financial institutions were established between 1969 and 1990 in Zambia in order to provide lending to small and medium size business enterprises. However the interest rates are on the higher side such that most SMEs shun this facility. This prompted the new government in September 2011 to ask the financial lending institutions to reduce the interest rates as a way of encouraging SMEs to borrow money.

In 2000, the Zambia Chamber of Small and Medium Business Association (ZCSMBA) was registered to promote the development of small and medium size businesses. ZCSMBA is also a member of the Zambia Chamber of Commerce and industry (ZCCI), the mother body, and has a seat on its board. Its major objectives are to promote the development of SMEs; facilitate the participation of SMEs in the economic and industrial development environment for SMEs; source funds and other resources for the benefits of SMEs; promote linkages and networking for SMEs (ZCSMBA, 2000).

The government through an Act of parliament (Act No. 9 of 2006) established the Citizen Economic Empowerment Commission (CEEC) in order to develop and empower SMEs. Government realized it needed to support SMEs as they contributed greatly to job and wealth creation to enhance national development. However, in 2012 the new government temporally suspended the disbursement of funds through the CEEC after it was discovered the whole exercise was not transparent and that most of the borrowers had not paid back the loans. In January 2013 the ban was lifted and CEEC resumed the disbursement of funds. The main objectives of the CEEC included among others the establishment of the Citizens Empowerment Fund; promoting the empowerment of targeted citizens; promoting investment through fostering joint local and foreign ownership of companies.

The Zambian government further established the Zambia Development Agency (ZDA) in 2006 by an Act of Parliament and it was an amalgamation of five statutory bodies that hitherto operated independently to foster economic growth and development by promoting trade and investment through an efficient, effective and coordinated private sector led economic strategy. The institutions were the Zambia Investment Centre (ZIC), Zambia Privatization Agency (ZPA), Export Board of Zambia (EBZ), Small Enterprise Development Board (SEDB) and Zambia Export Processing Zones Authority (ZEPZA). One of the main objectives of ZDA is to provide and facilitate support to the micro and small business enterprises.

Solwezi, the rural town and provincial capital of North-Western Province in Zambia, is positioning itself among the top attractive investment destinations in the country. The town which not too long ago offered very little attraction in terms of economic and social opportunities is now a hive of activities, both economically and socially. The opening of some of the country's biggest mining ventures such as Kansanshi Mine owned by First Quantum Minerals (FQM) and Barrick Gold's Lumwana Mining Company there has put Solwezi town and North-Western Province in general, on the surge in terms of economic activities. The mining investments have seen an improvement in the standard of living of the people as could be justified from the creation of more than 3,000 jobs in the industry. The investments in the mining industry are translating into increased business volumes for Small and Medium Enterprises (SMEs). Consequently, the rural Zambian town of Solwezi has become a centre of entrepreneurial activities in the country.

2. REVIEW OF LITERATURE

2.1 DEFINITION OF SME

The term SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SME, some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital. Among them the most common definitional basis used is number of employees because of the comparative ease of collecting this information, but there is still variation in defining the upper and lower size limits of an SME. Despite the variance, a large number of sources define an SME to have a cut-off range of 0 – 250 employees (Ayagari, Beck, and Demirguc-Kunt, 2003).

The Zambia Development Agency (ZDA) defines micro and small enterprises as those with a total investment excluding land and buildings of up to K80, 000 (US$13,000) whose annual turnover goes up to K150,000 (US$24,000) and employing up to 10 persons. On the other hand small enterprises are those with total investment excluding land and building of between K 81,000 (US$13,160) to K 200,000 (US$32,000) in plant and machinery in the case of manufacturing and processing enterprises. In the case of trading and services- providing enterprises total investment, excluding land and building of up to K150,000 (US$24,000). The annual turnover for Small Enterprises lies between K151, 000 (US$24,160) to K300, 000 (US$48,000) and employing between 11 – 50 persons (www.zda.org.zm).

In the USA and Canada, SMEs generally include firms with less than 500 employees (US Small Business Administration, 2008). The EU defines a medium-sized enterprise as one with 250 employees, a small enterprises as one with less than 50 and a microenterprise as one with a maximum of 10 employees. At the same time, to qualify as an SME in the EU, a firm must have an annual turnover of Euro 40 million or less and/or a balance sheet valuation not exceeding Euro 27 million (EU Commission Recommendation on the definition of SME).

In Japan, an SME is defined as a firm with 300 employees or less and capital size of 300 million yen or less in manufacturing, a firm with employees of 100 or less and capital size of 100 million yen or less in wholesale, and a firm with 50-100 employees or less and capital size of 50 million yen or less in retail and service sector. In developing countries, the number of employees and size of assets or turnover for SME tend to be much smaller compared with their counterparts in developed countries due to their relative size of business entities and economies. For example, in Mongolia, SMEs are defined as legally registered business entities with employees of 199 or less and with an annual turnover of 1.5 billion togrog (approximately 1.3million US$ equivalent) or less respectively.

TABLE 1.0: EUROPEAN UNION SME DEFINITIONS AND CLASSIFICATIONS

Firm Size	Headcount	Turnover	Balance sheet Total
Medium-sized	<250	≤€50 million (in 1996 ≤€40 million)	≤€43 million (in 1996 ≤€27 million)
Small	<50	≤€10 million (in 1996 ≤€7 million)	≤€10 million (in 1996 ≤€5 million)
Micro	<10	≤€2 million	≤€2 million

Source: European Commission Recommendation 96/280/EC

For the World Bank, a microenterprise has up to 10 employees, total assets of up to $10,000 and total annual sales of up to $100,000; a small enterprise has up to 50 employees, total assets and total sales of up to $3 million; a medium enterprise has up to 300 employees, total assets and total sales of up to $15 million (Ayagari, Beck, Demirguc-Kunt, 2003).

2.2 THE ROLE OF SMES IN SOCIAL AND ECONOMIC DEVELOPMENT

SMEs account for a significant share of employment and GDP around the world, especially when taking into account the informal sector. Micro, Small and Medium Enterprises (MSMEs) play a key role in the developmental process of a nation. These enterprises, if well nurtured, can be the answer to addressing Zambia's key economic challenges, and for Solwezi in particular. Such challenges include job creation, poverty reduction and increase in government revenue collection. The sector is more significant to developing countries such as Zambia, where only a small percentage of the population can be employed in the formal sector at any one time. The SMEs are also important to the country in that they are able to absorb and utilize some of the workforce left out by the formal sector such as mining and agriculture.

At the 10th Annual conference of Southern African Entrepreneurship and small business Association (SAESBA), held in Zimbabwe in 1997, the small and medium size business enterprises were labeled as the 'Engine for Economic Development' (Havenga 1997). This is more so when looked at in terms of employment creation and the contribution that the sector makes to the national economies in terms of Gross National Product (GNP). Currently there is a growing enthusiasm in the donor community to fund SMEs (Sahley, 1997) in recognition of the role that the sector plays in the development of national economies and the alleviation of poverty.

2.2.1 EMPLOYMENT CREATION

The growth of small and medium enterprises (SMEs) is a major driver of the economy because SMEs contribute to employment growth at a higher rate than larger firms. This is clearly demonstrated by the fact that about 99.8 per cent of the enterprises in the EU are SMEs, which employ 67% of the European workforce and generate 57% of the revenue (European Statistical Data Support, 2008). According to the Zambia Business Survey (2010), large established firms only employed 7 percent of the workforce while over 88 percent were employed in the MSME sector, with a majority of them in the agriculture sector.

Several studies have found that SMEs create more jobs than large firms do, both in developed and developing countries. SMEs also shed more jobs than do large firms, but job creation tends to outweigh job destruction, so that net job creation is higher in SMEs than in large firms (Globalization and Economic Policy Centre (2010), OECD (1997) and (2003a)) established that small firms consistently provided more gross and net jobs than large firms do.

The Economic Commission of Africa (1999) reported that between 1995 and 1998, some 20, 000 formal sector jobs were lost in Zambia due to economic reforms embarked upon by the government that time. These jobs were lost mostly due to downsizing, particularly in the civil service and the privatization of state-owned companies. The scenario is common to most developing countries. Rising unemployment figures in any country often lead to insecurity. This is why the national governments should give the SME sector the support it deserves in line with its importance.

Accordingly, over 99 percent of European enterprises were responsible for two thirds of total employment, and a competitive financing environment for all companies was a key element in promoting an entrepreneurial economy and strengthening growth (Commission of the European Communities, 2001). Thus, all countries where SMEs had been supported, the economies were doing well, and it is for that reason that all developing countries should take a leaf from those countries if their economies were going to thrive.

2.2.2 CONTRIBUTION TO GROSS NATIONAL PRODUCT (GNP)

The Governor of the Bank of Zambia (2012) stated that the Government was committed to the creation of a conducive environment in which SMEs should achieve their growth objectives and contribute effectively towards the gross domestic product (GDP) of the country as well as take advantage of economic and financing opportunities to enhance the personal welfare of the citizens of the country. In line with the Government's policy, the Bank of Zambia had increasing access to finance by members of the general public as one of its strategic objectives.

FIGURE 1.0: SMEs CONTRIBUTION TO GDP

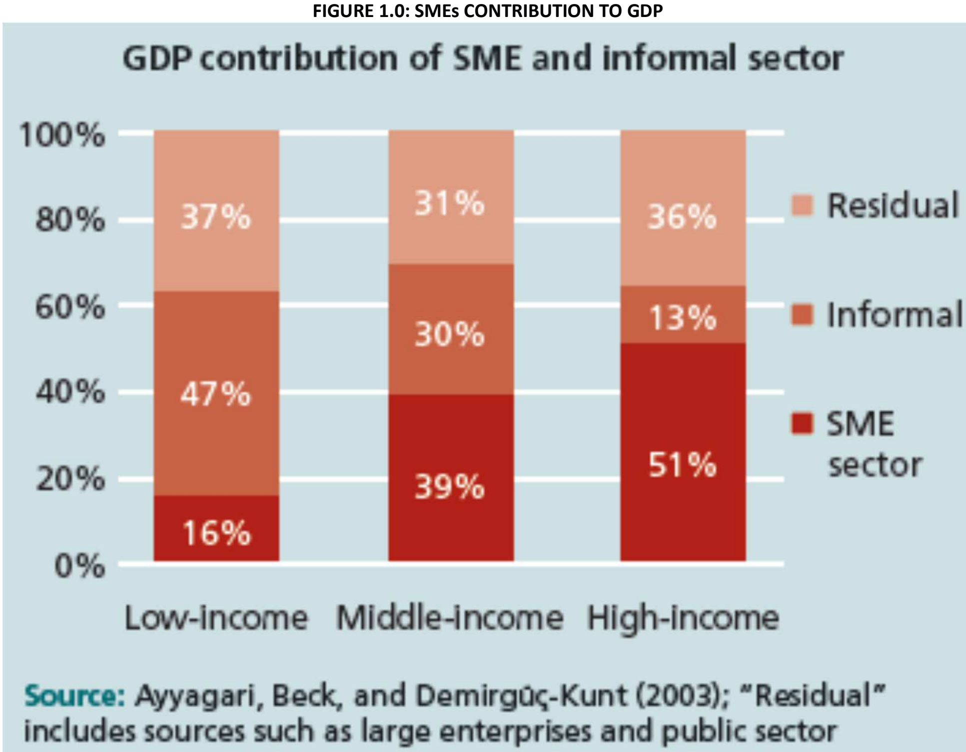


Figure 1.0 shows a marked increase in the SME sector's contribution to GDP from the low-income countries (16%) to 51% in the high income countries. The SME contribution to GDP and employment figures are comparatively small in developing countries.

2.2.3 OTHER ROLES PLAYED BY SMEs

SMEs do not only create employment and contribute to the Gross National Project (GNP) of the countries; they also do the following: produce goods and services consumed by the majority of the population; utilize local inputs and use simple technology to produce their goods and services; reduce the power oligopolies by increasing competition; provide outlets for entrepreneurial talents; provide a source of innovations; provide a breeding ground for new industries and act as a base for new large companies (Simpemba, 2002).

2.3 FACTORS THAT AFFECT SMEs' BORROWING FROM BANKS

The studies and empirical evidence on finance consistently hold the view that inadequacies in accessing finance are key obstacles to SME growth. Beck, Demirguc-Kunt and Maksimovic (2004, 2006, and 2007) and others show that SMEs find accessing finances more difficult than larger firms. Mate (1999) stated that there was no existing institution in Zambia that was in a position to satisfactorily provide support to the SME sector by that year in order to move it forward. Despite establishing the SEDB in 1996 to champion the cause of small businesses, the situation had not changed much. However, the Zambia Chamber of Small and Medium Business Association (ZCSMBA) was registered in 2000 in order to promote the development of SMEs.

According to Simpemba (2002), access failures to finance arise either in the supply side or the demand side of the equation. The supply side may fail when the appropriate sources of finance are not available at all or they are not available on the terms and conditions that are suitable to SMEs. The demand side may fail when SMEs do not make use of the financing opportunities that exist, because of lack of information, lack of collateral or through poor presentation of their case for funding. In order to overcome the hurdles of accessing finance, both sides of the equation need to be addressed. Some of the major problems faced by SMEs on the supply side stem from high interest rates, collateral requirement, stiff repayment terms demanded by financial lending institutions and high corporate taxes demanded by the government coupled with unfavorable government policies just to name a few.

Accessibility to finance by SMEs was still a major problem, particularly in the developing countries like Zambia (Cattani, 2002). In general, banks refuse to lend to SMEs because they are regarded as a risky and unproductive sector. Holden (1997) adds that access to finance in most Latin American countries was restricted to large, well-established companies who have long history of borrowing or to owners who have large real estate holdings. This situation is also common to Sub-Saharan African countries and the rest of the developing countries.

2.3.1 INCREASED REQUESTS FOR COLLATERAL

Collateral is an asset of the borrower that is automatically transferred to the lender should the project revenues not be sufficient to repay the loan in full. As the collateral reduces the limited responsibility of the borrower in presence of unfavorable result, the borrower who provides collateral will be transmitting a signal concerning the quality of his project, declaring the probability of his project's success to be high. Specifically, collateral stands as a financing cost, which reduces the expected profit for bad quality borrowers and increases it for good quality borrowers.

2.3.2 SIZE OF THE FIRM

Larger enterprises, especially those with a big proportion of tangible assets, can provide more collateral as the bank requires. Besides, large-sized firms involve large bankrupt and reputation costs when they fail to repay the loan. Based on a sample of 3404 small companies in the United States, according to their book asset value, Petersen and Rajan (1994) classified them into six categories and found that only part of the sample firms get bank loans, but the percentage rises from 34% for the smallest size to 91% for the largest size.

2.3.3 WILLINGNESS TO ACCEPT BANK CLAUSES

The more willing to accept the clauses the bank puts forward SMEs are, the more the bank loans SMEs can get and the higher probability of SMEs getting a bank loan. The acceptance of these clauses is a positive signal to the bank and results in more bank loans and smaller interest rates for the borrower. Ross, Westfield and Jaffe (1996) cite evidence revealing that 91% of public debt issues in the United States include the prohibition of using additional debt, 39% of realizing mergers and 36% of selling shares.

2.3.4 RELATIONSHIP WITH BANKS

The closer the SMEs' relationship with the bank is, the more bank loans SMEs can get and the higher the probability of SMEs getting a bank loan. An increasingly large body of research has focused on the advantage of the relationship between firms and providers of capital in facilitating access to funds (Diamond, 1989; Uzzi, 1999; Scholtens, 1999; Cole, 1998; Berger and Udell, 1995; Petersen and Rajan, 1994; Fama, 1995). In general, a long-term relationship with a formal financial intermediary is expected to lower the costs of financing because it decreases the cost of monitoring, opens the possibility for greater contract compliance and gives the financier more control over potential moral hazard problems.

2.3.5 INTEREST RATES

Low interest rates reduce the cost of investment and encourage investments in key sectors of the economy. Zambia's interest rates have come down, with banks' weighted lending base rate at 19.4 percent in December 2010 down from 46.7 percent in 2001 (Zambia Review, 2011/12).

When the economy of a country is not strong, which is a common feature for most developing countries including Zambia, the interest rates on loans are likely to be high. These rates are even higher on secured loans than on unsecured loans. The rationale behind this is that secured loans take more administrative time and personnel than unsecured loans (Simpemba, 1992).

The Saprin Report (201) has shown that high interest rates prevent SMEs from borrowing and many small businesses have gone bankrupt or have been forced to seek credit through non-formal means to survive.

2.3.6 FINANCIAL STATEMENTS

Most SMEs do not keep proper financial records and accounts and this has often created problems when trying to apply for loans from financial lending institutions such as banks where financial statements are required. Most financial lending institutions require financial statements in order to evaluate the creditworthiness of the applicant and most SMEs are found wanting in this area (Simpemba, 1992). One of the reasons advanced for not keeping proper financial records by SMEs is that transparent reporting would expose them to excessive taxation and hence their reluctance to keep records. On the other hand, failure to keep records could be attributed to lack of knowledge or lack of appreciation of the usefulness of keeping records for control and decision making purposes. It may not be entirely true, therefore, that SMEs fear exposure to excessive taxation.

2.3.7 GOVERNMENT REGULATIONS

Government regulations although well intended cost businesses millions of dollars (Zimmerer & Scarborough, 1988). Many of the regulations such as the corporate tax require the same level of compliance for small firms as large ones. It must be pointed out here that the burden of regulations is heavier on small firms than larger ones because they lack the broader financial base and larger volumes of output enjoyed by their larger counterparts. These regulations make it very difficult for small firms to prosper and are a bottleneck to their operations.

2.3.8 LACK OF CREDIT INFORMATION

Small firms suffer from a variety of problems, one of them being lack of credit information. Most of the information that is available on the market does not filter through to the sector. Muyawala and Loeaaaea (1997) have shown that information services available favor large firms and is hardly targeted at small firms.

2.3.9 STIFF REPAYMENT (SHORTENED MATURITIES)

The period in which a loan or overdraft must be repaid is a hindrance to accessing finances for some business owners. According to the study on funding problems to SMEs conducted on the Copperbelt in 1992 by Simpemba, the hindrance regarding stiff repayment accounted for 12%.

2.4 SME GROWTH PHASES AND FUNDING CYCLE

People start business with a motive to make money, but before the owners can start making money, they need to have enough cash to run the business. There are many sources of finance for SMEs and at the same time there are difficulties entrepreneur may face in seeking finance to start and develop a business. According to Berger and Udell (1998), small medium firms might have gone through a financial growth life cycle where financial needs and options change as the business grows, gains further experience, and becomes less informationally opaque. Weston and Brigham had noted earlier in 1978 that the financial growth life cycle emphasizes the different sources of finance throughout the various stages of the business. From the firm's inception, funds are primarily provided by the founder, family and friends which is referred to as the '3Fs' (Deakins and Freel, 2006) (Table 2.0). As the businesses grow, they might gain access to intermediated finance on the equity side (venture capital) and on the debt side (banks, financial companies, etc). If the firms keep growing and expanding, the entrepreneurs may seek finance in public equity and debt markets (Berger and Udell, 1998). This financial growth life cycle is not intended to fill all small businesses' needs.

At start-up, the commonly held view is that firms have difficulty accessing external finance due to information opacity (Huyghebaert and Van de Gucht 2007). The most important and commonly used sources of finance at this stage are personal savings of the firm owner, and finance from friends and family members (Ullah and Taylor, 2007). Whilst a firm may obtain sufficient capital to initiate trading, a lack of planning may lead to problems of undercapitalization in the earliest stages. In extreme cases, particularly in the face of competition, the firm may not be able to continue in business.

TABLE 2.0: THE FINANCIAL LIFE CYCLE OF THE FIRM

Stage	Sources of finance	Potential problems
Inception	Owners' resources	Undercapitalization
Growth I	As above plus: Retained profits, trade credit, bank loans and overdrafts, hire purchase, leasing.	Overtrading, liquidity crises
Growth II	As above plus: Longer term finance from financial institutions.	Finance gap
Growth III	As above plus: New market issue.	Loss of control.
Maturity	All sources available.	Maintaining Return On Investment (ROI).
Decline	Withdrawal of finance: firm taken over, share repurchase , liquidation	Falling ROI

Source: Weston and Brigham (1970, p. 157).

As successful firms survive nascent and start-up phases, and mature through growth stages, personal funding becomes relatively less important as investment finance is increasingly sourced from retained profits. Furthermore, accumulation of trading history facilitates access to increased sources and amounts of external financing, particularly bank financing and trade credit. Rapidly expanding firms lacking adequate working capital to meet increased costs may experience liquidity problems at this stage (Bates and Bell, 1973).

2.5 FINANCING SMEs

Financing of Small and Medium Sized Enterprises (SMEs) is crucial to their success. Any business enterprise, no matter how well managed, at one point or the other, will require financial assistance. The finances may come from external sources in form of debt or equity. Seglin (1990) has cited undercapitalization of start up businesses as one of the chief causes of business failure. Banks are the most common source of finance for Small and Medium Sized Enterprises and yet their lending terms are not within reach of most small businesses.

The first source of finance available to the business is the owner's capital (Ronan,1998). If the owner is unwilling to put his money into the business, it is most unlikely other financiers will agree to finance the scheme. This is true for the start-up business but there are other parameters that financial institutions look for especially for on-going businesses. There are other sources of funds for SMEs, such as venture capitalists, life insurance, savings and loan associations, finance companies and credit unions. Each one of these financial institutions has its own lending policies. There are other sources of finance, which most SMEs are often not aware of probably due to lack of information. These sources are usually non-traditional, such as donors.

2.5.1 DEBT FINANCING

Debt financing creates cash by borrowing from a bank, mortgage company, friends, family or from vendors (like equipment manufacturers). Although some angels provide debt capital, commercial banks are the primary providers of debt capital to small companies. Bankers tend to make business loans through lines of credit, term loans and mortgages. A line of credit loan is the largest amount of money that the borrower can obtain from the bank at any one time.

Entrepreneurs can also obtain a mortgage to provide funding. Mortgages are loans for which certain items of inventory or other properties serve as collateral. Although debt financing increases the potential for higher rates of return on investment (ROI) and allows entrepreneurs to retain much of the board control, it also puts entrepreneurs at greater risk. Irrespective of the startup's outcome, banks make sure that they will get their investment back along with interest. To accomplish this, banks structure their agreements accordingly. Additionally, these conditions, such as the interest rates, loan repayment periods, collateral, etc, may not be conducive to small firms and subsequently may hinder them from securing the necessary funds for running their businesses (Simpemba, 2002).

2.5.2 EQUITY FINANCING

As opposed to debt financing, equity financing transfers the risk from the entrepreneur to the investors, but has its own set of drawbacks. Equity financing is when entrepreneurs can raise money only through selling common or preferred stock to investors. This implies that an entrepreneur gives up some of his or her voting rights to investors. Although most angels offer equity financing, institutional venture capitalists make the biggest equity financing investments. Institutional venture capital firms usually manage large funds – anywhere from $25 million to $1 billion and invest in high growth companies (Riley, 2012). When venture firms invest in a company, the firm generally takes a seat on the board of directors. Venture capitalists assist the entrepreneurs in taking the companies forward. The very same venture capitalists do not mind firing everyone, including the founders and shutting down the company if they determine that it is not economical. In addition, raising venture capital is generally a long shot.

2.6 OTHER SOURCES OF FINANCE FOR SMEs

A wide range of sources are identified as shown by Tables 3.0 and 4.0 for the assessment of sources of finance such as banks, trade supplier credit, government loan or grant, retained earnings, personal savings of the owner, leasing firms, loan from employees, support from relatives and friends. Two sets of questions can be asked, one at the start of the enterprise, and the second, to sustain operations. Often the hardest part of starting a business is raising the money to get going (startup capital). The entrepreneur might have a great idea and be clear of how to turn it into a successful business venture. However, if sufficient finance can't be raised, it is unlikely that the business will get off the ground.

2.6.1 PERSONAL SOURCES

The most important source of start-up capital comes from entrepreneurs and owner-managers themselves in terms of their own retained profits, savings, remortgages or perhaps money raised from the 3 Fs of family, friends and founders (Deakins and Freel, 2006). The research done by Harding (2002) shows that businesses in the UK receive £20,000 in startup finance, £10,000 from personal investments; £5,000 from family and friends; the remainder is from external sources. External finance can be drawn from a number of sources when internal finances are no longer sufficient.

2.6.2 BORROWING FROM FRIENDS AND FAMILY

Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business. This can be quicker and cheap to arrange (compared to a standard bank loan) and the interest and repayment terms may be more flexible than a bank loan. However, borrowing in this way can add to the stress faced by an entrepreneur, particularly if the business gets into difficulties. The initial capital from own savings accounts for 75% with 8% coming from relatives, the other 12% can come from shares (equity) and a marginal percentage of 4% from financial lending institutions (debt) (Simpemba, 2002).

2.6.3 CREDIT CARDS

This is a surprisingly popular way of financing a start-up. In fact, the use of credit cards is the most common source of finance amongst small business. Each month, the entrepreneur pays for various business related expenses on a credit card. Then 15 days later the credit card statement is sent in the post and the balance is paid by the business within the credit-free period. The effect is that the business gets access to a free credit period of around 30 – 45 days.

2.6.4 RETAINED PROFITS

This is the cash that is generated by the business when it trades profitably – another important source of finance for any business, large or small. Note that retained profits can generate cash the moment trading has begun. For example, a start-up sells the first batch of stock for £5,000 cash which it had bought for £2,000. That means that retained profits are £3,000 which can be used to finance further expansion or to meet other trading costs and expenses. Merredith (1977) suggests that at least 50% of the profit before tax should be ploughed back into the business.

2.6.5 ANGEL INVESTORS

Business angels are high- net- worth individuals that invest their own money in small growing businesses through an equity stake. Business angels are an important source of finance for SMEs. It is clear that business angel activity has grown over the last decade, with the number of investments increasing more than threefold between 2001 and 2007 (Mason and Pierrakis, 2009). Business angels are private Investors who invest directly in private unlisted companies in return for an equity stake, and who perhaps take a seat on the company's board, are often referred to as 'business angels'. Business angels have clear industry preferences - they invest in industries that they understand and, usually, operate locally in view of the requirement for local knowledge.

2.6.6 VENTURE CAPITAL

Venture capital involves the provision of investment finance to private small or medium sized companies in the form of equity or quasi-equity instruments not traded on recognized stock exchanges. It is long-term risk finance where the primary return to the investor is derived from capital gains rather than dividend income. Venture capital investors are actively involved in the management of the investee company, with the intention of helping to assure the success of the venture.

2.6.7 LOAN CAPITAL

The most common forms are a bank loan or bank overdraft. A bank loan provides a long-term kind of finance for a start-up, with the bank stating the fixed period over which the loan is provided (e.g. 5 years), the rate of interest and the timing and amounts of repayments. Bank loans are good for financing investment in fixed assets and are generally at a lower rate of interest than that of a bank overdraft. However, they do not provide much flexibility.

A bank overdraft is a more short-term kind of finance which is also widely used by start-ups and small businesses. An overdraft is really a loan facility – the bank lets the business "owe it money" when the bank balance goes below zero, in return for charging a high rate of interest. As a result, an overdraft is flexible source of finance, in the sense that it is only used when needed. Bank overdrafts are excellent for helping a business handle seasonal fluctuations in cash flow or when the business runs into short-term cash flow problems (e.g. a major customer fails to pay on time).

2.6.8 TRADE CREDIT

A trade credit is an arrangement when suppliers of goods and services do not require immediate payments, but instead offer credit terms for payments due (Dewhurst & Burns, 1990). Companies buy raw materials, components, stores and spare parts on credit from different suppliers. Generally suppliers grant credit for a period of 3 to 6 months, and thus provide short-term finance to the company.

2.6.9 FACTORING

This type of finance involves a business contracting out its sales ledger and debt collection to an external organization, e.g. a bank. The bank will pay the business for its invoices when issued and will then collect payments from its customers and pursue late payers. The business receives the money sooner as it does not have to wait until the invoice date, but pays a fee for using this service.

2.6.10 INVOICE DISCOUNTING

This involves a business exchanging its invoices for cash. This type of finance is similar to factoring but the business operates its own sales ledger by sending out invoices in its own name. The SME will need to deposit the payments with the finance provider as soon as they have been received from its customers (BIS, 2012).

2.6.11 HIRE PURCHASE AND LEASING

Hire purchase agreements and leasing provide finance for the acquisition of specific assets such as cars, equipment and machinery involving a deposit and repayments over, typically, three to ten years. Technically, ownership of the asset remains with the leaser whereas title to the goods is eventually transferred to the hirer in a hire purchase agreement.

TABLE 3.0: SOURCES OF FINANCE AT STARTUP SMES, MALAYSIA, 2009

Size	Commercial & personal loan	Govern-ment	Retained earnings	Supplier trade credit	Leasing	Loans from employees	Owner Personal Savings	Loans from non-relative individuals	Micro credit
1-5	56.3	0.0	94.1	94.1	43.8	16.7	83.3	6.3	6.3
6-49	40.0	3.3	91.3	93.4	60.0	4.4	82.6	35.6	7.8
50-99	34.8	0.0	87.0	91.3	47.8	8.7	69.6	39.1	4.3
>99	44.4	16.7	88.9	94.4	66.7	0.0	83.3	44.4	0.0

Source: Calculated from ERIA Survey (2010)

TABLE 4.0: SOURCES OF FINANCE AT MATURITY STATE SMES, MALAYSIA, 2009

Size	Commercial & personal loan	Govern-ment	Retained earnings	Supplier trade credit	Leasing	Loans from employees	Owner Personal Savings	Loans from non-relative individuals	Micro credit
1-5	37.5	16.7	66.7	83.3	41.7	75.0	41.7	8.3	0.0
6-49	34.5	3.6	46.4	87.3	47.3	73.2	66.7	16.4	7.4
50-99	38.5	0.0	38.5	92.3	46.2	69.2	76.9	15.4	0.0
>99	21.4	0.0	78.6	78.6	57.1	78.6	71.4	28.6	0.0

Source: Calculated from ERIA Survey (2010)

2.7 REASONS FOR SEEKING FINANCE FOR SMEs

SMEs seek finance for various reasons like for working capital/cash flow, capital equipment or vehicles, buying land/buildings, improving buildings, research and development, buying another business, marketing, business expansion/growth, training/staff development, management buyout, and others (BIS Small Business Survey, 2010).

Access to funding is the lifeblood of any enterprise, enabling it to grow, and to generate more output and employment (Beck *et al.,* 2005, 2006, and 2008; Berger and Udell, 1998; OECD, 2006a, 2006b, 2006c). There is considerable evidence to support the contention that SMEs, in particular, face a number of obstacles and problems in accessing finance, mainly related to their limited resources and perceived risk by lenders. This is particularly problematic and worrisome for policy makers, given that SMEs and entrepreneurship are widely recognized as being the key sources of dynamism, innovation and flexibility in advanced industrialized, emerging market and developing economies, and are major net job creators in these economies (OECD, 2006a,2006c).

2.8 FINANCING THEORY

2.8.1 THE CAPITAL STRUCTURE THEORY

The capital structure theory refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities - the combination of a company's long-term debt, specific short-term debt, common equity, and preferred equity. The capital structure is the firm's various sources of funds used to finance its overall operations and growth. Debt comes in the form of bond issues or long-term notes payable, whereas equity is classified as common stock, preferred stock, or retained earnings. Short-term debt such as for working capital requirements also is considered part of the capital structure. A firm's capital structure is then the composition or 'structure' of its liabilities. The firm's ratio of debt to total financing is referred to as the firm's leverage.

2.8.2 THE LIFECYCLE APPROACH

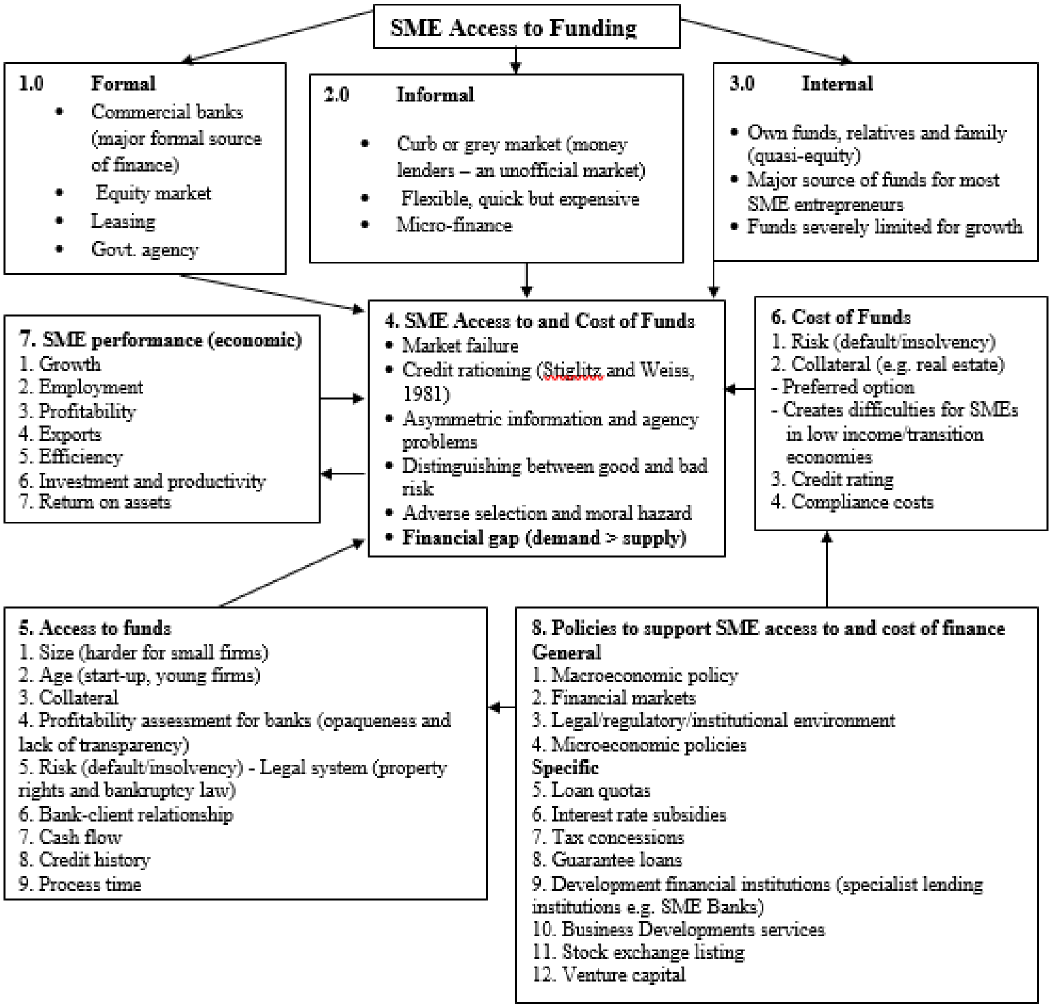
The lifecycle approach by Weston and Brigham (1981) was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loans from banks. Rapid growth could lead to the problem of illiquidity.

2.8.3 THE PECKING ORDER THEORY

The pecking order theory (Myers,1984) states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. This practice is more common in small firm practice and indicates the negative relationship between profitability and external borrowing by small firms (South African Reserve Bank, 2004).

2.9 THE MODEL

FIGURE 2.0: THE THEORETICAL FRAMEWORK



2.10 SCHEMATIC SUMMARY OF SME FINANCE ISSUES AND FRAMEWORK

The model that was tested is represented as follows:

L = f{C, S, IF, CL, R, IR, FS}

P= f{C, S, IF, CL, R, IR, FS}

Where L represents the loan amount disbursed by financial lending institutions, p represents the probability of getting a loan from financial lending institutions, C represents collateral provided by SMEs, S represents the firm size of SMEs, generally speaking, the larger the firm, the more collateral SMEs can provide, IF represents internal funds of SMEs, CL represents acceptance of contractual clauses between SMEs and financial lending institutions, R represents SMEs' years of relationship with financial lending institutions, IR represents interest rates for SMEs to obtain loans from financial learning institutions and FI represents financial statements prepared by SMEs . That is, the bank loan that an SME can get is an increasing function of its own collateral, size, internal funds, acceptance of contractual clauses, relationship, interest rates and availability of financial statements. Also, the probability of an SME getting a bank loan is an increasing function of its own collateral, size, internal funds, acceptance of contractual clauses, relationship, interest rates and availability of financial statements.

Figure 2.0 provides a schematic summary of the major sources of finance for SMEs: Formal (Box 1), informal (Box 2) and internal (Box 3), key issues relating to SME access to and their cost of finance from the literature (Box 4), elaboration of specific issues impacting access to finance for SMEs (Box 5) and the cost of finance for SMEs (Box 6), the importance of access to and the cost of finance for firm performance (Box 7), and, finally, specific policy measures that have been and could be adopted to tackle the shortage of finance for SMEs (Box 8).

The study, however, focused only on formal sources of finance (i.e. commercial banks and other financial institutions), and it is clear that, in this context, market failure exists (Box 4).

Finally, many policies have been tried by governments to channel funds to private sector SMEs (Box 8). These include: loan quotas imposed on commercial bank lending to private sector SMEs, interest rate subsidies to SMEs, tax concessions, loan guarantees, the establishment of specialized development financial institutions such as an SME bank, and the provision of business development services that can assist SMEs with business training (e.g. business plan preparation) and network promotion.

3. NEED/IMPORTANCE OF THE STUDY

The study is important and relevant to SMEs and the financial lending institutions in Solwezi as it highlights the major problems which SMEs are likely to encounter when trying to source funds from the financial lending institutions for their business operations and how they can overcome them. It is also beneficial to financial lending institutions, as it will help them to understand the dilemma in which the business community finds itself as it tries to access funds for its business operations from them. This understanding should enable the financial institutions to design their lending schemes that will be suitable to the small businesses, given their contributions to the economic development of nations. Finally the government and its co-operating partners should once again refocus their attention on SMEs and begin to support the sector, both financially and through enabling policies.

4. STATEMENT OF THE PROBLEM

Finance has been identified in many business surveys as the most important factor determining the survival and growth of small and medium – sized enterprises in both developing and developed countries. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment. The small and medium enterprises (SMEs) in Zambia have been riding on a difficult path despite the immense potential that they possess as the engine of growth and the effective means through which the benefits of the country's economic gains could be distributed. The informal sector, which is largely SMEs, is many times larger than the formal sector in Zambia and thus, any problems that affect the former affect the entire economy of Zambia and its people.

The criteria used to lend to small and medium size businesses are still the same as for large industries (Hamid, 1982), a situation which is not right. The situation has persisted today, causing perpetual outcry from small firms to the government and financial lending institutions to soften lending terms to the sector.

Solwezi town has become the centre of attraction in terms of mining investments. Mining investment has brought along an economic boom in the town. Also, the rate of employment has gone up in the district. Since not everyone in the province can be employed by the mines, a lot of people have set up SMEs to try and provide the much needed support in terms of supplies to the mining industries, i.e. subcontractors.

Mining companies in Solwezi have created a deliberate policy to support the local SMEs through the Solwezi Chamber of Commerce. However, the mining companies have always imported their supplies from other towns both within and outside Zambia, defeating that same policy. The rationale is that most of the local SMEs are unable to supply certain goods and services due to lack of financial capacity. It goes without saying that SMEs face an uphill battle to access funding from financial lending institutions which could be used to expand their businesses. There is thus need to determine such financing constraints in relation to SMEs so as to enhance their capacities and capabilities to service the mines.

5. OBJECTIVES

The main objectives of the study were:
(i) To establish the factors that hinder small and medium firms in Solwezi district from obtaining funding from financial institutions.
(ii) To identify the strategies that can be employed by small and medium firms to overcome those factors.
(iii) To establish the different kinds of funding available to SMEs.
(iv) To establish why SMEs seek funding in the first place.

6. HYPOTHESES

H01: Collateral has no influence on SMEs' access to credit from commercial banks.
H02: Preparation of financial statements has no influence on SMEs' access to credit from commercial banks.
H03: Size of the firm has no influence on SMEs' access to credit from commercial banks.
H04: Interest rates have no influence on SMEs' access to credit from commercial banks.
H05: Repayment period has no influence on SMEs' access to credit from commercial banks.
H06: Relationship with the banks has no influence on SMEs' access to credit from commercial banks.

7. RESEARCH METHODOLOGY

7.1 RESEARCH DESIGN

The research design adopted for this study was descriptive in nature. The type and source of data were determined by the objectives of the study. The data and information collected were used to identify and establish the causes of failure by SMEs in Solwezi District from accessing finance from financial lending institutions.

RESEARCH QUESTIONS

The research set out to the answer the following questions:
(i) What were the factors that hindered small and medium firms in Solwezi district from obtaining funding from financial institutions?
(ii) What strategies can be employed by small and medium firms to overcome such factors?
(iii) What were the different kinds of funding that were available to SMEs?
(iv) Why do SMEs seek funding?

THE SCOPE OF THE STUDY

The study examines the causees of failure by small and medium size business enterprises to access financial assistance from financial lending institutions in Solwezi town. The main focus of the study was the SMEs that belong to the Zambia Chamber of Small and Medium Business Association (ZCSMBA). To underpin the study, the financial lending institutions in Solwezi town were also included in the study.

7.2 DATA COLLECTION

Two types of data were collected for this study, primary and the secondary data. Both quantitative and qualitative data was collected based on the objectives for the study. Emphasis on the data collected was however placed on the difficulties that SMEs faced when trying to access funds from financial lending institutions for their business.

The primary data was obtained through the administration of structured questionnaires to SMEs and commercial banks in Solwezi district. In certain cases, data was collected through personal interviews to augment the questionnaires. The SMEs involved in the study were members of North Western Chamber of Commerce and Industry in Solwezi. Included in the study were the commercial banks, both local and international.

Secondary data was obtained from existing literature (both theory and empirical studies) such as journals, articles, research papers, magazines, statistical reports, catalogues, books, etc. that reflect the challenges that small and mediums sized enterprises encountered in gaining access to finance. This study extensively analyzed relevant studies and surveys that have been conducted by different researchers that reflect and discussed the prevalent finance problem. Records and figures from reliable data sources such as the Zambia Development agency (ZDA) were also utilized.

7.3 DATA COLLECTION PROCEDURE

Questionnaires were personally distributed by the second researcher to SME operators and/or owners and financial lending institutions for first hand information for processing towards answering the research questions. The data was collected over a period of two weeks. All the SME operators' were members of Northwestern Chamber of Commerce and industry.

7.4 THE STUDY POPULATION AND SAMPLE

7.4.1 THE STUDY POPULATION

The first targeted population comprised all the active members for the North Western Chamber of Commerce and Industry in Solwezi and had been in operation for at least one year. The second targeted population comprised all commercial banks in Solwezi, and was meant to compliment the results from SMEs. Solwezi Chamber had a total population of 240 active members. The population of commercial banks under study comprised both local and international banks in Solwezi district. There were twelve (12) commercial banks in total.

North Western Province was selected for the following reasons: Firstly, due to the hive of economic activities as a result of the booming mining investments in the region the situation which led to an increase in the number of SMEs and banks establishing business in the area. With the objectives of the study in mind, selecting this region afforded the second researcher the opportunity to contact SME operators who had made numerous contacts with different banks for financial support and therefore have a lot of experience to share. Secondly, it was easier for the researcher to approach SMEs operators since the researcher was located in the same region. Choosing any other region would mean travelling a long distance just to make contact with the SME operators, which would have been very difficult.

7.4.2 SME SAMPLING DESIGN

The sampling design that was employed in the research was probability sampling. A random sample of SMEs in Solwezi district was obtained.

7.4.2.1 SAMPLE SIZE
For final inclusion in our sample, the SME firms had to meet the definition of "Small and Medium Sized Business" and also consistence with the Small Enterprise Development Act of Zambia (Act no. 29, 1996) which classified SMEs into:
1) Micro enterprise – (1 to 9 workers)
2) Small enterprise – (10 to 29 workers)
3) Medium enterprise – (30 to 140 workers)

The sample size was computed from the formula by Jones (2002) as indicated below:

$$n0 = \frac{[Z\alpha /2]2}{E} * p\ (1-q) \quad \text{------} \quad (4.1)$$

$$N = \frac{n0N}{N0 + (N-1)} \quad \text{------} \quad (4.2)$$

where: n0 = calculated sample size
N = population
Zα /2 = 95 % confidence level (1.96 from the standard Normal tables)
p = Sample proportion (P= 0.5 since there was no previous study)
q = compliment of p
E = maximum error (5%)

Hence, from equation (4.1), n0 = [1.96/2*0.05]2(0.5*0.5) = 96.04
Sample size needed for the study is calculated from equation (4.2) as shown below:
n0 = (96.04*240)/[96.04+ (240-1)] = 68.80 ≈ 70

7.4.2.2 COMMERCIAL BANKS SAMPLE
There were twelve (12) commercial banks in Solwezi district under study, and all of them were included in the study.

7.5 DATA ANALYSIS
After the data was collected, it was then organized and analyzed. A descriptive statistics was found to be an ideal analysis technique and subsequently used in ascertaining the difficulties that SMEs faced in accessing bank loans. Aided by the tabulation of data extracted from a close–ended questions survey, it was easier to understand the issues identified by the respondents.

7.6 PROCEDURE
After deciding on the target population, a list of SMEs was received from the North Western Chamber of Commerce and Industry (NWCCI) after contacts had been made to seek the consent of some of the SMEs to be part of this research. The various SMEs that agreed to be part were subsequently contacted and given a brief about what the study sought to achieve through the means of telephone calls and visits to their offices. The questionnaires were then dispatched and the respondents were then given two weeks to complete the questionnaires. Commercial banks were also contacted, given the questionnaires and were then given two weeks to complete the questionnaires. The data collection for this study was done basically through the usage of questionnaires. The population for the study was 240 SMEs comprising members of the Northwestern Chamber of Commerce and Industry operational in Solwezi town. The sample size for the study was 80 SMEs and the questionnaires were distributed to all of them. Out of the 80 questionnaires circulated, 62 were returned representing about 77.5% of response rate, which was deemed impressive considering the short time given to these respondents. In addition to that, another target population consisted of the commercial banks operational in Solwezi town and was meant to compliment the results from SMEs. Another set of questionnaires were distributed to all the commercial banks except for two banks which were newly established in town and had no data. Nine banks were targeted out of which only five answered and returned the questionnaires representing 55.56% response rate.

8. RESULTS AND DISCUSSION

8.1 CHARACTERISTICS OF SMEs
All the respondents were SMEs and members of the Northwestern Chamber of Commerce and Industry with business operations in Solwezi. Out of the 62 respondents, 58.06% had their businesses registered as Limited Companies (36). The rest were registered as Sole Proprietorships (22) and Partnerships (4). The bulk of the respondent SMEs (36) were registered as private limited companies, accounting for 58.06%. Besides, 22 respondents representing 35.48 % were sole proprietorships and 4 respondents were registered as partnerships accounting for 6.45%. The majority of the SMEs participants were microenterprises (41) and representing 66.13%. The rest of the participants were small enterprises accounting for 13 and representing 20.97% whereas the rest were medium sized enterprises accounting for 8 participants and representing 12.90%.

TABLE 5.0: FREQUENCY DISTRIBUTION OF NATURE/ KIND OF PARTICIPANT SMEs

Natures	Frequency	Percentage (%)	Cumulative (%)
Construction	19	30.65	30.65
Supply	18	29.03	59.68
Manufacturing	3	4.84	64.52
Consultancy	1	1.61	66.13
Transport	2	3.23	69.36
Hospitality	2	3.23	72.59
General dealers	17	27.42	100

Table 5.0 shows that the bulk of the respondents were engaged in construction business representing 30.65% and followed by supply which accounted for 29.03%. Others were general dealers 27.42%, manufacturing 4.84%, transport and hospitality accounting for 3.23% each and consultancy 1.61%. It was not surprising that most of the SMEs were engaged in the construction industry as Solwezi town has seen unprecedented investment from the mining industry in the recent past that has made demand for construction to go up. Most of the construction companies in the survey were mining contractors.

8.2 REASONS FOR STARTING UP BUSINESS
From the research, different SMEs had various reasons for establishing own businesses. The reasons ranged from redundancy to creation of more wealth while in employment. The majority of the respondents were falling within the self-employed category. This was not surprising as Solwezi had very few industries that could employ most of the people mainly the youths.

Thus, 4 respondents started business after being declared redundant accounting for 6.45% while 50 respondents out of 62 established own businesses due to the strong desire to work for themselves or simply because they could not get formal employment, accounting for 80.65%. Only 1 respondent claimed to have inherited the family business which accounted for 1.61%. The study further indicated that 7 respondents established own businesses while in formal employment in order to create more wealth for themselves and also to prepare for early retirement.

8.3 MAJOR SOURCES OF INITIAL CAPITAL
The study also established that the major source of initial capital was own savings. Other sources of initial capital were through friends and family and through the Youth Development Fund from the Ministry of Youth and Sport.

Regarding the distribution of SME sources of funding in establishing their businesses, the study showed that 79.03% and 19.35% of the funds were generated from personal savings and relatives and friends respectively. One respondent indicated having gotten a starting capital from a special agency (Youth Development Fund Loan under the Ministry of Youth and Sport) and that accounted for 1.61%. None of the respondents got initial startup capital from the commercial banks. This confirms that commercial banks were not willing to lend to the sector because of the perceived risks associated with the sector especially those seeking funds as startup capital for their businesses. The results showed that none of the five commercial banks in the sample had given out initial capital to business starters. The main reason attributed for non-availability of initial capital was that the banks were not mandated to give out initial capital to SMEs who were considered to be at a higher risk compared to established businesses. Furthermore, the study showed that most of the banks had no written policy in relation to initial capital provision to SMEs. Most of the banks were not willing to provide loans because of the risk associated with new businesses since it was known that 8 out of 10 new businesses failed within the first three years.

8.4 MAJOR SOURCES OF WORKING CAPITAL

Most of the SMEs obtained their working capital from profits generated by businesses, while a small proportion of them got theirs from other sources. According to the study, other sources established included: supplier credits, overdrafts and bank loans. It was however, contended that very few business houses had managed to secure bank loans.

TABLE 6.0: FREQUENCY DISTRIBUTION OF SOURCES OF WORKING CAPITAL FOR SMEs

Sources of Initial Capital	Frequency	Percentage (%)	Cumulative (%)
Profit	51	82.25	82.25
Overdrafts	2	3.23	85.48
Supplier credits	7	11.29	96.77
Bank loans	2	3.23	100.00

Table 6.0 shows that 82.25% of working capital comes from profit generated by the businesses themselves which they ploughed back into the business. The second source of working capital for SMEs comes from the supplier credit which accounts for 11.29%. Bank loans account for only 3.23% and so did overdrafts, which show that there is very little cash coming from the banks to SMEs in form of working capital. The study showed that only 3 loans for working capital were given out to SMEs for a period of six months (July – Dec 2013). Cavmont bank had received 10 applications of which only two were successful. Stanbic bank did not indicate the number of applicants received. The rest of the banks never received applications for working capital. The reasons advanced towards applicants being unsuccessful were that SMEs did not meet the credit criteria in terms of affordability or projections. Most of the commercial banks indicated that SMEs were unsuccessful in loan applications due to poor recording keeping, failure to prepare audited financial statements and non availability of collateral.

TABLE 7.0: FREQUENCY DISTRIBUTION ON OVERDRAFTS GIVEN OUT BY THE BANKS

Bank Name	Frequency	Percentage (%)	Cumulative (%)
Finance Bank	4	66.67	66.67
Barclays Bank	0	0	66.67
Standard Chartered Bank	0	0	66.67
Cavmont Bank	1	16.67	83.34
Stanbic Bank	1	16.67	100.00

From Table 7.0, a total number of 6 overdraft applications were given out to SMEs by three commercial banks for a period of six months. Some SME applicants were unsuccessful due to the fact that they had savings accounts instead of current accounts under which overdrafts are given out. Besides that the response by the banks to SMEs in terms of overdraft issuance was not encouraging considering the role that SMEs played in job creation and economic development.

8.5 REASONS FOR SEEKING FUNDING

There were various reasons why SMEs had gone to the commercial banks to seek financial help. The major reasons were that they wanted to enhance the working capital and grow the business. Most of them contended that their working capital was not good enough to ensure timely delivery and customer satisfaction in terms of delivery of high quality products and services at attractive prices. Other reasons included acquisition of capital equipment and improvement to building structures.

TABLE 8.0: FREQUENCY DISTRIBUTION FOR REASONS FOR SEEKING FUNDING

Reason for Seeking funding	Frequency	Percentage (%)	Cumulative (%)
To increase working capital	17	27.42	27.42
Business growth	22	35.48	62.90
Acquisition of equipment	6	9.68	72.58
Improve Building	3	4.84	77.42
Not Attempted	14	22.58	100.00

Table 8.0 shows the distribution of SMEs seeking funding from the commercial banks, 22 out of the 62 respondents sought funding in order to grow their business accounting for 35.48%. Also, 17 of the respondents sought funding to improve their working capital which accounted for 27.42%, 6 and 3 of the respondents went to the banks to seek financial help in order to acquire new capital equipment and improve on the infrastructure accounting for 9.68% and 4.84% respectively. Some 14 of the respondents had not attempted to seek financial help for various reasons which included not believing in borrowing, lack of lending information and just lack of interest.

8.6 FINANCIAL ASSISTANCE TO SMEs BY BANKS

Commercial banks were approached to get their views regarding the challenges SMEs encountered when seeking funding. All the nine commercial banks were approached and given questionnaires to answer. The response was very poor as most of the banks were not allowed to provide such information without authorization from their headquarters in Lusaka. Out of the nine commercial banks only five banks successfully answered and returned the questionnaires, accounting for 55.56% response. The banks that were approached included Zanaco, Finance Bank, Natsave, Stanbic, Standard chartered, Barclays, Cavmont, Investrust and FNB banks.

From the results, 67.77% of the business owners (42) attempted to secure finances from the financial lending institutions but failed. Furthermore, the study has established that failure to access funding was due to lack of collateral, high interest rates, short repayment period and failure by SMEs to provide financial statements. The banks on the other hand contended that turnovers from SMEs were too small to warrant being given loans. The Banks also contended that high interest rates were no longer the hindrance to seeking credit as the interest rates had gone down drastically. Only 6 respondents succeeded in getting loans for their operations, accounting for 9.68%. Some 14 of the respondents (22.58%) never tried to secure finance for various reasons. Others did not believe in borrowing, others lacked information and interest.

8.7 MAJOR FUNDING HINDRANCES

Both SMEs and the commercial banks were approached using questionnaires to get their views concerning major factors that hindered SMEs from getting credit from the commercial banks. From the feedback obtained, SMEs rated the lack of security/ collateral as the most important impediment or factor followed by high interest rates. Short repayment period and lack of financial statements were rated third and fourth hindrances respectively. Relationship with the banks and size of the firm were ranked number five. The commercial banks, however, indicated that lack of financial statements was the major hindrance to SMEs accessing credit from the banks. The banks contended that most of the SMEs were denied credit because they failed to prove they could pay back the loans once given and that their books were in disarray. Lack of collateral and short repayment periods were ranked number 2. The banks indicated that collateral was not their main concern but one's ability to pay back the loans. The banks went to state that they were not in the business of selling assets hence collateral could not be their main focus in providing credit. Collateral was only required once an SME had met all the credit criteria and that it was there to provide security in an event that an SME failed to repay the loan. On the other hand, SMEs argued that most commercial banks required financial statements for at least the past three years in addition to security, and that was why they found it difficult to access funds from financial lending institutions. The types of securities demanded by commercial banks included immovable assets (i.e. land and building on title) and treasury bills.

TABLE 9.0: FREQUENCY DISTRIBUTION OF MAJOR FINANCIAL HINDRANCES TO SMEs BY BANKS

Results	Frequency	Percentage (%)	Ranking
Collateral/ Security	31	50.00	1
High Interest rates	10	16.13	2
Short repayment period	3	4.84	3
Financial Statements	2	3.23	4
Relationship with the bank	1	1.61	5
Size of the firm	1	1.61	5
Not attempted	14	22.58	

Table 9.0 shows that 50% of the respondents ranked lack of collateral as the major factor preventing them from accessing loans from commercial banks while 10 or 16.13% ranked high interest rates as the factor that affects their access to credit as the second one. Short repayment period was ranked third with 4.84% response rate and on fourth inability to prepare audited financial statement which accounted for 3.23%. Relationship with the banks and size of the firm were ranked fifth with 1.61% response rate for each. Finally, 14 respondents never attempted to acquire loans, accounting for 22.58%.

The survey results obtained from the commercial banks concerning the factors that hindered SMEs from accessing funding showed that inability by SMEs to prepare financial statements was the major hindrance. High interest rates which was rated as number two by SMEs was not even mentioned by the banks. The banks indicated that interest rates had reduced and as such could no longer be the major hindrance. Other results showed that 3 banks out of 5 ranked lack of financial statements as the main reason SMEs were failings to secure bank loans and that accounted for 60% response rate. Lack of security and short repayment period were ranked two with 20% response rate for each.

8.7.1 COLLATERAL REQUIREMENTS FOR SMEs

The responses show that 60% of the banks in the sample demanded collateral from their SME borrowers. Furthermore, 50% of the SMEs indicated collateral was the number one hindrance in accessing bank loans. The problem of collateral is real and requires addressing by all major stakeholders such as the government, commercial banks and SMEs.

8.7.2 COMMERCIAL BANKS INTEREST RATES

High interest rates charged on bank loans and overdrafts were identified as the second hindrance to accessing finance by SME businesses. Most of the SMEs contended that the high interest rates charged on SMEs were outrageous and made it difficult for them to access the loans. The banks on the other hand contended that interest rates had been reduced following government intervention and that it was no longer a major factor that could stop business houses from accessing credit. It was possible that some SMEs were not aware of the reduction in the interest rates. That could be attributed to the fact that 40.32% of the SMEs surveyed did not know about the lending schemes provided by the banks, according to Table 10.0 which shows the interest rates charged on both bank loans and overdrafts obtained from the banks.

TABLE 10.0: COMMERCIAL BANKS INTEREST RATES

Bank Name	Interest Rate (%)
Finance Bank	18.75
Barclays Bank	18.75
Standard Charted Bank	14.75 – 17.75
Cavmont Bank	18.75
Stanbic Bank	18.75

The study from Table 10.0 established that bank interest rates for all the commercial banks were in the range 14.75 – 18.75 both for overdraft and bank loans. Previously bank interest rates were as high as 35- 61% (Simpemba, 1992).

8.7.3 SME KNOWLEDGE OF THE LENDING SCHEMES OF BANKS

More than half (37) of the respondents (59.68%) were aware of bank lending schemes while the rest (25) representing 40.32% were not.

8.7.4 SHORT REPAYMENT PERIOD

The period in which a loan or an overdraft must be repaid was ranked third with 4.84% response rate as a hindrance in SMEs accessing credit from the banks. The banks on the other hand ranked this factor second with 20% response rate. Some banks indicated their repayment period for short term loans was within the period of 6 months to 24 months, intermediate loans between 2 – 5 years and long-term loans were 5 years maximum and more than 5 years for others. The repayment period especially for short-term loans should be adjusted to suit the requirement of the SMEs or rather the repayment periods should not be fixed but negotiable. That will in turn attract more SMEs to seek funding. Negotiated periods could also help reduce defaulting on loan repayments.

8.7.5 FINANCIAL STATEMENTS

Improper or non-availability of financial statements was ranked fourth by the SMEs, with a 3.23% response rate. The banks on the other hand ranked this factor number one. From the results, 29.03% of the SMEs surveyed claimed they prepared financial statements. The majority of the SMEs did not seem to understand what constituted a financial statement. They perceived that whatever form of financial records constituted a financial statement. Furthermore, the majority of the financial statements were wrongly prepared and not to the satisfaction of the banks. Some 70.97% of the SMEs indicated they did not prepare the financial statements for varied reasons ranging from lack of capacity, still learning how to do them and to their poor record keeping. In addition to that, it was felt that inability to prepare financial statements could be overcome through education.

8.8 ALTERNATIVE FUNDERS

There were other possible sources of funding that SMEs could explore. The study showed that some SMEs were not knowledgeable of the existence of other lending institutions apart from the commercial banks. Some 54.84% of the SMEs surveyed did not know the existence of non-bank financial institutions as indicated in Table 11.0.

TABLE 11.0: FREQUENCY DISTRIBUTION OF SME KNOWLEDGE OF ALTERNATIVE FUNDERS

Rankings	Frequency	Percentage (%)	Cumulative (%)
SMEs are aware of non-bank financial institutions	28	45.16	45.16
SMEs are not aware of non-bank financial institutions	34	54.84	100

The survey showed that Solwezi town had a number of non- bank financial institutions. The list of non-bank financial institutions as obtained from the SMEs surveyed included Blue Finance, Unity Finance, Focus Financial Services, Capital Solutions, Kukula Capital, Mfinance, NEDFIN, Vision Fund, ZSIC, B-blue, CEEC and Bayport.

8.9 STATEMENTS OR DOCUMENTATION REQUIRED BY THE BANKS

There were a number of documents that could be considered before an SME applicant was considered for a loan. These documents required by the banks were ownership of business account with the bank, title deeds of property being pledged as security, latest evaluation report for the property being pledged as security, an application letter, cash flow projections with underlying assumptions, latest audited financial statements for a minimum of three years, debtors/ creditors age analysis – if selling on credit, certificate of incorporation, ZRA tax certificates and business proposal / plan.

Financial statements which are prepared by the SMEs are poorly done making it difficult for the banks to acccept them. Some of the banks indicated that failure to prepare proper financial statements made it difficult to assess the financial performance of the SMEs. That made it difficult for the banks to believe whether or not the funds being sought for would be put to the intended purpose. SMEs that are not conversant with financial statements should seek the services of financial experts or train for the same.

8.10 LENDING POLICIES AND SCHEMES

Most of the banks had no written policy on financing SMEs. One bank indicated their policy was not written down but was based on a strong word of mouth. Failure by the banks to clearly write the policy must have compounded the problems of funding to SMEs. According to the study, only two banks had clearly stated schemes which were meant for the SMEs. Those banks included Stanbic bank which offered Tamanga unsecured loans to SMEs and Finance bank which offered Twekatana SMEs loans.

8.11 KEY FACTORS THAT MAY AID IN BORROWING

The following are some of the major factors that could help SMEs to borrow funds from the banks: Only 16 respondents out of 62 attended seminars on how to access funding from financial lending institutions which accounted for 25.8%. SMEs should find time to attend seminars as that may increase the chances of accessing bank loans. Some 17 respondents had sought advice from external sources on how to access finance which accounted for 27.42%. SMEs' managers should find time to seek external advice on how they could increase the chances of accessing loans. Some of the external experts that could provide advice include bank managers themselves.

Only 18 respondents, accounting for 29.03%, prepared financial statements. Financial statements are very important in assessing one's business financial performance and that explains why most SMEs never access bank loans. None of the SMEs had audited financial statements which were a requirement to access bank loans. Additionally, 28 respondents which accounted for 45.16% were knowledgeable of non-bank financial lending institutions. Apart from the commercial banks which were found to be difficult to access finance from, SMEs should also be knowledgeable of other funders.

8.11.1 EDUCATIONAL LEVEL OF SME OWNERS/ MANAGERS

The study revealed that all the respondents were well educated with the least attaining secondary school education. The majority (32) (51.6%) of the respondents attained college education, 25.8% attained secondary education (16) and 22.6% attained University education (14). None of the respondents attained a higher education or lower than the ones stated above.

8.11.2 FORMS OF BUSINESS OF RESPONDENT SMEs

All the respondents were SME members of the Northwestern Chamber of Commerce and Industry with business operations in Solwezi Municipal Council area. The bulk of the respondent SMEs were registered as private limited companies, accounting for 36 out of 62 respondents (58.1%). The rest were registered as sole proprietorships and partnerships owned representing 35.5% (36 respondents) and 6.5% (4 respondents) respectively.

8.11.3 NATURE OF BUSINESS OF RESPONDENT SMEs

The study showed that the bulk of the respondents were engaged in trading business representing 48.4% (30 respondents) and was followed by construction which accounted for 29% (18 respondents). The service industry contributed 17.7% (11 respondents) whereas the manufacturing industry contributed 4.8% (3 respondents). It was not surprising that most of the SMEs were engaged in the trading and construction industry as Solwezi town has seen unprecedented investment from the mining industry in the recent past which has made demand for construction and trading to go up.

8.11.4 PROFESSIONALS IN MANAGERIAL POSITIONS

One of the questions covered in the survey was to establish the number of SMEs that had engaged professionals in managerial positions as that was key when seeking credit from financial lending institutions. The study revealed that 44 firms, accounting for 71%, had not engaged professionals. On the other hand 18 firms, accounting for 29%, had engaged SMEs in managerial positions.

8.11.5 SIZE OF THE FIRMS

Most of the SME participants employed between 1-10 people, accounting for 64.5% of the study. On the other hand, 17.7% (11 respondents) and 17.7% (11 respondents) of the respondents employed between 11-30 and 31-140 employees respectively.

8.11.6 YEARS IN BUSINESS

One of the questions included in the questionnaire was meant to determine how long the respondents had been in business. Most of the sampled entrepreneurs (26) had been in operation between 1-5years (41.9%), 35.5% of the respondents (22) had the businesses established between 6-10 years, 16.1% of the respondents (10) had been in business for 11-15 years, 4.8% of them (3) had been operating for 16-20 years while only 1.6% of them (1) had been in existence for more than 20 years. The research revealed that 77.4% of the businesses got established exactly at the same time the mining investments had grown in the municipality. Only one firm had been in existence for more than 20years. The research established that the respondents were people that by all standards were seasoned entrepreneurs.

8.12 REASONS FOR STARTING UP BUSINESS

From the research, different SMEs had various reasons for establishing their business. The results showed that respondents had varying motives for engaging in business but notable ones were to become self-employed which accounted for 77.4% (48 respondents), 2 respondents set up business in order to strive for a higher income which accounted for 3.2% and 3 SME owners engaged in business after being declared redundant or retired representing 4.8%. A single (1) respondent inherited the business which represented 1.6% and 8 SME owners had other reasons to engage into business, accounting for 12.9%.

8.13 FACTORS CONTRIBUTING TO SMES' CONSTRAINTS

The inability of SMEs in Solwezi to readily have access to credit from the financial institutions (banks) can be attributed to a lot of factors. Schiffer and Weder (1991), attributed these factors to the perceived high risk nature of SMEs, small portfolios of these businesses and the high transaction cost that banks go through in performing credit appraisal on them before granting credit to these SMEs. Before revealing what the study came out with, the study first tested the possibilities of these SMEs being denied credit from the commercial banks. That can be referenced from the results below.

The research revealed that most of SME owners/ managers had more access to non – bank lending institutions as compared to the commercial banks. From the responses, 81% of the business owners attempted to secure finances from the banks but failed, accounting for 50 respondents. Furthermore, failure to access funding was due to lack of collateral, high interest rates, short repayment period and failure by SMEs to provide financial statements. But the banks contended that turnovers from SMEs were too small to warrant being given loans. They further stated that high interest rates were no longer a hindrance to seeking credit as the interest rates had gone down drastically. Only 7 respondents succeeded in getting loans for their operations, accounting for 11%. The other 5 respondents (8%) had not attempted securing bank loans for various reasons ranging from not believing in borrowing to lack of interests.

The study showed that 27% of the SMEs managed to acquire non-bank loans and the remainder never got credit from non-banks, accounting for 73%.

8.13.1 COLLATERAL

The study revealed that most of the SMEs had no collateral to pledge to the banks when asking for financial assistance. Some 43 respondents (accounting for 69%) had no collateral to pledge whereas 14 respondents had collateral to pledge (representing 23%). Some 8% respondents did not respond.

8.13.2 PREPARATION OF FINANCIAL STATEMENTS

The breakdown in the responses concerning the respondents' preparation of financial statements showed that the majority of the respondents never prepared financial statements which accounted for 74% (46 respondents) and only 26% (16 respondents) prepared financial statements.

8.13.3 LOAN REPAYMENT PERIODS

Only one respondent (2%) rated the loan repayment periods as excellent whereas 4 respondents (7%) rated the repayment period as good. Furthermore, the majority of the respondents accounting for 69% rated the loan repayment periods as acceptable. Some 9 respondents ranked the repayment periods as high and 5 respondents did not offer any answer.

8.13.4 LENDING RATES

The majority of the respondents (31 respondents, accounting for 50%) rated the lending rates as extremely high whereas 10 respondents (accounting for 16.1%) rated the lending rates as high. Furthermore, 13 respondents accounting for 21% rated the loan lending rates as acceptable. Some 3 respondents ranked the repayment periods as low and 5 respondents had not offered any answer to the question.

8.13.5 RESPONDENTS RELATIONSHIPS WITH THE BANKS

The study showed that 4.8% (3) of the respondents rated their relationship with the bankers as excellent whereas 41.9% (26 respondents) rated their relationship as good. A further 51.6% (32 respondents) rated the relationship with the bankers as average and only one respondent indicated poor relationship with the bankers.

8.14 BANKS FINANCIAL ASSISTANCE TO SMEs

Commercial banks were approached to get their view regarding the challenges SMEs encountered when seeking funding. The study revealed that only two banks were active in providing bank credit to SMEs in the municipality. A total of 20 loan applications were received by two banks out of which 5 applicants became successful.

The results showed that none of the banks had issued startup loans to SMEs. Furthermore, the study showed that most of the banks had no written policy on lending to SMEs. The understanding was that business starters were at a higher risk to default on the loans and as such commercial banks would prefer giving loans to already established businesses. Most of the banks were not willing to provide startup loans because of the risk associated with new businesses where it has been shown that 8 out of 10 new businesses tend to fail within the first three years of operation. Only three commercial banks had issued overdrafts to SMEs, giving a total of six (6) overdrafts issued to SME applicants.

8.15 ALTERNATIVE SOURCES OF SME FINANCING

Finance being one of the major constraints to SME development and growth means that various sources ought to be explored by SMEs to run their businesses. The survey showed that most of the SMEs depended mostly on external sources such as the banks, nonbank financial institutions, families and friends and also personal savings as alternative sources of financing for their businesses.

8.16 MAJOR SOURCES OF INITIAL CAPITAL

Own savings were shown to be the major sources of initial capital among SMEs owners/ managers. Other sources of initial capital were through friends and family and through the Youth Development Fund under the Ministry of youth and Sport. The study showed that 83.9% (52 respondents) and 14.5% (9 respondents) had their funds generated from personal savings and relatives and friends respectively. One respondent had obtained his startup capital from a special agency (Youth Development Fund Loan under the Ministry of Youth and Sport) accounting for 1.61%. None of the respondents had obtained initial funding from any of the commercial banks or any non-bank institutions. This confirms that commercial banks are not willing to lend to the sector because of the perceived risks associated with the sector especially those seeking funds as startup capital for their businesses.

8.17 MAJOR SOURCES OF WORKING CAPITAL

Most of the SMEs obtained their working capital from profits generated by their businesses, while a small proportion got theirs from other sources. Other sources established included: supplier credits, overdrafts and bank loans. It was further revealed that none of the SMEs interviewed ever obtained working capital from the commercial banks. The results showed that 83.9% (52 respondents) of the working capital was from profit generated by the businesses themselves which they ploughed back into the business. The second major source of working capital for SMEs came from the supplier credit which accounted for 12.9% (8 respondents). Only 2 respondents managed to get overdrafts from commercial banks which accounted for 3.2%, showing that there was very little cash coming from the banks to SMEs in form of working capital.

8.18 IMPACT OF FAILURE TO ACQUIRE BANK CREDIT/ ACCESS FINANCE

The results showed that the bulk of the respondents had experienced stunted business growth due to failure to access bank loans, which accounted for 43.5% (27 respondents) whereas 29% (18 respondents) had experienced limitations in their working capital. Others had failed to improve infrastructure, which accounted for 4.8% (3 respondents).

Failure to access funds by SMEs has grave impacts on their businesses. The study revealed that most of the SMEs had been impacted negatively due to lack of access to funds. Some of the effects that SMEs cited included the following: stunted business growth – that meant failure to grow one's business by way of increasing the product lines or opening branches in other places; failure to engage in big contracts especially the ones being provided for by the mines (most of the SMEs failed to offer a competitive edge on big contracts due to non availability of funds and most of the jobs that should be given to Zambian SMEs would end up in foreign companies as the Zambian SMEs could not deliver due to lack of finances); difficulties in meeting operational costs (some SMEs even failed to attend site visits that were being offered in distant places due to financial challenges and that made such SMEs to fail to get jobs that could otherwise change their financial position); delayed delivery of goods and services; inability to improve infrastructure that could otherwise offer a competitive edge over the business rivals; inability to acquire capital equipment and other technologies.

8.19 BIVARIATE/ MULTIVARIATE ANALYSIS

Bivariate analysis is the analysis of two variables simultaneously and multivariate analysis is the analysis of multiple variables simultaneously. Bivariate and multivariate analyses are used more for explanatory purposes. The cross tabulation technique was used to do the multivariate analysis. Cross tabulation is a statistical process that summaries categorical data to create contingency tables. Cross tabulation provides a basic picture of the existences, nature and strength of the interrelationship between two variables and can help find interactions between them. The dependent and independent variables in the analysis are not fixed for the simple reason that there is no one factor that can be claimed to contribute to success or failure of a business; all factors can contribute to both success and failure at the same time.

8.19.1 PREPARATION OF FINANCIAL STATEMENTS IN RELATION TO BANK LOANS GRANTED

The existence, nature and strength of the relationship between the two variables, "preparation of financial statements" and "bank loans granted" was tested using the Pearson's correlation coefficient. The following cross-tabulations were used and the test results are shown in the tables below.

Granted Bank loan * Preparation of Financial Statements Cross-tabulation

TABLE 12.0: SYMMETRIC MEASURES

		Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Interval by Interval	Pearson's R	.222	.135	1.762	.083[c]
Ordinal by Ordinal	Spearman Correlation	.328	.138	2.687	.009[c]
N of Valid Cases		62			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.

The test gave a Pearson's correction value of 0.222 (Table 12.0), indicating a low positive correlation between the two variables, i.e. preparation of financial statements and bank loans granted. The results support the view that firms that prepare financial statements stood a better chance of accessing bank loans as opposed to those which did not. It is clear that 37.5% (6 respondents) that had prepared financial statements were given bank loans.

8.19.2 FIRM SIZE IN RELATION TO BANK LOANS GRANTED

The relation between these two variables was tested using Pearson's correlation test (Table 13.0) and the test gave a correlation value of 0.197. But the Spearman Correlation figure of .255 was highly significant (.045).This means there was a low positive correlation between the two variables. The result supports the view that the bigger the firm the more likely they stand a better chance to get bank loans. The results indicate clearly that 71.4% of the firms that were granted bank loans fell within the medium sized firm category.

Granted Bank loan * Number of Employees Cross-tabulation

TABLE 13.0: SYMMETRIC MEASURES

		Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Interval by Interval	Pearson's R	.197	.143	1.553	.126[c]
Ordinal by Ordinal	Spearman Correlation	.255	.142	2.045	.045[c]
N of Valid Cases		62			

a. Not assuming the null hypothesis.
b. Using the asymptotic standard error assuming the null hypothesis.
c. Based on normal approximation.

8.19.3 ENTREPRENEURIAL AGE AND ACCESS TO BANK CREDIT

With regard to the age of entrepreneurs and credit accessibility, the study revealed that 57.1% of SME owners/ managers who had their loan applications approved successfully were between the ages of 41 – 50 years while 20% of entrepreneurs within the same age group were discovered to have applied for loans but were rejected. Further, 40% of the entrepreneurs within the same age group (41-50) did not apply for loans at all. Interestingly one entrepreneur below the age of 20 had successfully accessed credit from the bank accounting for 14.3%. For those between the ages 20 – 30, it was seen that 14.3% of entrepreneurs within that same age bracket were granted loans while 24% of them applied but were not granted loans. However, one SME owner within the same age group (20-30) had never applied for any bank loan representing 20%. Furthermore, none of the SME owners/ managers within the age of 31- 40 had successfully obtained credit from the banks while 44% of the same age group had applied but were rejected. Some 40% of the entrepreneurs in the 31-40 years group had never applied for any bank loans due to lack of interest and not believing in borrowing.

Age * Granted Bank loan Cross-tabulation

Only one entrepreneur in the older age group of above 50 had successfully accessed bank loans accounting for 14.3% while 12% of the entrepreneurs had applied for the bank loans but were not granted. From the data, entrepreneurs within the age group of 41-50 years can be said to be more creditworthy since they received more credit from financial institutions than any other age group. It could be asserted that, older entrepreneurs may be wiser and more responsible than young ones hence the positive relationship between age and experience in business management.

8.19.4 OWNERSHIP STYLE AND ACCESS TO BANK CREDIT

With regards to the type of business ownership and its influence on bank credit accessibility, it was realized that 57.1% of entrepreneurs who had access to credit were private limited companies and 62% of entrepreneurs who had applied and never granted credit were from the same group of private limited companies. In addition to that, 80% of the entrepreneurs who had never applied for bank credit were from the sole proprietors. From the data, it can be concluded that financial institutions in the Solwezi Municipality advance loans to private limited and partnership companies more than to other categories.

Ownership style * Granted Bank loan Cross-tabulation

8.19.5 YEARS IN BUSINESS AND ACCESS TO BANK CREDIT

The study revealed that, all the 7 entrepreneurs who were granted loans from financial institutions were in business between 1 – 15 years with the highest number of loans being granted to firms who had been in operations between 6 -10 years which accounted for 42.9% (3 SMEs). Some 2 entrepreneurs in each category with operations between 1-5 years and 11-15 years were granted loans.

Years in Business * Granted Bank loan Cross-tabulation

8.19.6 THE INDUSTRY SECTOR AND ACCESS TO BANK CREDIT

Of the entrepreneurs who had been granted bank loans, 2 were in construction industry accounting for 28.6%, 1 in manufacturing industry accounting for 14.3%, 3 were in the trading industry representing 42.9% and 1 was in the service industry accounting for 14.3%. Of the total number of respondents who applied but could not be granted loans, 30% were found to have been operating in construction while 2% were in manufacturing sector. Of the entrepreneurs who did not apply for loans, 20% each were in construction, manufacturing and trading sectors while 40% were from the service sector. It could be said that due to high demand in the construction and supply sectors especially from the mines and government, financial institutions found it more prudent to give loans to those sectors.

Nature of Business * Granted Bank loan Cross-tabulation

8.20 HYPOTHESIS TESTING

In testing the research hypotheses to see whether statistically significant relationships existed between the independent variable (Challenges) and the dependent variable (Access to bank loans), the Chi-square test and the following cross-tabulations were used:

8.20.1 HYPOTHESIS 1

H0: *Collateral has no influence on SMEs' access to credit from commercial banks.*

Granted Bank loan * Collateral to pledge Cross tabulation

TABLE 14.0: CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	16.106[a]	1	.000		
Continuity Correction[b]	12.563	1	.000		
Likelihood Ratio	13.842	1	.000		
Fisher's Exact Test				.001	.001
Linear-by-Linear Association	15.824	1	.000		
N of Valid Cases[b]	57				

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 1.72.
b. Computed only for a 2x2 tableThe fourth column in Table 14.0 gives the two tailed p value associated with the chi-squared value. In this case, the p value equals 0.001. Since the p-value is less than 0.05, we can reject the null hypothesis, and accept the alternative hypothesis which states that collateral has an influence on SMEs' access to credit from commercial banks.

8.20.2 HYPOTHESIS 2

H0: *Preparation of financial statements has no influence on SMEs' access to credit from commercial banks.*

Granted Bank loan * Preparation of Financial Statements Cross-tabulation

TABLE 15.0: CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.801[a]	2	.001
Likelihood Ratio	12.922	2	.002
Linear-by-Linear Association	3.003	1	.083
N of Valid Cases	62		

a. 3 cells (50.0%) have expected count less than 5. The minimum expected count is 1.29.

Table 15.0 shows that the probability of the chi-square test statistic (chi-square =14.801) was p = 0.001, less than the alpha level of significance of 0.05. Since the p-value is less than 0.05, we can reject the null hypothesis, and accept the alternative hypothesis which states that preparation of financial statements has an influence on SMEs' access to credit from commercial banks.

8.20.3 HYPOTHESIS 3

H0: *Size of the firm has no influence on SMEs' access to credit from commercial banks.*

Granted Bank loan * Number of Employees Cross-tabulation

TABLE 16.0: CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.397[a]	4	.002
Likelihood Ratio	15.205	4	.004
Linear-by-Linear Association	1.788	1	.181
N of Valid Cases	62		

a. 6 cells (66.7%) have expected count less than 5. The minimum expected count is .89.

The probability of the chi-square test statistic (chi-square=17.397) was p=0.002, less than the alpha level of significance of 0.05. Since the p-value is less than 0.05, we can reject the null hypothesis, and accept the alternative hypothesis which states that the size of the firm has an influence on SMEs' access to credit from commercial banks. This is shown in Table 16.0.

8.20.4 HYPOTHESIS 4

H0: *Interest rates have no influence on SMEs' access to credit from commercial banks.*

Granted Bank loan * Lending rates Cross-tabulation

TABLE 17.0: CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.149[a]	3	.765
Likelihood Ratio	1.518	3	.678
Linear-by-Linear Association	1.089	1	.297
N of Valid Cases	57		

a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .37.

From Table 17.0 the calculated value of the chi-square statistic was 1.149 at 3 degrees of freedom and the p-value was p=0.765, greater than the alpha level of significance of 0.05. Since the p-value is greater than 0.05, we fail to reject the null hypothesis. There is insufficient evidence to conclude that interest rates have an influence on SMEs' access to credit from commercial banks.

8.20.5 HYPOTHESIS 5

H0: *Repayment period has no influence on SMEs' access to credit from commercial banks.*

Granted Bank loan * Repayment period Cross-tabulation

TABLE 18.0: CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.769[a]	3	.857
Likelihood Ratio	.773	3	.856
Linear-by-Linear Association	.074	1	.786
N of Valid Cases	57		

a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .12.

From Table 18.0, the calculated value of the chi-square statistic was 0.769 at 3 degrees of freedom and the p-value was p=0.857, greater than the alpha level of significance of 0.05. Since the p-value is greater than 0.05, we fail to reject the null hypothesis. There is insufficient evidence to conclude that repayment period has an influence on SMEs' access to credit from commercial banks.

8.20.6 HYPOTHESIS 6

H0: *Relationship with the banks has no influence on SMEs' access to credit from commercial banks.*

Granted Bank loan * Relationship with the banks Cross-tabulation

TABLE 19.0: CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.754[a]	3	.000
Likelihood Ratio	14.227	3	.003
Linear-by-Linear Association	9.010	1	.003
N of Valid Cases	57		

a. 6 cells (75.0%) have expected count less than 5. The minimum expected count is .12.

From Table 19.0, the calculated value of the chi-square statistic was 22.754 at 3 degrees of freedom and the p-value was p=0.001, less than the alpha level of significance of 0.05. Since the p-value is less than 0.05, we reject the null hypothesis and accept the alternative hypothesis which states that client- bank relationship has an influence on SMEs' access to credit from commercial banks.

9.0 FINDINGS

9.1 FUNDING CHALLENGES AFFECTING SMEs

Research question 1: What challenges do SMEs encounter when accessing funds from the commercial banks in Solwezi Municipal council?

Accordingly, SMEs rated the lack of security/ collateral as the biggest impediment followed by lack of proper financial statements. High interest rates and length of relationships with the banks were rated third and fourth hindrances respectively. Size of the firm and short repayment period were ranked fifth and sixth respectively.

The five commercial banks surveyed ranked lack of collateral and lack of proper financial statements as the major hindrance to SMEs accessing bank loans. Short repayment period was ranked on number two. Bank managers were quick to mention that SMEs were denied credit because they failed to prove they could pay back the loans once given and that their books were in disarray. Furthermore, banks indicated that collateral was not their main concern but one's ability to pay back the loans. The banks went on to state that they were not in the business of selling assets hence collateral could not be their main focus in providing credit. Collateral was only required once an SME had met all the credit criteria and that it was there to provide security in an event that an SME failed to repay back the loan. On the other hand, SMEs argued that most commercial banks required financial statements for at least the past three years in addition to security, that's why they found it difficult to access funds from financial lending institutions. The types of securities demanded by commercial banks included immovable assets (i.e. land and building on title) and treasury bills. The number of overdrafts issued in Solwezi was not encouraging considering the significance of SMEs in economic development and job creation.

Collateral requirements for SMEs

The results showed that 4 out of 5 banks surveyed indicated collateral was a key requirement from SME borrowers. Furthermore, 69% of the SMEs had no collateral to pledge at the time of seeking credit from the financial lending institutions. The problem of collateral is real and requires addressing by all major stakeholders such as the government, commercial banks and SMEs themselves.

Financial Statements

Improper or non-availability of financial statements was ranked second by SMEs with 36.8% response rate. The banks on the other hand ranked this factor on number one alongside collateral. While only 26% SMEs surveyed claimed they prepared financial statements, the majority of the SMEs did not seem to understand what constituted a financial statement. They perceived that whatever form of financial record constituted a financial statement. Furthermore, the majority of the financial statements were wrongly prepared and not to the satisfaction of the banks. It was also revealed that 74% of the SMEs indicated they did not prepare the financial statements for varied reasons ranging from lack of capacity, still learning how to do it and poor record keeping.

Commercial banks interest rates

High interest rates charged on bank loans and overdrafts were identified as the third hindrance to accessing finance by SME businesses. Most of the SMEs contended that the high interest rates charged on SME loans were outrageous and made it difficult for them to access the same. The banks on the other hand contended that interest rates had been reduced following government intervention and that it was no longer a major factor that could stop business houses from accessing credit. It was possible that some SMEs were not aware of the reduction in the interest rates. The study established that bank interest rates for all the commercial banks were in the range 14.75 – 18.75% both for overdraft and bank loans. Previously bank interest rates were as high as 35-61% (Simpemba, 1992).

Relationships with the banks

From the breakdown of respondents' relationships with the bankers, 4.8% (3) of respondents rated their relationships with the bankers as excellent whereas 41.9% (26 respondents) rated their relationships as good. A further 51.6% (32 respondents) rated the relationships with the bankers as average. Only one resppondent indicated poor relationships with the bankers.

Short repayment Period

The period in which a loan or an overdraft must be repaid was ranked sixth with 7% response rate as a hindrance in SMEs accessing credit from the banks. The banks on the other hand ranked this factor second with 20% response rate. Other banks indicated the repayment period for short term loans was within the period of 6 months to 24 months, intermediate loans between 2 – 5 year and long-term loans were 5 years maximum and more than 5 years for others. The repayment period especially for short-term loans should be adjusted to suit the requirement of the SMEs or rather the repayment periods should not be fixed but negotiable. That will in turn attract more SMEs to seek funding. Negotiated repayment periods can also help reduce defaulting on loan repayments.

9.1.2 THE IMPACT ARISING FROM LACK OF ACCESS TO BANK LOANS

Research question 2: To what extent have these challenges affected their (SME) operations?

Failure to access funds by SMEs has grave impacts on their businesses. The study revealed that most of the SMEs had been impacted negatively due to lack of access to funds. It identified the impact of not financing SMEs as:

(1) Stunted business growth – 25 respondents or 40.3% of the SME managers/ owners indicated they had experienced stunted growth in their businesses. Growth could be measured by a business's ability to diversify, open branches in other locations and increasing the product lines.

(2) Limited working capital – 15 respondents or 24.2% of the sampled SMEs indicated limited working capital as the impact arising from failure to acquire bank loans. The implication is that SMEs in Solwezi Municipality failed to engage in big contracts especially the ones being offered by the mines. Most SMEs failed to bid for contracts as they could not deliver once given contracts due to their limitations in the working capital. Most of the jobs that should have been given to Zambian SMEs were given out to foreign companies as the former could not deliver due to lack of finances.

(3) No impact – 12 respondents or 19.4% claimed their operations were not affected by failure to access funding from the banks. They further indicated they had enough finances to run their businesses. Some of the SMEs that indicated had not been impacted negatively had not attempted accessing banks loans due to lack of interest and not believing in borrowing.

(4) Failure to acquire capital equipment – 6 respondents or 9.7% had failed to acquire the necessary capital equipment as a result of failure to acquire bank loans. Failure to acquire such equipment had a grave impact on their operations.

(5) Failure to improve infrastructure – 3 respondents or 4.8% had failed to improve or modernize their infrastructure due to failure to access bank loans.

9.1.3 ALTERNATIVE SOURCES OF FUNDING

Research question 3: What alternative sources of funding are SMEs resorting to?

To determine whether SMEs in Solwezi had access to other sources of finance in their ventures, it was revealed that 52 of them, representing 83.9% of respondents sampled, ploughed back their profits in an effort to expand their businesses whilst 8, representing 12.9% of the entrepreneurs, used supplier credits to finance their ventures. About 3.2% or 2 of the entrepreneurs used bank overdrafts to finance their businesses.

SME respondents were asked a separate question to establish whether or not they had access to non-bank financing. Only 17 respondents accounting for 27.4% responded in the affirmative while 45 replied in the negative. The results showed that Solwezi Municipal Council had a number of non-bank financial institutions also. The list of non-bank financial institutions as obtained from the SMEs surveyed included Blue Finance, Unity Finance, Focus Financial Services, Capital Solutions, Kukula Capital, NEDFIN, Vision Fund, ZSIC, Madison Capital, B-blue, CEEC and Bayport.

9.1.4 REASONS FOR SEEKING FUNDING

Research question 4: Why do SMEs seek funding?

One of the questions asked to SMEs was to establish the motivation behind their need for borrowing. Thus, 45% of the respondents wanted to expand their businesses by way of increasing the product line or establishing branches in other places where they were non-existent. Other respondents wanted to increase the working capital, accounting for 29%, 11% of the SMEs sampled wanted to acquire new capital equipment and 7% wanted to improve the infrastructure. The remaining 8% had not attempted seeking bank loans at all. Hence SMEs seek financing for varying business reasons.

9.1.5 REQUIREMENTS FOR SMEs TO APPLY FOR BANK LOANS

Research question 5: What are the requirements by the Banks for SMEs to apply for bank loans?

The study revealed that there were a number of documents that could be considered before an SME applicant was considered for a loan. The summary of the documents required by the banks includes: Ownership of a business account with the bank; Title deeds of property being pledged as security/collateral; Latest evaluation report for the property being pledged as security/collateral; Application letter; Cash flow projections with underlying assumptions; Latest audited financial statements for a minimum of three years; Debtors/ creditors age analysis – if selling on credit; Certificate of incorporation; ZRA tax certificates; Business proposal / plan.

10.0 RECOMMENDATIONS

In order to make it easier for the SME sector to begin to access funds from financial lending institutions, a number of recommendations were made as outlined below.

10.1.1 SMALL TO MEDIUM ENTERPRISES (SMEs)

SMEs face problems in accessing debt finance. This is reflected in the theories of capital structure such as the Stiglitz and Weiss (1981) credit rationing theory which suggests that because SMEs are high risk projects, they suffer from adverse selection from financial institutions. In addition, the results of this study indicate that SMEs have limited access to bank loans. The following are recommended as remedies for these challenges:

10.1.2 NETWORKING

Based on networking theory and resource dependency theory, SMEs are encouraged to network as much as possible to share ideas, information and knowledge as well as resources. This is because networking opens channels and enables SME owners to interact and develop relationships with influential people who may positively impact on their enterprises. In addition, SME owners get to learn from other individuals in the network and thus improve the performance of their enterprises, reflecting the importance of life-long learning. Networking thus provides avenues which not only enable an SME to access superior information but also to gain resources, reduce transaction costs, interact with other individuals and improve their performance. Furthermore, networking improves the legitimacy of the SME and increases the likelihood of obtaining debt finance from banks. In addition, networking enables SMEs to engage in collective bargaining with suppliers and enjoy large discounts on bulk purchasing from suppliers and increases the access to trade credit by SMEs.

10.1.3 FORMING JOINT PARTNERSHIPS AND VENTURES

Most of the problems faced by SMEs are due to their small size individually and that is a reason attributed to why most SMEs remain as sole trader businesses. Therefore, in addition to networking, SMEs may also form joint partnerships to increase their capital base, skills and other resources. This would enable them to access wider markets and compete with larger more established enterprises. In that way they can hopefully grow, develop and increase the economic development of the country.

10.1.4 EMPLOYING EDUCATED MANAGERS

Having an educated manager will allow an SME to obtain access to value networks through the influential contacts of the manager (through social networks) which may present favourable opportunities for the SMEs. Furthermore, an educated SME manager may be able to evaluate the value of a particular network thus reduce the transaction costs of being over- embedded in valueless networks as suggested by Watson (2007). This allows SMEs to direct their resources only to valuable networks and activities. Furthermore, educated managers can spearhead and encourage the preparation of proper financial statements, which is one of the requirements from the bank to enable an SMEs acquire bank loans.

10.1.5 PREPARATION OF FINANCIAL STATEMENTS

SME owners should prepare proper financial statements and keep such records appropriately. In an event that SME owners are unable to prepare financial statements, they should employ qualified personnel to undertake such assignments. The Northwestern Chamber of Commerce and Industry should take up the challenge to organize the members and have them educated on the relevance of financial statements and on how to do it. Forums that could facilitate such education programmes may include holding or attending seminars and workshops or even enrolling for short term business courses that cover such concepts.

10.1.6 GOVERNMENT ROLES

SMEs have been identified as the most significant contributor to employment, economic growth and poverty alleviation, it is essential to point out what government may do to improve the performance and sustainability of SMEs.

10.1.6.1 IMPROVE AWARENESS OF GOVERNMENT SUPPORT SERVICES

The theories of capital structure suggest that SMEs are reliant on debt finance because equity finance is expensive. In addition, most SMEs are not registered on the Lusaka Stock Exchange (LUSE) and thus cannot issue shares to raise capital. However, it was also mentioned that SMEs do not have adequate access to debt finance. Thus another alternate form of finance is required by SMEs. Government has many funding and support agencies (i.e. CEEC, ZDA) to support SMEs. However, most of the SME owners are still unaware of these organizations and even those that are known are still underutilized. This indicates the need for these institutions to advertise themselves more and organize workshops to inform small business owners and potential entrepreneurs of their existence and the services they offer. Information should be available in high traffic areas such as post offices, shopping areas, and the internet; to increase the awareness of, and use of, small business support institutions like universities, incubators, etc. There should be specific workshops targeted at educating SME owners about support institutions that are available, how to access them and what they can benefit from contacting them.

10.1.6.2 SUPPORT GROWTH OF MICRO FINANCE INDUSTRY

The Zambian government should support the growth of the micro-finance industry so as to improve access to finance by small business owners. Given the risky nature of most SMEs and their high failure rates, government may assist banks and ensure they are not the sole suppliers of financial services to the SME sector.

10.1.6.3 PROVISION OF INCENTIVES FOR BANKS LENDING TO SMEs

Even though banks may be faced with constraints, some suggest that they do active banking by mobilizing resources and distributing them to needy SMEs. Others further suggest that banks should be urged to take “reasonable risk” in vetting loan applications from small and medium enterprises, especially for business ventures in new areas and technology. In urging banks to take “reasonable risk”, government should institute some form of tax incentives to banks involved in SME lending. This will encourage others to consider the option of lending to this sector. Also banks that are not into SME financing could consider setting up an SME division or department to provide specialized services to SMEs. Specially trained SME credit officers could manage such a unit in the bank. For large financial institutions that already have such a division, they are usually perceived to be less important compared to other corporate lending divisions. Elevating the importance or status of SME divisions would encourage greater interest and focus on the SME sector.

10.1.6.4 COMMON FUND

It is also recommended that a special common fund should be constituted for the SMEs by government. The entrepreneurs are expected to contribute to such a fund to be managed by an independent body. Such a fund could be a revolving source of flexible credit facility for them.

10.1.7 THE BANKING SECTOR

The study revealed banks were reluctant to offer financial support to SMEs which has hampered their growth. Therefore, the following recommendations may be made to the banking sector:

10.1.7.1 DECREASING COLLATERAL REQUIREMENTS

The weak capitalization of SMEs implies that most SMEs lack the financial resources or capital equipment/assets to use as collateral to serve as security for financial loans. Therefore, it is recommended that banks may reduce or relax the collateral requirements so as to encourage SMEs to apply for bank loans. A government guarantee scheme could be utilized instead.

10.1.7.2 FINANCIAL MANAGEMENT EDUCATION

Educational workshops and trainings should be organized by the banks for the SME operators to ensure efficient and effective management of financial resources. Again lack of knowledge by most industrialists on the activities and requirements of the established institutions set up to help finance SMEs can be eliminated through such education.

10.1.7.3 BUSINESS MENTORING AND COACHING

Banks should assist small business owners in identifying well-established people (entrepreneurial role models) in business that can mentor them and guide them through the process of developing their businesses. The mentors can also help them in establishing broader business networks that can help them in their line of business.

10.1.7.4 ESTABLISHING OF FACTORING SERVICES BY BANKS AND NON BANK FINANCIAL SERVICES

Most SMEs are finding it difficult in maintaining a good cash flow position to meet their operational needs and also their financial obligation in respect of servicing their loans as expected. The use of factoring could provide them a service from which additional finances could be obtained.

10.1.8 NORTHWESTERN CHAMBER OF COMMERCE AND INDUSTRY

The Northwestern Chamber of Commerce and Industry should put in place funding training programmes for its members which should be on- going in order to give chance to the new members to learn. The programme should focus on the different sources of funding available to SMEs, their characteristics and how they could be exploited. Concepts such as proper business ethics, risk assessment and basics accounts should be covered.

10.1.9 INSURANCE GUARANTEES

The insurance companies and industry should be actively involved in SME financing by providing credit guarantees for any credit delivered by the formal institutions. The insurance companies must have a sense of partnership with the banks and SMEs in the areas of credit insurance and guarantee facilities.

11.0 CONCLUSIONS

The study investigated the challenges affecting SMEs in accessing funding from financial lending institutions to operate and grow their businesses. To analyze this, five challenges were identified as being some of the critical factors influencing SMEs access to finances from financial lending institutions like banks. These factors included lack of collateral, lack of proper financial statements, high lending rates, short repayment periods, relationship with the lender and firm size. Five research hypotheses were derived from the research conceptual framework based on the above factors and tested using the Chi-test square. The hypothesis test results were as follows:

a) *Collateral has an influence on SMEs' access to credit from commercial banks.*
b) *Preparation of proper financial statements has an influence on SMEs' access to credit from commercial banks.*
c) *Size of the firm has an influence on SMEs' access to credit from commercial banks.*
d) *There was no sufficient evidence to suggest that bank lending rates had an influence on SMEs' access to credit from banks.*
e) *There was no sufficient evidence to suggest that repayment periods had an influence on SMEs' access to credit from banks.*
f) *Relationship with the banks has an influence on SME's access to credit from banks.*

The results have shown that access to finance is positively affected by the above factors but to varying degrees. The findings have shown that lack of collateral is the most critical obstacle to accessing finance from financial lending institutions followed by lack of proper financial statements, high lending rates, length of relationship with the bank, size of the firm and finally short repayment period.

Based on the responses received through the questionnaires, it is evident that SMEs in Solwezi Municipality area are faced with major challenges in accessing credit. These challenges were revealed by the study to include, the inability of SMEs to provide collateral and other information needed by banks such as audited financial statements coupled with the high cost of loans in terms of high interest rates make it extremely difficult to access bank loans. The above also supports the result of others which concluded that for 75 percent of the sampled firms that needed loans under the study conducted on the demand supply of finance for small enterprises in Ghana, lack of adequate collateral was the main reason given by the bank for those that had their applications rejected. Because of these constraints, which relate to access to bank loans and the difficulties SMEs have in managing their receivables, mainly due to delays in receiving payment for goods and services rendered, SMEs in Solwezi are not able to mobilize cash as quickly enough to grow and expand in a way that they are supposed to. They still remain small without expanding their businesses to the other regions of the country.

Failure to access finance by SMEs has grave negative impacts on their businesses as finance is the life blood of any business. The study has established that those businesses that failed to access finance have failed to expand while others have failed to provide quality services. Businesses that are not able to provide quality service are not competitive and cannot survive in this turbulent business environment. Injection of capital into any business large or small is therefore crucial for their survival.

This study has provided more reasons for the lack of access to financing by the SME sector than what previous studies revealed. For example, the lack of relationship between failure to access financing and interest rates seems to be unique to the Zambian situation.

All in all, the study has clearly shown that SMEs in Solwezi faced real challenges in trying to access financial assistance from the commercial banks. These challenges have to be addressed urgently if this sector is to contribute significantly to national economic development.

12.0 LIMITATIONS

The limitations of the study worth noting include: Insufficient data collected from the commercial banks as most of them were not offering loans to the SME sector coupled with the restriction to give out information without authorization from their head offices; the survey only focused on entrepreneurs who had fixed business abodes as those without fixed operating premises operating as briefcase entrepreneurs, marketeers and vendors were not included in the survey; the self-reporting nature of the questionnaire overly assumed that respondents were capable of making acceptable degrees of rating with precision and objectivity.

13.0 SCOPE FOR FURTHER RESEARCH

This study has assessed the challenges that SMEs encounter when accessing finance from financial lending institutions, with the collateral factor leading the pack. A study should be taken to establish what banks should do to reduce collateral requirements so as to encourage SMEs to apply for bank loans. Also the viability of an SME bank to service this sector could be studied.

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