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A Study of the Factors Affecting Small and Medium Enterprises (SMEs) Access to Finance. A Case of Lusaka Based SMEs

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Abstract

This study examined some factors that affect Small and Medium Enterprises (SMEs) access to finance. It was done in order to further understand the constraints facing SMEs in accessing finance in Lusaka. The study intended to achieve the following objectives: to examine the extent to which collateral requirements affect SMEs access to finance, to examine the extent to which interest rates affect SMEs access to finance and to examine the extent to which other factors affect SMEs access to finance. The study research questions were formulated to find out the extent to which collateral and interest rates affect access to finance and what other factors do SMEs consider as affecting their access to finance. The study used a mixed method approach (Qualitative and Quantitative research methods) in order to come up with the study findings. The study shows a positive correlation between lack of collateral assets and rejection of credit ($r = 0.727$) and interest rates ($r = 0.202$) variables. In view of the study findings, the study recommends that SMEs make use of practical and unconventional means of alternative sources of finance, given the challenges faced with traditional sources of finance. Crowd funding has been recommended as it comes in many forms. Specifically, a form of crowd funding called "Village Banking" can be leveraged on by SMEs. The study also recommends group partnering of SMEs in order for them to create a critical mass for their operations and in order for them to enjoy economies of scale for their businesses. In addition to the above, SMEs are encouraged to improve on their business record keeping such as cash flows and income statements in order for them to attract potential sources of finance such as venture capital investors and/or angel investors. Further research should focus on strategies of how SMEs can finance their operations without entirely depending on borrowing from financial institutions. The study would combine both qualitative and qualitative methods in measuring causality of the associated factors and how they influence SMEs performance by carrying out more sophisticated analysis using statistical software.

Keywords

Collateral, Financial Institutions, Interest Rates, SMEs, SME Finance

1. Introduction and Background

Access to finance is very critical to the growth and performance of Small and medium enterprises (SMEs). Despite their recognised importance, most SMEs however find it difficult to obtain finance from financial institutions (Pandula, 2015). Kumar and Rao (2015) confirmed that lack of access to finance posed as an obstacle to the success of SMEs. They attributed this to the demand and supply gap in information. The capacity for SMEs to explore their potential depends largely on access to finance (Pandula, 2015). Beck and Cull (2014) however observed that more than 25 percent of SMEs in Africa consider rate availability and cost of finance as the most critical obstacle to their growth, while Schiffer and Weder (2001) posited that accessing finance in Africa for SMEs is more challenging than for large enterprises.

SMEs play a vital role in the economy of Zambia. They produce goods and services, create employment and are a source of income for thousands of people. According to the International Trade Centre (ITC) Survey (2018), SMEs in Zambia represent 70 percent of Gross Domestic product (GDP), 88 percent of employment and contribute 97 percent of all businesses in the economy. These business activities range from Barber shops and hair salons, business centres, construction, goods and public transport, metal fabrication, wood processing, and restaurants, amongst many other activities. The importance of the critical role SMEs play in the economy of Zambia can therefore not be undermined.

The Financial Sector Deepening (FSD) report (2017) has observed and recognised the importance of SMEs as economic drivers for employment creation, notably for low-income people and that they act as a critical route to financial inclusion. The report observes that the SME sector is estimated to account for 97 percent of all businesses in Zambia. However, the report bemoans that 9 out of 10 SMEs operate in the informal sector and Nuwagaba (2015) has the same observation and argued that this makes it difficult for government to support this sector.

Given the important role SMEs play in the economy, and in embracing financial inclusion with the resulting wealth creation, it has been observed that it is vital that financial service providers devise appropriate and affordable products and services which take into consideration the needs of the SMEs as they are considered to be the main drivers of the economy (Gondwe, 2012). This however, has not been the case and most SMEs have been at micro level since their formation. This stagnation has been caused by many factors and prominent among them is lack of access to finance. Deressa (2014) observes that the reason for this is due to the fact that MSME operators have little knowledge about the basic principles of commercial bank lending and borrowing practices.

It is against this background that this study aims to examine the extent to which collateral requirement, interest rates and other factors affect the access to finance by SMEs in Lusaka. The study is intended to look for solutions that can help to remove the constraints that hinder the promotion of access to finance by SMEs. The solutions are expected to allow SMEs improved access to finance.

In recent years, the business environment in Lusaka has been very dynamic and there has been an upsurge of many business start-ups in form of SMEs. As a result of this, there is an increased demand for SMEs to access finance from financial institutions. However, the chances to access finance by many SMEs is still elusive. This study intends to further investigate the factors that are considered as constraints and the extent to which they affect access to finance and provide recommendations that will improve access to finance by SMEs. To examine these factors will help the study to further understand the problems at hand, and this is expected to contribute to the field of study and help the growth and survival of SMEs in Lusaka.

The report is organised into thematic sections based on the purpose of the study. Part one covers the introduction and background to the study. Part two presents various literatures that were reviewed in order to give the research more insight on the topic of the study. Part three covers the significance of this study, part four the statement of the problem, objectives of the study and research questions. Part five discusses the research methodology and includes the qualitative and quantitative methods that were used. Part six brings out data preparations and analysis done whereas part seven brings out the research findings and discussion of the findings made from the study and finally, conclusion and recommendations and limitations of the study. The last section contains references.

2. Literature Review

SMEs play an important role in the economic development of many countries. They create more employment opportunities, bring more goods and services to the market place through innovation, create wealth for many people and are the drivers of national economic prosperity. SMEs also contribute to the improvement of the country's revenue base (Qureshi and Herani, 2011, Dhliwayo & Radipere, 2014). Beck et al. (2005) state that SME activity is important because of the relatively large share of the SME sector in most developing nation's economies.

Access to Finance is critical to the formation, growth and survival of SMEs. According to Singh and Wasdani (2016) the primary sources of finance available to SMEs include loans from banks and non-bank financial institutions. It is however unlikely that these institutions will fully fund SMEs, especially start-ups, so called Greenfields, given the high financial risk associated with them and, the general unviable perception of SMEs businesses by most banks reflected in low credit ratings. Gitman (2003) studied the relationship between collateral requirements and access to finance and found that there was a positive relationship. Kauffmann (2005) attributes this to the perceived high credit risk by SMEs. Obaji and Olugu (2014) posited that the biggest hindrance to SMEs access to finance is the collateral required to be pledged against loan application. This requirement acts as a constraint to the formation of new SMEs and to the development of existing ones. Gangata and Matavire (2013) looked at challenges facing SMEs in accessing finance and concluded that SMEs are usually unsuccessful in obtaining loans from financial institutions as they fail to meet credit requirements which include collateral requirements. Etemesi (2017) discovered that lack of tangible assets to act as security when applying for loans and the inappropriate legal and regulatory framework as the major causes. Kihimbo et al. (2012) looked at collateral requirements and observed that financial institutions demanded for both personal and private assets and/or documents as collateral in order to access credit.

Despite the foregoing, the growth and survival of SMEs largely depend on the ease with which they can access finance in form of bank loans from the banks and other alternative sources. In many countries however, it has generally been observed that lack of access by SMEs to finance their operations negatively affect the formation, performance and growth of SMEs. Many factors have been attributed to this scenario. Awani (2020) suggests that SMEs play a vital role in the economic development of the Africa economies as they are considered as an engine of growth. In spite of this, access to finance has been observed to be the main challenge for their growth with risk premiums on their borrowing and elevated transactions costs as main obstacles. Kumar and Rao (2015) concluded that the lack of access to finance faced by SMEs was due lack of information on the accessibility to sources of finance and the unwillingness of banks to extend credit to SMEs was a major constraint.

Lack of information can be a major constraint when accessing credit by SMEs. According to Aabi (2014), constraints in accessing finance by SMEs can be attributed to information asymmetry. This typically occurs when one party to the potential transaction has little information about the other party. Pandula (2015) examined the challenges faced by SMEs access to finance and discovered a number of constraints faced by both banks and SMEs. The banks faced the limitations of risk assumption, prohibitive administration costs, lack of information for SMEs and poor legal systems in the event of default. For SMEs, their main challenges manifested themselves in lack of collateral demanded by financial institutions, complex application procedures and the high cost of loans. Ambrose (2012) identified some barriers that act as a constraint for financial assistance to SMEs. These include lack of collateralised security and lack of proper regulatory framework. These factors will weigh down on the sustainability and reliability of traditional sources of finance. Dhliwayo & Radipere (2014) attributed the lack of access to finance by SMEs to the banks' lack of understanding of SMEs needs, banks' risk adverse behaviour, cumbersome administrative procedures and high lending rates. Beck and Cull (2014) observed that more than 25 percent of SMEs in Africa consider rate availability and cost of finance as the most critical obstacle to their growth, which further leads into a business growth obstacle more especially in countries with shallow financial markets. High interest rates were observed to be the main reason for low access to loans. Collateral requirements were also observed to be a huge obstacle to the access of loans.

SMEs in Zambia play a vital role in the production of goods and services, promotion of employment creation and income generation for the majority of people. SMEs represent 70 percent of GDP, 88 percent of employment and 97 percent of all business are in the form of SMEs (ITC Survey, 2018). Acknowledging the importance of SMEs, the government under its Seventh National Development Plan (2017-2021) emphasizes the creation of a credit guarantee scheme for issuance of low interest, long-term loans to Zambian SMEs. In view of this, it has put in place initiatives to accelerate informal sector formalisation, to foster skill development, create urban industrial clusters, strengthen value-chain linkages and provide business development to services. At institutional level, the Zambia Development Agency (ZDA) was created through an act of parliament in 2006 and amended in 2014. The mandate of ZDA is to promote an efficient, effective and coordinated private sector led economic development strategy. The agency has a mandate to facilitate the development of micro, small and medium enterprises through the creation of an enabling business environment for SMEs. The agency is also tasked with the formulation, co-ordination and implementing policies and programmes designed to promote and develop micro and small business enterprises in Zambia

3. Significance of the Study

There is a growing recognition of the important role that SMEs play in the economic development of many countries. They create more employment opportunities, bring more goods and services to the market place through innovation, create wealth for many people and are the drivers of national prosperity by contributing to Gross Domestic Product (GDP) of countries. SMEs also contribute to the improvement of the countries revenue base through the expansion of the tax base (Qureshi and Herani, 2011; Dhliwayo & Radipere, 2014). Despite their recognised importance however, SMEs still face many challenges in accessing finance from bank and non-bank financial institutions due to a number of factors. The purpose of this study is to examine and understand the extent to which these factors affect the access to finance by SMEs in Lusaka. SMEs will continue to play an important role in the economy of Lusaka through the creation of employment and improved income for people. SMEs will also continue to provide a wide range of goods and services in Lusaka. Their success is therefore beneficial to entrepreneurs and society as a whole. SMEs have however continued to face many challenges in accessing finance from both banks and non-bank financial institutions despite their importance in the economies of many countries. It thus becomes important to examine the factors that retard their performance and growth in order to get a better understanding of these constraints. The study is intended to look for solutions that will help to remove the constraints that hinder the promotion of access to finance by SMEs. The solutions are expected to allow SMEs improved access to finance.

4. Statement of the Problem

SMEs mostly complain that their growth and competitiveness are limited by lack of access to financing and the high cost of credit (Kumar and Rao, 2015; Beck and Cull, 2014). SMEs access to finance is also constrained by what is viewed as high risk sector by financial institutions and that lenders are faced with lack of reliable information on borrowers (Kauffmann, 2005).This scenario is not uncommon for SMEs operating in Lusaka. It has been observed that a large number of SMEs in Lusaka are still in the informal sector and this makes it difficult for them to access finance from the formal financial institutions. Even for those SMEs which operate in the formal sector, access to finance still come with it many challenges. So, regardless of their business categorisation, access to finance from banks and non-bank financial institutions is still a major challenge for both sectors of SMEs. It is evident that different academicians in Lusaka have examined some of the factors that lead to these constraints to access finance. However, this study further attempts to contribute to the body of knowledge by examining the factors that limit the access of finance by SMEs in Lusaka.

4.1. Research Objectives

1) To examine the extent to which collateral requirement affect SMEs access to finance.

2) To examine the extent to which interest rates affect SMEs access to finance.

3) To examine the extent to which other factors affect SMEs access to finance.

4.2. Research Questions

1) To what extent does collateral requirement affect SMEs access to finance?

2) To what extent do interest rates affect SMEs access to finance?

3) What other factors do SMEs consider as affecting their access to finance and to what extent?

5. Research Methodology

The research design this study used is that of mixed methods design in which both qualitative and quantitative methodologies are combined. The population was from various sectors of the economy and included SMEs from manufacturing, service and trading. O'Gorman and Maclantosh (2014) have defined a study population as every one of the study target. It can be defined as each one of the phenomenon that a study want to make inference on (Cooper and Schindler, 2014). This study's target population was 2793 SMEs registered with the Patent and Companies Registration Agency (PACRA).The study population was selected based on providing adequate information that could be useful for the research/investigation and from which the study sample was obtained.

A sample is a sub-set of the study population (Mugenda and Mugenda, 1999). According to Zikmund et al. (2013) a sampling frame is a source from where a population sample can be drawn. This study used 2793 SMEs as a sampling frame. This was used to determine the sample size based on the rationale that for a sample of any investigation that warrants statistical analysis, at least 10% to 50% of the sampling frame must be used for it to be representative of the population (Mugenda & Mugenda, 2003). To achieve this, probability sampling using systemic sampling was used to come up with the sample from the population. For this study, a 10% representation of the study population was adopted and thus, a sample of 300 was selected. In a linear sequence, the study incorporated every 9th SMEs on the sampling frame. Kth element = N/n, where N equals sampling frame and n equals the target sample. Therefore: Kth = 2793/300 = 9.3.

Self-designed structured questionnaires were used to collect both quantitative and qualitative data in order for the study to yield in-depth results on the topic under investigation. This involved deciding on the information required for the study by coming up with the question contents. The researcher then defined the target respondents and came up with a sampling frame. However, the study adopted both primary and secondary sources of data in order to accomplish the study objectives. The secondary sources involved published documentations such as reports and journals that provided the conceptual framework and a definite meaning to the topic. Thus these were to be very good complements to the primary data.

Furthermore, the researcher endeavoured to inquire rom the bank on the requirements of provisions of credit to SMEs for purposes of triangulating the findings given by the study participants. This helped to validate the responses of the SMEs and to understand the requirements by the banks on issuance of credits to SMEs.

6. Presentation of Study Findings

6.1. Background Information of Study Participants

Table 1 below shows the background characteristics of the participants that were interviewed for this study. The table shows that majority of participants were female (62.3 percent, n = 187) and that of all the participants, a higher proportion of them (52.3 percent, n = 157) were aged between 25 and 29 years. Further, the table shows that most of the participants (73.7 percent, n = 221) had never married at the time of the study. Lastly, the table shows that majority of the respondents (42.3 percent, n = 127) attained at least an education up to secondary.

Table 1. Background characteristics of study participants.

Age	F(n)	%
<25	19	6.3
25 - 29	157	52.3
30 - 34	81	27
35 - 39	33	11
>39	10	3.3
Gender		
Male	113	37.7
Female	187	62.3
Marital Status		
Ever married	79	26.3
Never married	221	73.7
Education		
Primary	53	17.7
Secondary	127	42.3
College	79	26.3
University	41	13.7
Total	300	100

Source: Field data.

6.2. Company Profiles of SMEs

The study also collected information regarding company profiles of the SMEs that were sampled for this study. These included the type of business the SME engaged in, the position held at the company by the respondents, length of service of respondent at company, and the total number of employees the company had. According to Table 2, majority of the respondents reported to have working in service companies (61.3 percent, n = 184). Those that worked in trading companies (26.4 percent, n = 79) and manufacturing companies (12.3 percent, n = 37), followed these.

Table 2 further depicts that majority of the study participants (66.7 percent, n = 200) held a managerial position at these companies. Those that held positions as sales personnel (26.6 percent, n = 77) followed these. However, a very small proportion of study participants (7.7 percent, n = 23) reported as being owners of these companies. Conversely, the table shows that majority of the study participants (69.7 percent, n = 209) had worked for those companies for a period between 1 to 3 years at the time of the study. Most of the companies (80.3 percent, n = 241) had about 10 to 30 employees at their company.

Table 2. Company profiles of study participants.

Nature of business	F(n)	%
Manufacturing	37	12.3
Service	184	61.3
Trading	79	26.4
Position held		
Owner	23	7.7
Manager	200	66.7
Sales personnel	77	25.6
Length of service		
<1 year	27	9
1 - 3 years	209	69.7
>3 years	64	21.3
Number of employees		
<10	13	4.3
10 - 30	241	80.3
30 - 50	41	13.7
>50	5	1.7

Source: Field data.

6.3. Key Findings

This study aimed at examining the factors and the extent to which they limit the access to finance by SMEs in Lusaka. The study therefore had to find out the capital that was invested in setting up the respective SMEs. This was used to allow the research determines whether or not the SMEs would engage or had engaged in borrowing to sustain performance.

6.3.1. Start-Up Capital

In Table 3 below, the study found out that majority of the study participants (63.3 percent, n = 190) had reported to have had a start-up capital between K10, 000 and K20, 000. About 18 percent of the study participants (n = 54) reported to have had a start-up capital of more than K20, 000. This simply shows a very low start-up capital which inevitably might require borrowing in order to enhance sustainability.

In line with the above findings on start-up capital, the study inquired from the study participants whether or not they felt their start-up capital was adequate enough to sustain business operations. As per researcher's assumption, majority of the study participants (79 percent, n = 236) reported that start-up capital was not adequate as shown by Table 4 below. A smaller proportion of the study participants (21 percent, n = 62) reported otherwise.

Table 3. Percentage distribution of capital invested at start of business by SMEs.

Amount (ZMW)	%
>K30,000	7.7
K20,000 - K30,000	10.3
K10,000 - K20,000	63.6
<K10,000	18.7

Table 4. Start-up Capital Adequacy.

YES	21%
NO	79%

6.3.2. Sources of Finance for SMEs

The above finding on the adequacy of the start-up capital prompted the researcher to make an inquiry on what are the potential major sources of finance for SME businesses. This was meant to indirectly lead the research towards inquiring how many of these SMEs would engage in borrowing or not. Table 5 below shows the results.

Table 5 shows that majority of the study participants (83.7 percent, n = 251) reported much of SME operations can be sustained by savings they make. Those that reported that SME major source of business finance can be from bank loans or loans from other financial institutions followed these (59.7 percent, n = 179). Other sources were the least reported major sources of financing SME operations. These included family donations and gifts. Table 5 shows that a number of study participants that reported their business can sustain by borrowing from a financial institution is (n = 179). Therefore, much focus was now put on SMES whose major source of finance would be Banks and other financial institutions. In line with this, the researcher inquired how many of these SMEs were actually granted a credit or a loan.

Table 6 shows that of the 179 study participants that had shown interest in credit or loan from a financial institution, only 61 percent (n = 109) of these SMEs were granted or given approval. This simply entails that 39 percent (n = 70) were not given this credit or loan. This prompted the study to find out the reasons given why they failed to get the credit or loan (Table 7).

In light of this, the study performed a correlation analysis to assess the barriers faced on them being a reason given why the credit/loan was not given to the SMEs. Table 8 shows these results.

Table 8 shows that there is a positive correlation with all independent variables and the reason given for rejection of the application by the financial institution. However, the table shows a very powerful positive relationship between lack of collateral assets and rejection of a credit by a financial institution (r = 0.727) compared to other identified variables. Nonetheless, the study enquired from the study participants the challenges that hindered them being given a credit or loan by a financial institution. To carry out this enquiry, the study targeted all the study participants, regardless of whether they applied for a grant or not. A 5-point Likert scale which ranges from "Strongly Disagree" to "Strongly Agree" and "Not sure" in the middle. The scale was applied in order to capture the opinions, attitudes and feelings of study participants for easy analysis and reporting of data.

Table 5. Major source of finance.

	Yes	No
Savings	N = 251	N = 49
%	83.7%	16.3%
Bank Loans	N = 179	121
%	59.7%	40.3%
Friends/Relatives	N = 96	N = 204
%	32%	68%
Other Sources	N = 17	N = 283
%	5.7%	94.3%

Source: Field data.

Table 6. Applied for Credit/Loan from financial institutions vs. Credit/Loan granted by financial institution.

YES	**60%**	**YES**	**61%**
NO	**40%**	**NO**	**39%**

Table 7. Reason why Loan/Credit was not given.

Bad Credit or Lack of credit history	27.1%
Lack of Collateral	52.9%
Increased Regulation	15.7%
Less profit on smaller Loans	4.3%

Source: Field data.

Table 8. Correlation analysis.

Reason for Rejection	Correlation Co-efficiency
Lack of Collateral	0.727
Higher Interest Rates	0.202
New Laws and Regulations	0.000
Size of SMEs	0.020
Lack of Business Plans	0.010

6.3.3. Challenges Faced by SMEs

Table 9 revealed that 56 percent of the study participants strongly agreed that the major challenge SMEs had towards accessing credit or loans from financial institutions was due to lack of collateral assets. 39 percent of the study participants agreed that lack of collateral of assets influenced accessibility of credit or loans from financial institutions. Some of the study participants (5 percent) were indifferent on whether or not lack of collateral of assets influenced accessibility of credit or loans from financial institutions. The table further shows that the mean score to this enquiry was 4.67 (the average ranking score given by study participants), which shows that on average, majority of the responses were either agreeing to a great extent (based on the 5-pont Likert scale ranking) to the assertion that lack of collateral of assets influenced accessibility of credit or loans from financial institutions.

Table 9. Challenges faced by SMEs.

	Strongly Disagree	Disagree	Not Sure	Agree	Strong Agree
Lack of Collateral					
N	0	0	15	117	168
%	0.0%	0.0%	5.0%	39.0%	56.0%
Mean	4.67%				
SD	0.36				
Lack of Business Plan					
N	103	76	65	45	11
%	34.3%	25.3%	21.6%	15%	3.6%
Mean	2.06				
SD	0.926				
Interest Rates					
N	17	13	0	63	207
%	5.6%	4.3%	0.0%	21.0%	69.0%
Mean	4.35				
SD	0.535				
Loan Duration					
N	6	9	11	146	132
%	0.6%	3.0%	3.6%	49.0%	44.0%
Mean	4.05				
SD	1.488				
Laws/Regulations					
N	0	130	89	77	4
%	0.0%	44.3%	29.7%	25.7%	1.3%
Mean	2.67				
SD	1				

Source: Field data.

The table further shows that 69 percent and 21 percent of the study participants strongly agreed and agreed, respectively, that higher interest rates influenced accessibility (Table 9) revealed that 56 percent of the study participants strongly agreed that the major challenge SMEs had towards accessing credit or loans from financial institutions was due to lack of Collateral of assets. 39 percent of the study participants agreed that lack of Collateral of assets influenced accessibility of credit or loans from financial institutions. Some of the study participants (5 percent) were indifferent on whether or not lack of Collateral of assets influenced accessibility of credit or loans from financial institutions. The table further shows that the mean score to this enquiry was 4.67 (the average ranking score given by study participants), which shows that on average, majority of the responses were either agreeing to a great extent (based on the 5-point Likert scale ranking) to the assertion that lack of Collateral of assets influenced accessibility of credit or loans from financial institutions.

Conversely, 34.3 percent of the study participants strongly disagreed that lack of ability to draw business plan influenced accessibility of credit or loans from financial institutions. Further, 21.6 percent of the participants were indifferent on whether or not lack of ability to draw business plan influenced accessibility of credit or loans from financial institutions. 3.6 percent of the participants strongly agreed that lack of ability to draw business plan influenced accessibility of credit or loans from financial institutions. The mean score to this enquiry was 2.06, which shows that on average, majority of the responses were disagreeing to the assertion that lack of ability to draw business plan influenced accessibility of credit or loans from financial institutions.

A small proportion of study participants (5.6 percent) strongly disagreed to the assertion higher interest rates influenced accessibility of credit or loans from financial institutions. The mean score to this enquiry was 4.35, which shows that on average, majority of the responses were agreeing to the assertion that higher interest rates influenced accessibility of credit or loans from financial institutions.

Furthermore, Table 9 shows that 0.6 percent of the study participants strongly disagreed that short duration for repayment of loan influenced accessibility of credit or loans from financial institutions. Some of the study participants (3.6 percent) were indifferent of whether not short duration for repayment of loan influenced accessibility of credit or loans from financial institutions. 49 percent of the study participants agreed that short duration for repayment of loan influenced accessibility of credit or loans from financial institutions. The table further shows that the mean score to this enquiry was 4.05, which shows that on average, majority of the responses were agreeing (based on the 5-point Likert scale ranking) to the assertion that short duration for repayment of loan influenced accessibility of credit or loans from financial institutions.

Lastly, it can be seen from the table that 44.3 percent of the study participants disagreed that new laws and regulations hinders accessibility of credit or loans from financial institutions by SMEs. Another 29.7 percent of the participants were indifferent on whether new laws and regulations hinder accessibility of credit or loans from financial institutions by SMEs. 25.7 percent of the study participants agreed that new laws and regulations may hinder accessibility of credit or loans from financial institutions by SMEs. The table further shows that the mean score to this enquiry was 2.67, which shows that on average, majority of the responses were disagreeing to the assertion (based on the 5-point Likert scale ranking) that new laws and regulations hinders accessibility of credit or loans from financial institutions by SMEs.

In line with the study objective, the researcher enquired how this credit or loan given to the SMEs affected their business performance. Measuring performance is a vital part of monitoring the growth and progress of any business. It entails measuring the actual performance of a business against intended goal. The researcher is aware that there are seven Key Performance Indicators which include Cash flow forecast; Gross profit margin as a percentage of sales; Revenue growth rate; Inventory turnover; Accounts payable turnover; and Relative market share. However, for purpose of this study, performance was measured via two indicators, Cash flow forecast and revenue growth.

In light of this, the researcher sought to enquire the effect of the credit or loan they had obtained from a financial institution on their business performance (**Table 10**).

A number of respondents (79 percent, n = 86) reported that the credit or loan they got from the financial institution affected their performance and profitability. However, the effect these credits had on the businesses' performance and profitability was different. For instance, some respondents reported a positive effect such as increase in sales due to increased supply of commodities supplied. However, there were respondents that reported negative effect of credits from financial institutions in the form of high interest rates that negatively affected the performance and profitability of the SMEs. Hence, the study enquired to what extent the above stipulated challenges influence performance of the SMEs.

Table 11 revealed that 37 percent of the study participants strongly agreed that the challenge of lack of collateral of assets had an effect on the performance of a business. Conversely, 36.3 percent of the study participants agreed to this assertion. However, some of the study participants (18.3 percent) did not agree that lack of Collateral of assets had an effect on performance of the business. The table further shows that the mean score to this enquiry was 4.50 (the average ranking score given by study participants), which shows that on average, majority of the responses were either agreeing (based on the 5-point Likert scale ranking) to the assertion that lack of Collateral of assets had an effect on performance of the business.

On the other hand, 72.3 percent of the study participants strongly agreed that lack of ability to draw business plan had an effect on performance of the business. As a matter of fact, only 10 study participants (which accounts for 0.3 percent) had a different view towards this assertion. About 5.6 percent of the participants were indifferent on whether or not lack of ability to draw business plan influenced business performance. In light of the above differentials, the tables show a mean score 4.77 to this enquiry, which shows that on average, majority of the responses were greatly agreeing to the assertion.

The table further shows that 96 percent of the study participants either agreed

Table 10. Credit/Loan affected business performance or profitability.

YES	79%
NO	21%

Table 11. Extent to which financial challenges affect performance of SMEs.

	Strongly Disagree	Disagree	Not Sure	Agree	Strong Agree
Lack of Collateral					
N	11	55	25	109	111
%	3.6%	18.3%	8.3%	36.3%	37.0%
Mean	4.50%				
SD	1.309				
Lack of Business Plan					
N	4	9	16	57	217
%	0.3%	3.0%	5.6%	19.0%	72.3%
Mean	4.77				
SD	0.716				
Interest Rates					
N	0	4	11	168	121
%	0.0%	1.3%	3.6%	56.0%	40.3%
Mean	4.47				
SD	1.231				
Loan Duration					
N	9	17	7	196	71
%	3.0%	5.7%	2.3%	6.3%	23.7%
Mean	3.97				
SD	0.379				
Laws/Regulations					
N	110	167	12	7	4
%	36.7%	55.7%	4.0%	2.3%	1.3%
Mean	2.17				
SD	0.134				

Source: Field data.

or agreed strongly, that higher interest rates influenced business performance of the companies. However, there was a small proportion (1.3 percent) of study participants that did not agree to this assertion. The mean score to this enquiry was 4.47, which shows that on average, majority of the responses were agreeing to the assertion that higher interest rates influenced business performance of the companies.

Table 12 revealed that 86.3 percent of the study participants agreed that the challenge of collateral of assets had an effect on the profitability of a business, with about 10.3 percent of the study participants strongly agreeing to this assertion. Very few study participants were indifferent or disagreeing to this assertion as presented in the table. In light of this, the mean score to this enquiry was 4.37 (the average ranking score given by study participants), which shows that on average, majority of the responses were agreeing to a great extent (based on the 5-point Likert scale ranking) to the assertion that lack of collateral assets had a bearing on the profitability of a company.

The table further shows that 56 percent and 40.3 percent of the study participants strongly agreed and agreed, respectively, that higher interest rates influenced profitability of a company. A very small proportion of study participants (3.6 percent) were indifferent to the assertion. The mean score to this enquiry was 4.91, which shows that on average, majority of the responses were strongly agreeing to the assertion that higher interest rates influenced profitability of a company. Conversely, the study participants felt that short duration for repayment of loan influenced profitability of a company. A similar pattern was witnessed were a very small proportion of study participants were disagreeing to this assertion. The table further shows that the mean score to this enquiry was 4.43, which shows that on average, majority of the responses were agreeing (based on the 5-point Likert scale ranking) to the assertion that short duration for repayment of loan influenced profitability of a company.

The other factors were seen as not having significant effect on the profitability of the company as it can be measured from the mean scores of the responses given by the study participants. However, in some instances, there were a significant percentage of study participants supporting these assertions. In light of the above, the study further investigated on the factors that the study participants felt had an influence on the accessibility of financial credits or loans by SMEs in general. The findings of this enquiry are presented in the Table 13.

Majority of the study participants (90 percent, n = 270) felt that the most deterring factor that hinder accessibility of credit/loans by SMEs is the collateral asset that has to be given to the financial institution in order for the SME to be granted the loan. It was further established that the collateral asset works hand-in-hand with the interest rates. Furthermore, others felt that the size of the SME (66.7 percent, n = 200) was another leading factor that hinders accessibility of credits/loans by SMEs.

Table 12. Extent to which Financial Challenges affect profitabilityof SMEs.

	Strongly Disagree	Disagree	Not Sure	Agree	Strong Agree
Lack of Collateral					
N	1	5	4	259	31
%	0.3%	1.6%	1.3%	86.3%	10.3%
Mean	4.37%				
SD	0.719				
Lack of Business Plan					
N	111	100	1	87	1
%	37.1%	33.3%	0.3%	29.0%	0.3%
Mean	2.7				
SD	1.116				
Interest Rates					
N	0	0	1	97	202
%	0.0%	0%	3.6%	56.0%	403%
Mean	4.94				
SD	0.131				
Loan Duration					
N	13	7	0	171	107
%	3.0%	5.7%	0.0%	65.3%	23.7%
Mean	4.43				
SD	0.521				
Laws/Regulations					
N	22	207	20	34	17
%	7.3%	68.3%	6.7%	11.3%	5.6%
Mean	2.17				
SD	0.711				

Source: Field Data.

Table 13. Factors that influence access to Financial Credit/Loans by SMEs

	Strongly Disagree	Disagree	Not Sure	Agree	Strong Agree
Education Background					
N	1	5	4	259	31
%	0.3%	1.6%	1.3%	86.3%	10.3%
Mean	4.37%				
SD	0.719				

Continued

Management Skills					
N	111	100	1	87	1
%	37.1%	33.3%	0.3%	29.0%	0.3%
Mean	2.7				
SD	1.116				
Size of SMEs					
N	0	0	1	97	202
%	0.0%	0%	3.6%	56.0%	403%
Mean	4.94				
SD	0.131				
Business Realtionships					
N	13	7	0	171	107
%	3.0%	5.7%	0.0%	65.3%	23.7%
Mean	4.43				
SD	0.521				
Knowledge of Opportunities					
N	22	207	20	34	17
%	7.3%	68.3%	6.7%	11.3%	5.6%
Mean	2.17				
SD	0.711				
Type of Business					
N	111	13	1	73	103
%	37.0%	4.3%	0.3%	25.0%	34.3%
Mean	3				
SD	1				
Collateral					
N	0	0	0	30	270
%	0.0%	0.0%	0.0%	10.0%	90.0%
Mean	4.91				
SD	1.970				

Source: Field data.

7. Discussion of Findings

7.1. Reasons Why SMEs Find It Difficult to Obtain Loans from Financial Institutions

It was revealed that majority of SMEs that took part in this study had once applied for a loan or credit from a financial institution before. However, of the 179 SMEs that applied for a loan or credit, only 61 percent (n = 109) were granted.

Of those that were not given the credit or loan (n = 70), the study revealed that the majority of the SMEs (52.9 percent) failed to get credit or loans from the financial institution because of not having collateral assets to warranty access to the credit or loan. Most banks usually require collateral to give out a loan which acts as a guarantee that the loan will be repaid. The amount that the banks will lend often depends on the value of the collateral. This becomes a major challenge for small businesses which may not have valuable asset to offer as collateral. It was established that most of banks and other financial institutions still consider the SME sector to be risky and hence no special policies are made for them and also their loan requests are always well scrutinized. Some of the financial institutions only consider overdrafts for a maximum of half a year which will only be renewed after further considerations. Consequently, the terms and conditions offered to the small enterprises are worse than those of the larger firms by offered the financial institutions. While the larger corporations are given longer time periods to pay back their credit facilities, the small enterprises, on the other, hand have limited time frame as little as a year and sometimes less.

The study finding also was in line with Etemesi (2017) who looked at factors that inhibit growth of SMEs due to lack tangible assets to use as collateral when applying for loans. Kihimbo et al observed that financial institutions demanded for both personal and private assets to pledge as collateral in order to access credit. This is consistent with this study. Obaji and Ulugo (2014) also suggested that the biggest hindrance to SMEs access to finance was collateral requirement.

7.2. Factors That Make It Difficult for SMEs to Access Finance from Financial Institutions

Based on the factors that were listed as being challenges that influence SMEs access to credits or loans from financial institutions, only lack of Collateral of assets, higher interest rates, and short duration for repayment of loan had a mean score above 4 based on the 5-point Likert scale ranking used to weigh the views of the study participants. This simply means that the above factors were seen as being major factors that hinder access of SMEs to credit facilities from the banks and other financial institutions. Literature revealed that since most of the banks and other financial institutions do not have any customised or unique products for the small businesses, they attempt to serve the small businesses with a modified product designed for the so-called 'small' corporate clientele. Due to that, they always require detailed business and financial documentation from the small enterprises. Most financial institutions tend to treat small businesses like large corporations, hence demanding all necessary documents required by the large firms.In the same vein, SMEs failure to meet banks' collateral requirement may be because they simply do not have any asset that they could offer as collateral. It can also arise when borrowers have assets that have a value but which the bank would have difficulty accepting as collateral. In both cases banks and financial institutions have tended to reject loan applications that are not accompanied by the offer of collateral acceptable to them. Approaches of alleviating the issue change accordingly. Nonetheless, it should be noted that part of findings on collateral assets as being a factor are similar to Ambrose (2012) who also identified some barriers that act as a constraint for financial assistance to SMEs. These include lack of collateralised security and lack of proper regulatory framework. This is compounded with unavailability of skilled workers and lack of infrastructure. These factors will weigh down on the sustainability and reliability of traditional sources of finance. Consequently, Zavatta (2008) asserts that irrespective of risk profile considerations, the handling of SME financing is an expensive business. Many financial institutions perceive that small business require much more advisory support-hand than large corporate client does. All these involve cost. Beck and Cull (2014) suggested that more than 25 percent of SMEs in Africa consider rate availability and cost of finance as the most critical obstacle. Even when funds are available, financial institutions make these funds costly for SMEs. This is consistent with Awani (2020) study that has suggested that access is the main challenge for SMEs growth due to risk premiums on their borrowing together with elevated transaction costs.

Despite SMEs strong interest in credit, commercial banks' profits orientation may deter them from supplying credit to SMEs because of the higher transaction cost and risk involved. First, SMEs loan requirement are small so the cost of processing the loan tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to assess the risk of new unproven ventures especially because the success of small firms often depends heavily on the ability of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high.

7.3. Effect of SME Challenges on Performance and Profitability

Evidence from the literature that was reviewed it was clear that collateral requirements and high interest rates have an effect on performance and profitability. According to Gitman (2003) collateral pledging is the degree to which borrowers commit the assets to a lender as a security for payment of debt. The value of the assets pledged must be utilized to recover the principal in case of default by the borrower. In particular, SMEs give security in form of fixed assets like buildings, land, cars or anything else equivalent or more than the principal loan in the event of default. Security for loans ought to be actually able of being sold under the markets' normal conditions, at a fair value of market and as well with reasonable quickness. In light of the above, collateral requirements reduce inappropriate funds use by SMEs. It's obvious that majority of the SMEs are discriminated against as well as denied by the lenders in giving financing. This is due to the high risk associated with them lacking sufficient resources to pledge as collateral (Kihimbo, 2012). The sad truth is that collateral is a vital prerequisite for SMEs to access funds from financial institutions and at the same time decreases the risk factor of a loan by offering the financial institution with a claim on the assets that are tangible (Etemesi, 2017). The comfort offered by collateral permits financial institutions to give credit on favourable terms to SMEs even though information opaqueness as well as uncertainty characterize the organization. Collateral acts as a device of screening to differentiate between bad and good borrowers and to alleviate the unfavourable borrowers' selection. Requirements of collateral act as a control in managing credit risk since higher collateral attracts projects that are less risky. This is because a low risk borrower has a higher motivation to guarantee collateral as compared to a high risk borrower, hence lower probability of failure or default and loss of collateral. Collateral therefore serves as a tool for resolving moral hazard and adverse selection problems. A research on challenges that SMEs face in accessing finance from financial institutions, revealed that not many SMEs are successful in accessing funding from financial institutions, this is because they fail to meet lending requirements, which include collateral requirements as security for accessing finance (Gangata and Matavire, 2013). It therefore means that organizations with more assets that are intangible have limited access to financing, than organizations with more assets that are tangible. SMEs size also matter because small and micro SMEs have fewer assets to give as collateral as compared to big organizations. This might largely have to do with the growth stage the SME organization is at. In the initial stages of the organization, it might have lower profits retained which might obstruct it from purchasing fixed assets as compared to the bigger organizations that have a longer history in business (Etemesi, 2017).

It is important to note that the problems of a lack of collateral and high interest rates are closely related. Both of these factors relate to the degree of risk perceived by the bank or financial institution in extending the loan and/or other form of credit. On the one hand, if there is adequate collateral to cover the full extent of the loan or credit, then much of the risk that the bank might otherwise have to carry is shifted to the borrower, in this case the SMEs. As the risk to the lender of making the loan is smaller, lower interest rates are possible. On the other hand, if the borrower offers inadequate or no collateral, much or all the risk weighting is transferred to the lender, and this motivates the lender to charge a high inerest rate, at a premium, in the event the loan is granted.

8. Conclusion

Access to finance is vital to the success of SMEs. Despite their recognised importance in many countries economies, SMEs access to finance has continued to remain elusive. This is despite of the fact that SMEs significantly contribute to the economic performance of many countries. They create employment for the majority of the people, increase the product and service range in the market place, create wealth for millions of people and increase the revenue base of many countries through increased tax base. In the theoretical framework, it was clearly shown by reviewing previous researches that the small and medium enterprise sector is faced with various challenges when accessing credit facilities from the financial institutions. This belief has been confirmed by the empirical framework of this study. Financial institutions have put in place various requirements which are not easily met by the SMEs and both SMEs and financial institutions have some challenges and/or difficulties each face when transacting business. The myth about lack of collateral assets and high interest rates being the cause of smallest business owners not having access to credit facilities from financial institutions is in correspondence with this study.

In conclusion, the study confirmed with the conceptual framework. Banks and non-bank financial institutions consider SMEs to be very risky. As a result of this, lack of collateral by SMs will continue to a major challenge when accessing finance. Collateral requirements go hand in hand with elevated cost of accessing finance by SMEs. Both these factors will continue to be major constraints in accessing finance by SMEs. This relates to the way financial institutions put in place several criteria to be met by the SMEs in order for them to access finance, and also the rate at which they reject loan applications.

9. Recommendations

In light of the findings of the study, and given the challenges faced by SMEs in accessing finance, it is critical that SMEs look at practical and unconventional means of raising finance. This is due to the fact that despite numerous studies that have been conducted and have highlighted constraints to access finance, and the various government policies that have been put in place and pronounced on a daily basis, traditional means of raising finance, such us loans and other credit facilities from financial institutions still remains elusive. The researcher therefore recommends that SMEs focus on alternative sources of funding. It is important for SMEs to be more proactive and be less dependent on traditional sources of finance such as loans from financial institutions. Alternative sources of finance can be in the form of crowd funding. Crowd funding is considered as innovative and important source of finance where a group of people contribute to the pool of finds via small contributions as a form of share purchase. Crowd funding comes in many forms depending on the needs of the members of the group. Members can then access these funds as a source of working capital. "Village Banking" is a basic form of crowd funding that SMEs in Lusaka must leverage on and grow. Furthermore, SMEs must start group partnering depending on the nature of their businesses. SMEs can work out group schemes in order for them to create relevant critical mass for their operations and in order for them to enjoy economies of scale for their businesses. Group partnering is essential as it allows a group of SMEs to compete with already established business in terms of scale of operations. And lastly, SMEs are encouraged to improve on business information documentation. SMEs must document their business information such as cash flows and profitability levels. The documentation of business information can be operationalised through formal audits by established and registered audit organisations. Availability of this information ensures that different potential investors, be it venture capital or angel investors, would find it possible to invest these SME business.

10. Limitations of Study

This study also possesses limitations and therefore, provides some directions for future research. This study utilised one method, i.e., self-reporting questionnaires to collect the data from the organisations, therefore, there is a possibility that the results could be affected by common method variance.

Further, it was quite difficult to capture the desired number of participants as the data collection process was being undertaken during working hours. This demanded for replacements of study participants that were costly and time consuming on the side of the researcher.

The findings are based on the perceptions of HR professionals regarding effective retention strategies for top- and middle-level managers. Therefore, the perceptions may be subjective.

Recommendation for Further Research

1) Further research on strategies of how SMEs can finance their operations without entirely depending on borrowing from financial institutions.

2) Future research could combine both quantitative and qualitative methods in measuring causality of the associated factors and how the influence performance by carrying out more sophisticated analysis using statistical software.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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