BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

AN INVESTIGATION INTO THE CHALLENGES FACED BY SMEs IN OBTAINING FINANCE FROM FINANCIAL INSTITUTIANS IN PROMOTING INVESTMENT. A CASE STUDY OF CHITUNGWIZA (MAKONI) SMEs.

BY

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The undersigned certify that they have supervised the student ISRAEL VETERAI dissertation entitled **An investigation into the challenges faced by SMEs in obtaining finance in promoting investment. A case study of Chitungwiza (Makoni) SMEs** submitted in partial fulfillment of the requirements of the Bachelor of Accountancy Honours Degree at the Bindura University of Science Education

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DEDICATION

This piece of research is dedicated to my family; you gave me hope and trust in you. To my loving and caring parents, l thank you for being with up to this age, I am here because of you. Thank you so much to my fellow students who assisted me in doing this project. I thank everyone who put a hand on this project.

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ABSTRACT

This study sought to examine challenges that are faced by Makoni SMEs in Chitungwiza in accessing financing from financial institutions to promote investment during the period 2019 to 2021. The objectives of the study were to establish types of financing currently available to Makoni SMEs, to determine challenges being faced by SMEs operating at Makoni in accessing financing from financial institutions and to suggest solutions for improving SMEs access to financing. Primary data sources were used to gather the data needed. Descriptive research design was used in carrying out the research and data collection was achieved using questionnaire and Interviews. The population for the study was 150 SMEs in Chitungwiza (Makoni Area). Probability sampling was used to select a sample of 70 SMEs operating in Makoni Area. Analysis of data was done using Statistical Packages for Social Sciences (SPSS version 29.0). The results of the study revealed that the Challenges faced by SMEs in accessing financing are interest rates, inadequate collateral to secure loans, financial illiteracy, competition from large firms and inadequate financial statements. The findings of the study were presented using tables, graphs, and pie charts. It was concluded that interest rates, inadequate collateral to secure loans, competition from large enterprises, and financial illiteracy, accessibility to credit facilities are largely affecting operations of SMEs in Makoni. The research recommended that the management of credit giving institutions should consider lowering their interest rates as a way of encouraging MSEs to borrow from them. Also, merging of SMEs in the same line of business to boost their sources of finance and to get rid of the lack of collateral affect.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter attempts to highlight the difficulties that small and medium-sized businesses in Makoni Shopping Centre face in obtaining money that may be utilized to strengthen their capacity to develop, survive, and improve their financial performance, as well as the impact that this has on investment. This part will detail the research background, problem statement, study aims, and question to be addressed, as well as the research's constraints and delimitations.

1.1 Research Background

According to Ndlovu (2004), the importance of small and medium-sized firms in economic development and growth remains a high priority in both developed and developing nations' economic policy planning and growth discussions. Mr. Chinamasa, the minister of finance at the time, admitted in 2015 that small and medium firms constitute the backbone of the Zimbabwean economy, producing more jobs than the declining formal sector. The Zimbabwean government has highlighted entrepreneurship development as a fundamental program aimed towards achieving economic progress. This is proven by many Indigenous policies designed by the Zimbabwean government to counteract multinational corporations' dominance and focus on SMEs, such as the Indigenization and Empowerment Policy (IEP) and the Zimbabwe Industrial Development Policy (IDP), Musabayana et al (2022).

In any economy, growing small and medium-sized firms has been highlighted as a source of innovation and company development. According to Horton et al., 2020, they aid in poverty reduction, job development, and contribute considerably to an economy's GDP. According to

Mangudya (2017), Zimbabwe's small and medium-sized businesses provide more than 60% of the country's GDP and employ more than 5.7 million people (Gukurume 2018).

Approximately 79% of Zimbabwe's economically active work force is now jobless (central statistics office of Zimbabwe, 2014). They are remedies to unemployment, such as fostering and strengthening small enterprises. These will aid in combating Zimbabwe's high unemployment rate as well as addressing issues such as equitable income distribution, economic growth stimulation, and job creation.

Without a doubt, for any country to achieve sustained economic growth and greater GDP per capita, more emphasis should be made on promoting the growth and development of SMEs. However, the capacity of SMEs to expand is heavily dependent on their willingness to engage in innovation, restructuring, and certification. All of these initiatives require funds, thus access to financing is a critical aspect in the growth and development of SMEs (Matsongoni & Mutambara, 2021). SMEs' financing methods vary and differ from initial internal sources such as the owner's personal savings and retained earnings to informal outside sources such as financial assistance from relatives and colleagues (Abouzeedan, 2003), venture capital, angel financiers, and trade credit (He and Baker 2007), and thus to formal external financiers such as banks, financial institutions, and security markets (Chittenden, et al 2000).

1.2 Statement of the problem

Small and Medium Enterprises (SMEs) presently dominate the Zimbabwean economy. Growth of these SMEs will improve economic growth; however, despite being regarded as a fundamental tool for economic progress, and despite all efforts made by government, such as Small Enterprises Development Cooperation (SEDCO), which was established to provide finance to SMEs, Small and Medium Enterprises (SMEs) continue to face barriers in accessing finance for their day-to-day business operations. This study intends to analyze the difficulties that Small and Medium Enterprises (SMEs) in Chitungwiza face in obtaining financing.

1.3 Research Questions

• What are the most important sources of funding for SMEs in Chitungwiza?

• What are the obstacles that SMEs encounter in acquiring funding?

• How can SMEs in Chitungwiza increase their access to finance?

1.4 Research Objectives

- To identify the major sources of financing SMEs in Chitungwiza.
- To determine challenges faced by SMEs on obtaining sources of finance.
- To explore any possible ways in which the challenges faced by SMEs on obtaining sources of finance can be reduced.

1.5 Assumptions of the Study

- The following assumptions underpin this investigation.
- Respondents would be willing to provide fair information and reliable data regarding SME funding in Chitungwiza, helping to validate the findings.
- The technique is morally acceptable, and as a result, the instruments are legitimate and dependable.
- The researcher will have access to subject-related information.
- Respondents will happily work with you to provide accurate information.
- The sample will be representative of the entire population.

1.6 Significant of the Study

To the Student:

The study was conducted as part of the requirements for the Bachelor of Accountancy (Honours) Degree. In studying and preparing for future professional education, the student obtained information.

To the University:

The findings of this study will be important as a source of research material for other university academics. Furthermore, students and academics might utilize this study as a starting point for conversations and a resource for future research on other connected themes.

To SMEs and Financial Institutions:

This study will be extremely beneficial to small and medium-sized enterprise entrepreneurs and financial institutions, as it provides them with a thorough understanding of the challenges that SMEs face in obtaining finance based on the level of investment, which is critical for the growth and development of the Zimbabwean economy.

To the Community:

The research will be valuable to businesses seeking financing since it gives a complete examination of the various sources of credit accessible to SMEs..

1.7 Limitations of the Research

- The study was limited owing to a lack of resources such as time and money. The insufficiency of these resources is likely to limit the study's accuracy and breadth. To save time, the student ensured that only a suitable number of interviews were conducted per day, and that questionnaires and interviews were administered concurrently.
- Due to the nature of my job, I was faced with the challenge of obtaining permission to leave work to do my research, such as exchanging and collecting questionnaires and other materials relevant to my research. However, as a workaround, I marked the deadline for collecting surveys to avoid inopportuneness.

1.8 Delimitation of the Research

- Because this study was intended to explore the financial constraints encountered by small and medium firms in Chitungwiza, the research was confined to Chitungwiza solely due to its diversified industries in the manufacturing sector, and no attempt was made to reach SMEs in other regions of the country.
- The research will last three years, from 2019 to 2021.

1.9 Definition of terms

Debt financing entails a lender granting a loan to an entity with interest paid in instalments, and repayment of the debt amount is done either by instalment or by a lumpsum payment at the conclusion of the loan period.

Finance- the process of raising finances or capital for any purpose.

Small and Medium Enterprises (SMEs) - SMEs are defined as registered firms with a maximum of 100 workers and annual sales of no more than US$830,000, according to Zindiye et al. (2012) and SEDCO (2010)

1.10 Summary

This chapter discusses the research backdrop, problem statement, research objectives, and research questions and assumptions. It demonstrated the significance of the study as well as the research's limits and limitations. It also concentrated on the definition of crucial terminology. The next chapter will investigate and discuss the literature on the difficulties that SMEs encounter in acquiring funding from financial institutions.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction.

This chapter will conduct a literature review in relation to the study goals specified in the preceding chapter. The review attempts to explore the obstacles that SMEs encounter in getting funding, the repercussions of these challenges, and the potential investments that these business organizations may make.

2.1 The concept of Small and Medium Enterprises (SMEs)

SEDCO defines small and medium companies as profit-making organizations with less than 100 employees and sales revenue of less than $830,000. (2010). The Government of Zimbabwe (GOZ, 2000) agreed on the monetary aspect but differed on the number of staff, claiming that it should not exceed fifty and that it should also operate as a registered corporation.

The Bolton Committee (2000) divides SMEs into two kinds based on their statistical and economic criteria. According to the economic notion, a corporation must have a limited market share to be classified as a small or medium enterprise. Aside from that, the proprietors must handle it rather than a conventional management structure. They should also be impartial specialists from one or more companies. The second definition encompasses characteristics such as corporate contributions to GDP, exports, and long-term economic contributions.

According to the European Commission, SMEs with a workforce of 0 to 9 are classified as micro-businesses, those with a workforce of 10 to 99 are classified as small companies, and those with a workforce of 100 to 499 are classified as average enterprises (2008). It also required that enterprises in the SME sector employ no more than 500 workers. (Store, 2009) agrees with the European Commission that the maximum number of employees for a small business should be 100 owing to increased productivity over time.

Many meanings have been proposed by Southern African scholars. According to the International Finance Corporation, SMEs are enterprises with 250 or less employees under any definition accepted by states.

The South African National Small Business Amendments Act defines SMEs as any distinct and independent business entity that works in a specified economic area, including cooperatives, non-profit organizations, and owner-managed firms with branches.

2.2 Access to Finance.

"Access to finance" refers to the availability of high-quality financial services at a reasonable cost (Claessen, 2006). According to the World Bank, it also means removing price and non-price barriers to getting financial services (2008). According to the criteria given above, increasing the percentage of credit received at a reasonable or fair price is a crucial component of any attempt to enhance access to finance. There are several possible funding options for SMEs, but they all fall into one of two categories: loan financing or equity financing.

The capital structures of SMEs in Chitungwiza have gained attention. The focus of this study, however, will be on the obstacles that SMEs have in obtaining funding. SMEs in Chitungwiza are having problems locating the optimum source of capital. Financing challenges arise in both theory and practice when a corporation requires money for investments that need money but cannot obtain it due to gaps between external financing demands and demand.

2.3 Sources of finance for SMEs

SMEs can obtain financial services from a range of financiers. All of these sources, regardless of their names, are neither debt nor equity financing. Brealey et al. (2009) define a company's capital structure as a combination of debt and equity used to fund its operations. Group lending, debt factoring, trade credit, bank loans, borrowing from family and friends, bank overdrafts, and venture capital are all examples of debt. Equity is another component of the capital structure that includes the sale of non-current assets, personal savings, retained earnings, and significant companies.

2.3.1 Group lending

Small groups borrow money collectively in this manner and encourage one another to repay it (Van,E et al. 2011). It also pertains to the members' joint obligation. Debtors in groups are held jointly and severally liable. Lending to the poor may be profitable even when borrowers lack credit histories and collateral (Mary, 2009). When refinancing costs are high and there is minimal competition among microfinance institutions, microfinance institutions provide group loans (Mary, 2009).

2.3.2 Debt Factoring

A corporation sells its accounts receivable at a discount in a financial transaction known as debt factoring (Chen, et al. 2008). Depending on how long it takes the factor to collect funds from the debtor, the factor will frequently charge the seller an interest-based service fee. However, factoring is only available to businesses who sell products or services to other businesses on credit. Businesses with increasing turnover that seek to boost cash flow may find it beneficial. If a customer pays an invoice with them, the factor will release the remaining amount minus costs (Mullens, 2012).

The ability to swiftly convert receivables into cash is the primary benefit of factoring for businesses. In contrast to typical credit, there is no funding site. Factoring gives money on the day the invoice is delivered, if all relevant documentation is completed, filed, and the factoring agreement is signed. In comparison to the bank's credit process, the factoring supplier requires less forms to be completed and filed. Factoring increases the capital of the selling firm without incurring further debt or selling additional stock.

2.3.3 Trade Credit

Historically, trade credit has been an important source of finance for SMEs' stock inventories (Ruis et al., 2009). SME's can delay payments for products and services obtained, allowing them to better manage their cash flows. Both Ruis et al. (2009) and Mclaney (2004) agreed that a corporation can receive trade credit from its suppliers by establishing a payment plan. (Olawale and Smit 2010) presented an example by noting that a new office supply business would require inventory before opening its doors. The office supply distributor may offer the start-up items, but only on extended payment terms rather than on immediate demand. Trade credit is frequently granted for a period of thirty to sixty days, at which point payment is expected. If payment is not obtained by the due date to avoid incurring finance charges, trade credit is utilized as an alternative method of financing company costs. According to, trade credit financing is preferred by both new and young SMEs when the risk of default is high during the early years of operations (Fatoki and Odeyemi, 2010) Furthermore, in terms of financial incentives, SMEs with easier access to the credit market might act as finance intermediaries, providing cash to SMEs who are having difficulty acquiring outside funding. Maksimovic and Kunt (2001).

2.3.4 Bank loans

Bank loans are financial instruments in which the lender pays a quantity of money or principal to the borrower (Tortesa, 2012). The borrower is obligated to return the lender's principle plus interest over a certain period of time. These loans frequently require monthly principle and interest payments.

2.3.5 Borrowing from relatives and friends

Family and friends who support the business concept may offer the entrepreneur or the company money right away. This may be easier, faster, and less expensive to arrange than a bank loan. The interest rate and repayment duration are also more flexible. However, this type of capital might be difficult to get, especially if a firm has difficulties. The owner will become more worried as a result of repayment. (Aruwa, 2009).

2.3.6 Overdraft Agreements

An overdraft arrangement, sometimes known as overdraft lines of credit, can be formed between a company and its bank. Even if there aren't enough deposits to cover the whole amount, the business owner can withdraw cash from the account up to the bank's maximum limit. The interest rate on the overdraft, which must be repaid with the principle, can be as high as the prime rate + 5%.

2.3.7 Venture Capital

Because of its constraints, venture finance is available to small and medium-sized enterprises, according to Stevenson et al. (2019). Accessing credit from these sources should be discouraged since they think they are surrendering their businesses for financing. SMEs do not choose this kind of finance due to a lack of awareness in third-world countries. Because of their low operational returns, venture investors will not invest in SMEs.

2.3.8 Retained Profits

Small and medium-sized firms can use retained profits to support their operations. The problem with this type of investment for SMEs is that the owners eat all of the profits rather than reinvesting them in the firm. Retained earnings must be reinvested back into the business in order for it to grow. This indicates that the company should reinvest at least 60% of its pre-tax and interest income (Meredith, 1977). Because most SMEs lack competence and business savvy, residual profits may be redirected to other unforeseen costs.

2.3.9 Personal Resources/ Owner's Investment

Personal resources are investments or money saved by a person (Burns and Dewhurst, 1989). It might take the form of start-up cash used to establish the firm or additional funds that could be used for expansion. The key advantage is that no interest or payments are required. However, such funds are insufficient to start a business. Acquiring assets and other production-related elements will be difficult. If the business fails, the owner will lose everything, including their own livelihood.

2.3.10 Sale of non-current assets

These funds are earned by selling non-current assets such as real estate, machinery, and equipment that have become obsolete or that the firm wishes to dispose of. The advantage of this type of investment is that it allows the company to get rid of obsolete assets and replace them with more current ones. According to Ruis et al. (2009), such funds have downsides, such as the fact that most SMEs lack assets, making it difficult for them to use this type of finance.

2.3.11 Large corporations

According to Moore et al. (2008), large corporations routinely give loans and other types of financial assistance to small enterprises with which they do business. Large manufacturing businesses often perform this duty by providing financial and technical assistance to their clients, which are small and medium-sized enterprises in the retail sector. Large firms, on the other hand, only support SMEs in which they have a vested interest. Furthermore, if a country's economy is unstable and there is inflation, large firms may find it difficult to assist smaller enterprises.

2.4 Challenges of SMEs in accessing Finance

Despite all of the efforts and help provided by future administrations and governments, SMEs have not had the anticipated impact on the various economies. It validates our notion that SMEs have fundamental issues or difficulties that have either not been addressed at all or have not been handled appropriately. The fundamental difficulty, according to a review of the literature, is access to money. The following researchers validated it. A lack of adequate financial resources significantly impedes the development of SMEs. Despite the fact that SMEs are acknowledged for their contributions to development in many poor countries, Cook and Nixson (2000) remark that their limited financial resources always limit their potential to grow. Resources can be used to meet a variety of operational and investment demands. SME owners in Europe regard access to financing as their top worry, ahead of tax issues, a lack of skills, access to public procurement, unfair competition, labor regulations, and access to the single market (European Commission Report, 2008). The difficulties that SMEs face in acquiring finance are detailed below.

2.4.1 Stringent conditions

Previous research has discovered (Storey, 1994; Berger and Udell, 1998) that the loan requirements prohibit SMEs from often obtaining resources from financial institutions. Financial institutions reject down certain small firms because they lack the requisite collateral. In the event of a default, asset-based collateral is the only way for financial institutions to retrieve their investment. Banks have few or no choices for lending to SMEs if collateral is insufficient. Financial institutions want collateral in order to reduce the risk of debt. Financial institutions always insist on this collateral demand.

2.4.2 Strict vetting of credit applications

Banks are also stringent when it comes to screening small company financing applications. The process of evaluating loan applications takes so long that loans are delayed and provided after their stated reasons have expired.

2.4.3 Short period for repayment

There are times when the amount of credit granted is less than what is required, and the payback period is short. According to Abereijo and Fayomi (2005), many commercial bank loans made to SMSEs are typically for a length of time that is far too short to repay any significant investment. According to Ricupero (2000), commercial bank loans to SMEs are usually confined to terms that are far too short to cover any significant investment.

2.4.4 Unaware of factors financial institutions take into considerations

Small companies are ignorant of the criteria used by financial institutions to choose whether or not to lend money to a client. Financial institutions normally do not lend to anyone who is willing to pay higher interest rates since doing so would attract riskier borrowers. They have systems in place to assess a customer's creditworthiness. They lend money to firms they believe will be able to repay the debt (Ocansey, 2006). The incapacity of SMEs to understand how banks function and vice versa has been identified as a key obstacle to SMEs receiving financial help. As a result, SMEs effectively face the aggravation of having their bank loan requests refused or delayed. Banks seek for bankable plans, appealing company concepts, and audited financial accounts before financing to small firms, yet most small businesses lack the technological capabilities to carry out these activities and find it difficult to acquire loans as a consequence.

2.4.5 Financial Illiteracy

Financial illiteracy and complexity, both of which are prevalent difficulties, are major factors of SMEs' failure to obtain loans. Most SMEs, which are unable to completely comprehend the lengthy terms and conditions, are also ignorant of how the % charged on loans is to be understood and get anxious when payback periods are longer than expected. Although it is often assumed that microfinance institutions perform an excellent job of assisting SMEs by providing loan facilities, they occasionally lie. Some of these institutions take advantage of their lack of expertise by failing to offer information and explain interest rates and how they effect loans made to small businesses for a variety of reasons. This becomes a problem when they have to repay their loans (2022) Samudzimu and colleagues

2.5 Challenges faced by financial institutions in lending SMEs

The financial systems of all countries are critical to the growth and development of their economies. According to Lemuel (2009), conventional commercial banks, which play an important role in practically every economy's financial system, have the potential to pool financial resources to satisfy the credit requests of SMEs. Bank supply capabilities and the high needs of SMEs are drastically different.

2.5.1 High transaction Costs

Financial institutions, like any other business, must incur costs in order to function. They must pay fees in order to evaluate credit, manage orders, and maintain track of debt sources. Profitability is directly proportional to transaction costs. The return is inversely proportional to the cost of transaction processing. It frequently takes time to examine, monitor, and manage

SMEs' debt. Regardless of risk profile, administering SME finance is a costly endeavor, according to Zavatta (2008). Many financial institutions believe that small enterprises require far more advice than large corporate clients. All of these come at a cost.

2.5.2 Lack of reliable information

Small company owners are either not transparent or do not invite customers inside their operations. For a number of reasons, they provide incorrect information to tax collectors, workers, and others about their assets, obligations, earnings, and other financial concerns. The capacity to get external finance is dependent on an open flow of information between the recipient and the provider. Some of the challenges that SMEs have in acquiring finance may be alleviated with greater transparency and enhanced communication between SMEs and financial institutions. Due to the owners' inability to share vital information about their firm to outsiders, it is difficult to establish a small business' creditworthiness and acquire a loan. It would be straightforward to evaluate the creditworthiness of enterprises and minimize the risk of default if financial institutions were provided precise and trustworthy information. This would also allow financial institutions to provide preferential payment terms to small firms. According to Ricupero (2002), one of the reasons financial institutions are hesitant to lend to SMEs is the banks' inability to assess risk owing to a lack of reliable financial information.

2.5.3 Lack of adequate financial statements

The majority of SMEs do not provide financial statements. Financial statements for small and medium-sized enterprises are not required by law. Even in highly developed economies like the European Union, SMEs that do not meet a significant threshold in terms of total assets, turnover, and/or number of workers are not required to report on their financial performance in a standardized manner. This implies that many SMEs in both developed and developing countries do not generate reliable financial data that creditors or investors may rely on. (2002)

Ricupero Even when the borrower and the bank have a long-term relationship, Bass and Schrooten (2005) discovered that the lack of trustworthy information resulted in relatively high interest rates. In this situation, having audited financial statements is critical. Audited financial statements make it much easier to obtain financing from financial institutions. When processing loan applications from small firms, banks usually need audited financial records before examining accounting data. Because certified financial accounts reduce information risk, potential lending institutions may also offer cheap interest rates. In other words, audited financial accounts boost a borrower's trustworthiness, lowering risk for lenders. Sacerdots, (2005). (2005). (2005). Borrowers must be able to provide adequate financial statements in order to promote credit extension, create competition in the banking system, and so lower the cost of credit to borrowers, and credible credit bureaus and financial data bases must be developed. Banks in many countries are unwilling to lend to SMEs since the borrowers cannot furnish formal financial statements and audited accounts. Improving SMEs' access to banks necessitates, among other things, improving accounting and auditing. However, the accounting profession is inadequately regulated in many countries, and the quality of accounts varies widely, limiting transparency.

2.7 Theoretical framework

Many hypotheses have been offered to explain the disparities in debt financing among enterprises. Firms pick capital structures depending on the criteria that affect the varied costs and advantages connected with debt and equity financing, according to the theories. The theories range from the irrelevancy hypothesis (Modigliani and Miller 1958) to the optimum capital structure, which reduces the cost of capital while enhancing business value and thereby shareholder wealth. However, these ideas were created to explain funding choices in large publicly listed corporations. The topic of whether these findings are relevant to other organizations, particularly small and medium-sized enterprises (SMEs), has gotten little attention. The trade-off, agency costs, and pecking order theories are three of the most prevalent explanations for capital structure.

The idea of irrelevance

The lifecycle methods

Modigliani and Miller 1958 Trade off theory

Pecking-order theory

Agency cost theory

2.7.1 The irrelevancy theory (Modigliani and Miller 1958)

According to Modigliani and Miller's capital structure hypothesis, a firm's capital structure has no influence on its value. That is, regardless of whether the business employs more debt than equity or 100% equity, the value will remain unchanged, with the exception of the deductibility of interest payments for computing taxable income. As a result, the theory implies that a firm's value is maximized when its capital structure includes more debt than stock. The incorporation of debt into the capital structure reduces the average cost of capital while enhancing profitability (Modigliani and Miller 1963). This hypothesis is built on unrealistic assumptions that do not exist. The absence of corporate taxes, the absence of brokerage or floatation costs for securities, and the assumption of symmetrical information, which implies that investors and managers have the same information about a firm's prospects and that individuals and firms can borrow at the same rates of interest, are among these assumptions.

2.7.2 The lifecycle Approach (Weston and Brigham 1981)

The lifetime strategy, as outlined by Weston and Brigham in 1981, was created in the context of fast development and limited access to financial markets. Small enterprises were thought to start with simply the owner's resources. If these enterprises survive, the dangers of undercapitalization will become evident, forcing them to rely on other funding sources such as trade credit and short-term bank loans. Rapid expansion might lead to illiquidity. According to Weston and Brigham (1981), the dynamic small firm would have to choose between slowing its growth to match its internally generated funds, acquiring a costly stock market quotation, or pursuing that most elusive form of financing venture, a joint venture, indicating a trend in SMEs in which expanding small firms are more likely to incur rising short-term debt while using little or no long-term debt.

2.7.3 Trade-off theory (TOT)

According to the TOT theory, enterprises must establish an optimum structure in order to maximize their value. This idea focuses on the benefits and drawbacks of debt. The former primarily refers to the tax deductibility of interest paid (Modigliani and Miller, 1958). The former are the outcome of enormous debt and the fees connected with filing for bankruptcy (Kraus and Litzenberger 1973). As a result, businesses set a goal level for their debt-to-equity ratio that weighs the tax benefits of more debt against the risk of possible financial trouble and bankruptcy.

2.7.4 The agency and information list theory (Jensen and Meckling 1976)

It focuses on the expenses incurred by a principle, which is an organization, individual, or group of individuals, when the principal chooses or engages an agent to act on its behalf. Jensen and Meckling (1976) discovered that managers do not always operate the business for which they work in order to maximize shareholder value; as a result of this finding, they established their agency theory, which includes the principal-agent relationship as a fundamental predictor of firm performance. According to their definition, an agency relationship is a contract in which one or more persons, the primary, employ another person, the agent, to execute some function on their behalf, including transferring certain decision-making authority to the agent.

Because the interests of the principle and the agent are irreconcilable, the agent, as the decision maker, invariably pursues his own interests at the expense of the principal. As a result, as Jenson notes, the major task for shareholders is to ensure that management return extra capital to them through dividend distributions rather than investing it in unproductive ventures (1986). However, as Pinegar and Wilbricht explain, recent research has revealed that the capital structure may cope with the primary agent problem without considerably raising agency costs by simply trading off stock for debt (1989).

Managers use debt to guarantee that surplus cash flow is returned to investors rather than invested in a project with a negative net present value (NPV). This is due to the fact that high levels of leverage result in significant interest expenditures, pushing business managers to focus entirely on the operations necessary to guarantee the firm's financial commitments are satisfied. Managers of heavily indebted organizations find their capacity to use the firm's resources for discretionary and frequently wasteful spending severely curtailed as a result of having less cash flow available. As a result, debt-financed organizations provide management less decision-making capabilities than equity-financed enterprises, and debt may therefore be used as a control mechanism, with lenders and shareholders being the key stakeholders in the corporate governance system. Managers that fail to satisfy their debt commitments can be rapidly and readily replaced by new managers who can better serve stakeholders. In certain aspects, leveraged corporations are beneficial for shareholders since they guarantee that managers only spend on highly priority costs, minimizing wasting of the firm's resources on superfluous expenses. The transfer of wealth from the organization to the investors is the outcome of debt creation (Jensen 1989).

This argument leads to the conclusion that debt-financed enterprises are preferable to equity-financed companies for investors. It's understandable to question why not all of the businesses are debt-financed. Debt financing is the solution, but it boosts the cost of capital as well as other costs. Highly leveraged companies are more likely to have cash flow problems, which raises the chance of bankruptcy and, as a result, other associated expenses. Furthermore, rating agencies give heavily leveraged corporations, which are often considered high-risk firms, a poor rating. Because hazardous companies must promise larger returns than well-rated corporations in order to attract investors, their overall cost of capital rises.

2.7.5 Pecking-order theory

It asserts that organizations finance their demands in a hierarchical manner, starting with domestically accessible money, moving on to debt, and lastly to external equity. This is a more typical practice in small enterprises, and it indicates the negative association between small business profitability and external borrowing. This theory holds that corporations follow a financial hierarchy and favor internal funding while it is available, but debt is favoured over equity when external financing is necessary. The issuing of shares would suggest the entrance of outside ownership into the firm, as would equity. In other words, even if growth were zero, high-profitability enterprises would create more internal finance, lowering the need for borrowing. It is feasible that older enterprises might rely less on external capital and more on returning cash (South Africa Reserve Bank Report, 2004).

2.8 Empirical evidence

2.8.1 Manyani et al (2014). An investigation into venture financing: A case study on small to medium scale enterprises in Bindura urban, Zimbabwe.

Manyani (2014) published an intriguing topical work on a problem relevant to the one mentioned in this paper. This study looked into venture finance for SMEs in Bindura. The primary purpose of the study was to discover possible sources of funding for SMEs. Using both direct and secondary sources, information was acquired from 356 SMEs in Bindura. Secondary data was used to complement this.

A survey study approach was adopted, which allowed for the cost-effective collecting of vast volumes of data from a wide population. The major research tools were questionnaires, which were complemented with interviews and observation to augment the restricted number of questions contained in the questioner. Data was collected from Mashonaland Central SMEs, both registered and unregistered. Key informants were Small Enterprises Development Corporation (SEDCO) personnel and bank officials. Manyani (2014) revealed that the majority of SMEs in Bindura finance their operations using their own money, family, and friends, according to the data. He also determined that, due to onerous regulations and a lack of collateral security, the financing choices accessible to Bindura SMEs are insufficient to sustain the capital required for their operations.

The study revealed that, in addition to financial aid from the government, SMEs require assistance in research, quality control, marketing technologies, and financial management. The findings suggest that the government should serve as a guarantee to credit institutions and banks for SMEs, agreeing to compensate banks if the SMEs fail to pay back. The report also proposed that rather than depending on debt funding, SMEs join groupings and pool their negotiating power for borrowing reasons. In addition, the report suggested that support institutions such as SEDCO and the Venture Capital Company of Zimbabwe (VCCZ) decentralize their activities in order to assist SMEs in small towns and rural parts of the nation. This research, on the other hand, sought to analyze the difficulties faced by SMEs in acquiring funding in Chitungwiza in order to boost investment. As a result, the goal of this research is to bridge that gap by looking at debt financing as well as other funding options for small firms.

2.8.2 Mabhungu (2012): Sources of finance for Micro and Small Enterprises (MSEs) since the use of multi-currency system in Zimbabwe.

Mabhungu et al. (2012) investigated the financial sources utilized by micro and small enterprises in Zimbabwe from the beginning of 2009 to the end of 2011. This time period was covered by the research. When Zimbabwe legalized the usage of micro-currency in 2009, the research found that micro and small firms were obliged to rely heavily on the owners' personal savings and retained revenues as start-up capital. The study also found that the use of multi-currency systems hampered SMEs' capacity to get external financing, with trade finance being the only conveniently available external source of capital. The researchers urged SMEs to use multiple strategies of funding their businesses, such as resource pooling, deferred payment, and account receivable reduction. This study will go beyond Mabhungu's findings by exploring the primary sources of finance accessible to these enterprises and their implications for SMEs.

2.8.3 Hussain et al (2006). SME financing in the UK and in China: a comparative perspective. Journal of Small Business and Enterprise Development

Hussein et al. (2006) conducted research into the sources of finance and the development of small firms. The study's purpose was to look at the factors that contribute to the success of small and medium-sized enterprises in the UK and China, as well as the financing choices accessible to them. A questionnaire for interviews was developed and given to forty (32) firms, with half of them going to small and medium-sized business owners. During the early stage of business, a vast majority of respondents depended primarily on financial assistance from their immediate family and loans from friends. After two years in company, respondents exhibited a considerable reliance on savings and financial support from banks and other financial institutions. After five years of continuous economic activity, the majority of owners or managers in the UK sample depended largely on financial institutions for borrowing requirements and, to a lesser extent, on personal finances.

2.8.4 Hwingwiri (2013). Financing Constraint on SMEs' Success in the Manufacturing Sector (Case of Cool Ice (Pvt) Limited)

Hwingwiri (2013) performed study in Harare to determine the influence of funding on the development of SMEs. The key observations of a sample of 20 SMEs in Msasa, Harare, backed by questionnaires and interviews, were the extremely low investment level and a series of associated difficulties, which most of the enterprises attributed to a lack of money. According to the research, SMEs employ personal savings, borrowing from family and friends, and internally produced cash to finance their initiatives, which proved insufficient as indicated by the difficulties experienced. It was proposed that SMEs create long-term ties with financial institutions by offering additional services such as financial advising services. They should build solid ties with these financial institutions so that they can work together when they approach them for a loan. However, the study merely highlighted that small firms were having financial challenges, but it never sought to remedy the issue by looking at other sources that might be used to lessen the situation. As a result, the goal of this study is to bridge that gap by identifying the primary sources of money as well as certain investments that might assist reinvigorate these enterprises.

2.8.5 Ahiawodzi and Adade (2012). Access to Credit and Growth of Small to Medium Scale Enterprises in the Ho Municipality of Ghana.

In Ghana's Volta region, research was done in the Ho municipality to explore the effects of loan availability on the development of small and medium-sized enterprises. Survey and econometric methodologies were used in tandem. The study included 78 SMEs in the manufacturing sector from the Ho municipality. The dependent variable in the given econometric model was firm growth, while the independent variables were credit availability, total current investment, firm age, start-up capital, educational attainment, and business turnover. The survey and econometric analysis results showed that access to finance has a considerable positive effect on the expansion of SMEs in Ghana's Ho municipality. As a result, the research recommended that the government make a concerted effort to address the credit demands of the country's SMEs in order to accelerate economic growth.

2.8.6 Challenges and consequences of debt financing

Owusu et al. (2015) intended to investigate the barriers to debt access in Ghana in their study. The research investigated the challenges that SMEs have in acquiring loans, the challenges that financial institutions face in lending to SMEs, and the influence of loans on SMEs' profitability. As part of this study, SMEs were given questionnaires. Credit officials from the selected institutions were interviewed. The following significant discoveries emerged: Interest rates on SMEs loans are quite expensive; payback periods are too short, making it impossible to start on any development or expansion initiatives; most SMEs do not comprehend the terms and conditions; and, of course, the interpretation of the percentage charged on the loans. It was also observed that when requesting for loans from financial institutions, small company owners commonly supply misleading information. According to the report, the government should create some sort of tax incentive for financial institutions active in SME lending, as well as develop regulatory rules to help in debt recovery. Despite the fact that the research is directly connected to the scenario under consideration, it should be emphasized that Ghana and Zimbabwe are both African nations, but their cultures and entrepreneurial orientations differ. As a result, this research will take a step further by looking at a case study of a small firm in Zimbabwe.

2.8.7 Matavire and Gangata, K (2013): Challenges facing SMEs in accessing finance from financial institutions: The case of Bulawayo.

Using the instance of Bulawayo, Zimbabwe, the study investigated the difficulties that SMEs have in obtaining financing from financial institutions. According to the survey, SMEs are unable to obtain loans due to financial institutions' stringent requirements, the most important of which is collateral security. Among their proposals was that the government play its part in facilitating SME financing through financial institutions.

2.8.8 Chimucheka, T (2013): Obstacles to Accessing Finance by Small Business Operators in the Buffalo City Metropolitan Municipality.

Chimucheka, T (2013) attempted to investigate the barriers to funding faced by small business operators in the Buffalo City Metropolitan Municipality in this study. The study's objectives were to identify the causes of small business operators' inaccessibility to finance, investigate the role of government agencies in supporting small business operators, assess the extent to which banks support SMMEs, and suggest solutions to the challenge of small business operators' inaccessibility to finance. This study employed a triangulation research approach. The target audience consisted of SMME owners and managers in the Buffalo City Metropolitan Municipality. Respondents were chosen using a simple random sampling procedure. In order to acquire qualitative data, in-depth interviews were undertaken. Descriptive statistics, the Chi-square test, and factor analysis were used to assess quantitative data. Content analysis was used to assess qualitative data. Access to financing barriers were discovered and explored. Some of the major causes found include a lack of collateral security, weak company strategies, a lack of understanding, and a lack of financial deposit. The study suggested that banks, governments, and government agencies promote the SMME sector because it is the economic engine of many African countries.

2.8.9 Kamungeet al. (2014): Factors affecting the performance of small to medium enterprises in Limuru town market of Kiambu County, Kenya.

The study sought to investigate the determinants impacting the performance of small and micro business (SMEs) sellers in Kiambu County, Kenya's Limuru Town Market. The study employed a descriptive research technique to attain its objectives. The study's target demographic was the 965 licensed SMEs that operated at Limuru Market in 2014. A sample of 274 SMEs was chosen from this group, and data was gathered via questionnaires. The information obtained was coded, quantified, and submitted to quantitative and qualitative analysis. The Statistical Package for Social Sciences was used to analyse quantitative data (SPSS).

According to the study, the key socioeconomic factors impacting the success of businesses in Limuru Town Market are the availability of management expertise and access to funding. Access to infrastructure, government policy and legislation, as well as access to business information, were discovered to have a favorable influence on firms in Limuru Town Market. According to the report, the government should start giving basic business and financial management training since it would assist entrepreneurs build their entrepreneurial abilities, allowing them to detect and capitalize on company opportunities and make sensible investment decisions.

2.9 Research gap

Today's SMEs are recognized as the backbone of economic success due to their capacity to create employment, alleviate poverty, and considerably enhance GDP. As a result, there is a high anticipation that SMEs will play an important role in the economy. Prior research has also thoroughly examined the sources of capital that may be utilized to finance these firms so that they can be profitable. However, the results are confusing, if not contradictory. As a result, several experts have decided that more research in this sector is essential. This research intends to go beyond by assessing the key financial sources, the barriers to getting funding, the consequences of using both debt and equity as well as personal resources, and the prospective investment activities that may be conducted.

2.10 Summary

The literature study in chapter two was addressed in accordance with the research goals outlined in chapter one. It also featured various terminology and ideas pertaining to small and medium-sized enterprises, as well as a full examination of the primary sources of funding, their influence on firms, and the problems connected with obtaining finance. The chapter also highlights the many investments made for SMEs.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, researchers examined the various techniques utilized to collect data for the study. It covers everything from the study concept to the sources of information and research tools, as well as how the data was gathered, evaluated, and presented to provide answers to the research questions. The research's purpose is to meet the study's objectives.

3.1 Research Design

The definition of methodologies and processes for obtaining the required data is part of the research design. According to Abutabenjeh and Jaradat, experimental, correlational, explanatory, and descriptive research designs fall into one of two groups (2018). However, a case study method to descriptive research was adopted in this work. Chitungwiza's small and medium-sized companies garnered a lot of attention. As a consequence, all information and conclusions concerning SMEs were gathered through this study topic.

3.1.1 Justification of the case study approach to be adopted

A case study design approach was applied during the inquiry. According to Garger, this tactic was utilized throughout the trial. According to Garger, a case study might be exploratory (give new knowledge), constructive (fix an issue), or confirmatory (2010). (Empirical evidence is used to test a hypothesis). The researcher used the case study approach because it gave the possibility and framework for generating correct conclusions based on the research findings. It also allowed students to go further into certain examples, allowing the researcher to collect data that was both thorough and useful (Kothari, 2009).

The second advantage is that it allows students to query thoroughly about certain issues that may require clarification, providing insight into problems that may arise during the study.

Furthermore, it asks for the use of a variety of research approaches, such as interviews and surveys intended for both SMEs and financial institutions. However, because a case study focused on a single incident or small group, the conclusions could not be extrapolated to a wide population.

Finally, the student picked the case study technique since it permits him to do research in a new field where few studies have been conducted previously. Because there had been few studies in Chitungwiza, particularly at Makoni Shopping Centre, the researcher elected to utilize the location as a case study.

3.2 Area of the study

The study was restricted to SMEs in Chitungwiza, notably those at Makoni Shopping Centre. Chitungwiza is around 30 kilometers south-east of Harare, Zimbabwe's capital city. This town has a population of around 365,026 people, according to the Population of Cities in Zimbabwe (2022).

3.3 Target population

A target population is a group of people or items that the researcher is interested in (Woodside 2010). The population includes all individuals about whom the researcher want to learn more and form conclusions. According to Fraenkel et al., the population may be divided into two groups: the target population and the research population. The target population is the group on whom the researcher would really rely. The research population consisted of 300 SMEs in Chitungwiza.

3.4. Sampling techniques

This refers to the strategies used to choose the instances to be researched in the research. There are two forms of sampling: probability and non-probability sampling (Saunders et al. 2009). Non-probability sampling is a way of collecting samples without assuring that each member of the population has an equal chance of being picked (Punch 2008). The researcher used random sampling on a regular basis.

3.4.1 Systematic Random Sampling

Random sampling ensures that every element in the population has an equal probability of being chosen. Following the list of SMEs in Chitungwiza, a sample of 70 SMEs operating in the Makoni Area was chosen using a systematic random selection approach. It is used by picking every second SMEs until a sample size of 70 is reached.

3.4.2 Justification of Systematic Random Sampling

A high representation of the population was achieved because all members of the population were included in the list; however, obtaining the list may prove to be a tedious and time-consuming process because the student visited ZIMSTATs offices for reliable data and lists of SMEs and financial institutions under study.

3.5 Sample size estimation

A sample is a subset of a population chosen for observation (Best et al 2009). A sample is also an infinite subset of a statistical population whose attributes are researched in order to learn more about the entire population (Mujere & Never, 2016). Because it was impossible and time intensive to interview everyone in the community, a representative sample of the population was chosen for adequate evaluation and analysis. The researcher polled 65 people out of a total population of 70. This equates to 93% of the population. When working with a huge population, (Mujere and Never, 2016) said that a sample of the target population is optimal. As a result, the researcher determined that the sample size was large enough to reflect the complete target population.

3.6 Data Sources

This study made use of both primary and secondary data. Primary data was gathered directly from the area of study, including surveys and interviews, while secondary material was obtained from textbooks on SMS funding, journals on SMS financing difficulties, and Herald newspapers.

Primary and secondary data

3.6.1 Primary Information

Primary data is raw data collected from the field specifically for the project at hand during the investigation (Craig 2011). Primary data for this study was acquired through interviews and questionnaires to be completed by SMSs and financial organizations regarding SMS financing. Analysis was also performed on firm documents that the student believed had significant information to the study goals.

The Benefits of Primary Data

Why The researcher has more control over the data's accuracy because there is a better likelihood of probing from genuine SMSs that are actively in operation.

• It collects relevant information on the capital structure for the small sector to verify the key sources of financing, making it very trustworthy and dependable; and • It represents current environmental elements and time frame. This means that by obtaining primary data, the researcher was not looking at previous events that may or may not be similar to the current situation, but was instead seeking for the true force at work right now. As a result, recent and relevant data that was up to date was gathered.

• The data's accuracy can be determined because the student got it in the field.

• Primary data is difficult and expensive to collect since it requires a significant investment of time and money to visit each SMEs in Chitungwiza for the purpose of conducting interviews and delivering questionnaires to respondents.

• Respondents may intentionally provide biased information on sensitive information such as the capital utilized by the company and its impact on them. This asks for a varied research emphasis by extending the number of SMEs respondents.

3.6.2 Secondary Data

Secondary data refers to data that is already accessible and was acquired for purposes other than the present investigation (Kotler and Armstrong, 2000). This was obtained from literature on SMEs financing from across the world, as well as figures published by regulatory bodies such as the Reserve Bank of Zimbabwe. Secondary data must fulfill the following requirements in order to be valuable in the study:

To begin, secondary data must be accessible at the moment of need; otherwise, primary data will be obtained. Aside from that, by nature and quality, it must be able to handle the topic under investigation; hence, units of measurement and ideas must agree with the research aims. To add on it must also mention the process which was utilized to gather it. This, together with a study of the margin of error and the trustworthiness of the sources, would then offer information on the level of accuracy of the secondary data..

• Secondary data is less expensive to acquire since the researcher may quickly obtain data regarding the capital structure of SMEs from books in the library, the internet, and any other relevant material such as journals.

• Secondary data served to illustrate what other researchers had already done, guiding the researcher on how to do the research. • The researcher did not spend a lot of time acquiring secondary data because it was easily available.

Secondary data's drawbacks

• Secondary data may be irrelevant or out of date, making it impossible to verify its correctness in an ever-changing and dynamic context. Any judgments made primarily on this premise will suffer as a result. As a result, the researcher employed both main and current secondary discoveries to address the flaw.

3.7 Instruments for Data Collection

There are several ways for gathering data, including interviews, surveys, and observations (Best et al 2009). In this study, questionnaires were complemented by interviews as research instruments.

Questionnaires 3.7.1

A questionnaire is a document that asks comparable questions to all population contributors (Gall et al 2008). This procedure is one of the ways that the researcher often employed. It was based on the formulation of a series of questions addressing the subject under investigation, which were then distributed for completion to people whom the researcher felt had some information sought.

3.7.2 Questionnaire design for study

Questionnaires are composed of two sorts of questions: open-ended and closed-ended (Fraenkel et al, 2004). The research combined both sorts of inquiries. A closed-ended question is one for which a researcher offers an acceptable list of replies, such as (Yes or No). This generates mostly quantitative data, which is easier to analyze (Fraenkel et al, 2004). Answers can be assigned a value or number so that they can be statistically understood and computer-analyzed.

An open-ended inquiry is one in which the researcher does not present the respondent with a list of possible responses from which to chose (Jerry et al, 2009). This type of inquiry enabled respondents to provide more information such as sentiments, opinions, and understandings about the issue. According to Jerry et al. (2009), an effective questionnaire should include both open and closed items.

The Benefits of Questionnaires

• The questions are properly planned and structured, and the questionnaire may offer accurate and clear replies, allowing the study to acquire important information.

• Respondents can react at their leisure, when they are not under any pressure.

• A questionnaire allowed the researcher to collect data from a relatively large number of respondents in a short period of time while maintaining uniform responses because all respondents were asked the same questions. • It allows SMEs to provide well-thought-out responses because the researcher provided them with a time frame to complete the questionnaire.

• The manner in which questions were posed generated objective replies with better regularity. This allowed for simple data comparison.

• There was a high degree of accuracy in obtaining truthful and unbiased information or facts because the researcher did not request respondents' identities and pledged to keep the material secret and only utilized for the purpose of this study. This minimized the worry of disclosing certain material considered secret, which also contributed significantly to this research investigation.

Questionnaire Disadvantages

• Questionnaires are prone to misunderstanding and misinterpretation since what is apparent to one person may not be clear to another, especially when the capital structure is involved.

• Some questions may be disregarded, and respondents' participation is not guaranteed.

• Because the researcher prefers easy study questions, the use of closed-ended questions generates generic data that cannot tell whether respondents were being truthful or not.

3.7.3 Interactions

An interview is a structured conversation between two or more persons (Saunders et al, 2005). Interviews were done in Chitungwiza SMEs at random.

The Benefits of Interviews

• Interviews can motivate respondents to take the questions seriously by motivating them.

• They provide for greater flexibility in a discourse in terms of order, language, and direction. The researcher can readily paraphrase and explain the query in this scenario.

• Nonverbal behavior interpretation was used to gather further information.

Interview disadvantages

• Conducting interviews was time consuming and costly since, despite the fact that just 200 people were chosen for the sample, it required several days to interview them all.

• Respondent confidentiality was jeopardized. The interviewer may, deliberately or unknowingly, persuade interviewees to misinterpret or misrepresent their comments.

3.8 Validity and Reliability

The term "reliability" refers to the amount of consistency displayed by the various methodologies in the research. To guarantee that respondents did not fill out surveys carelessly, extreme vigilance was used. Questionnaires were completed with the researcher's patience, providing clarification as needed. Data was collected during convenient working hours when respondents were not rushed. The intended respondents were SMEs' directors, managers, or senior management with complete knowledge of the research's findings. During the interviews, great effort was taken to ensure that neither the interviewer nor the interviewee's prejudice tainted the results.

3.9 Data Display and Analysis

3.9.1 Data Display

Quantitative data was structured and shown in tables, bar graphs, and Pie charts using SPSS version 29. Tables are popular among researchers as data presentation tools because they allow them to readily classify diverse data sets. Because pie charts and bar graphs are good tools for illustrating data trends, they were employed to depict information. Following the collection and presentation of data, data analysis occurs.

3.9.2 Information Analysis

After verifying for questionnaire completeness, the researcher edited, coded, and cleaned the data. To analyze the data and generate results, the Statistical Package for Social Sciences (SPSS) Version 29.0 program and Microsoft Excel were utilized. Because the study is descriptive in nature, descriptive analyses were performed on the data. For descriptive analyses, the mean, mode, variance, and standard deviation were used to measure the response to each statement under each variable. In inferential statistics, Pearson's correlation will be used to investigate the connection between the independent and dependent variables.

3.10 Conclusion

The chapter discussed the researcher's research approach. This chapter laid the ground for chapter four, which will provide an account of the observations made throughout the data gathering process, from which conclusions and suggestions will be stated in chapter five.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION.

4.0 Introduction.

This chapter presents the results of the data analysis and interpretation. Questionnaires and interviews were the major data collection methods for this study. In conclusion, this chapter provides the perspectives and experiences of many respondents, particularly owners, directors, and managers of SMEs operating at the Makoni retail center in Chitungwiza.

4.1 Analysis of Data Response Rate

4.1.1 Questionnaire

Table 1: Response rate.

	Distributed	**Returned**	**Not Returned**
Questionnaire	70	65	5
Percentage	**100%**	**93%**	**7%**

Source: Research Results 2022

A large number of surveys distributed to various SMEs within the Makoni Shopping Centre were successfully returned. 65 questionnaires were collected and reviewed, accounting for 93% of the total sample of 70 distributed with an emphasis on the research themes. Only 7% of the surveys distributed were not returned. It was rewarding, given how little time they had to complete the surveys.

4.1.2 Interviews

Twenty interviews were conducted with targeted respondents in the manufacturing sectors of Makoni Area. The interviews mostly addressed the difficulties SMEs have in obtaining financing from various financial institutions as well as solutions to these problems. The response rate is shown in the table below.

Table 2. Summary of interview response rate

Number of intended respondents	Number of actual Respondents	Response rate %
40	**20**	**50**

Source: Research Results 2022

The researcher was able to interview 20 people out of the 40 people that were the subject of the study. Because there was a 50% response rate, the information gathered is appropriate for any recommendations that will be made**.**

4.2 Profile of the Respondents

4.2.1 Gender of the respondents

The figure 1 below shows the distribution of the respondents by gender

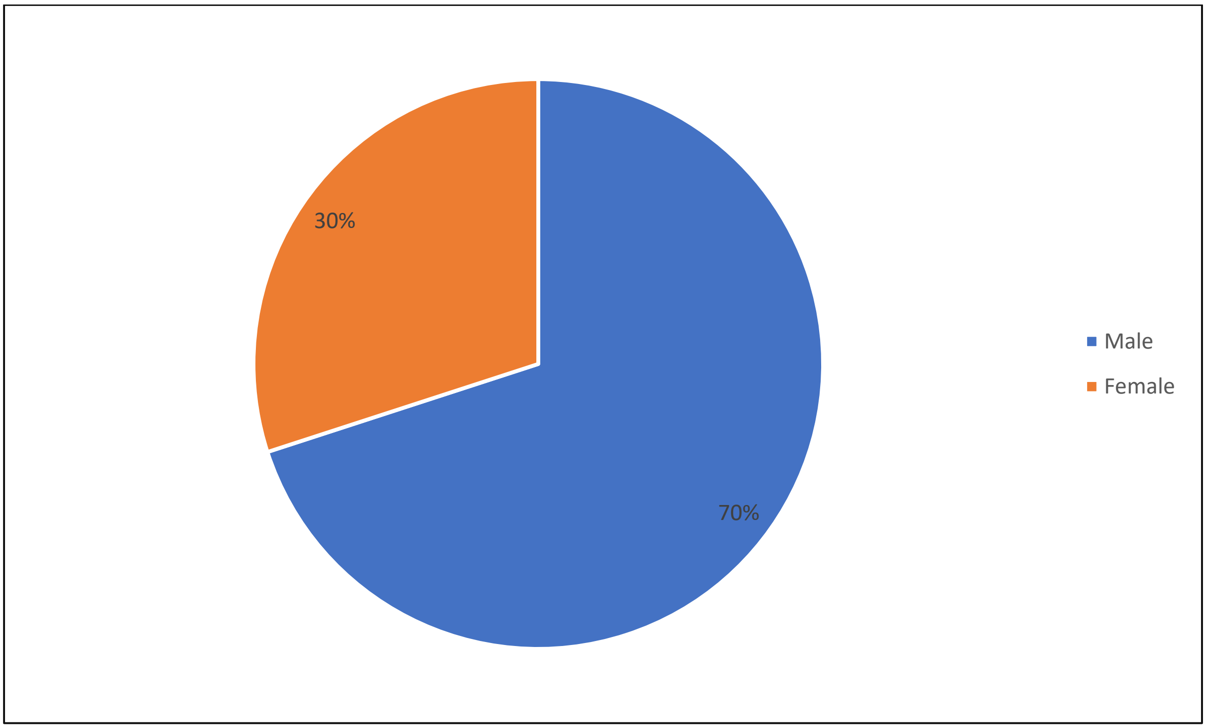

Figure 1 Gender of the Respondents

Source: Primary data (2022)

According to the survey findings, 70% of respondents were male and 30% were female. This suggested that the male gender dominated the SMEs at Makoni Shopping Centre. This demonstrates that the researcher observed gender balance during the distribution of surveys. This study included both male and female perspectives.

4.2.2 Level of Education of the sample

The figure 2 below indicate the distribution of the respondents by their level of education.

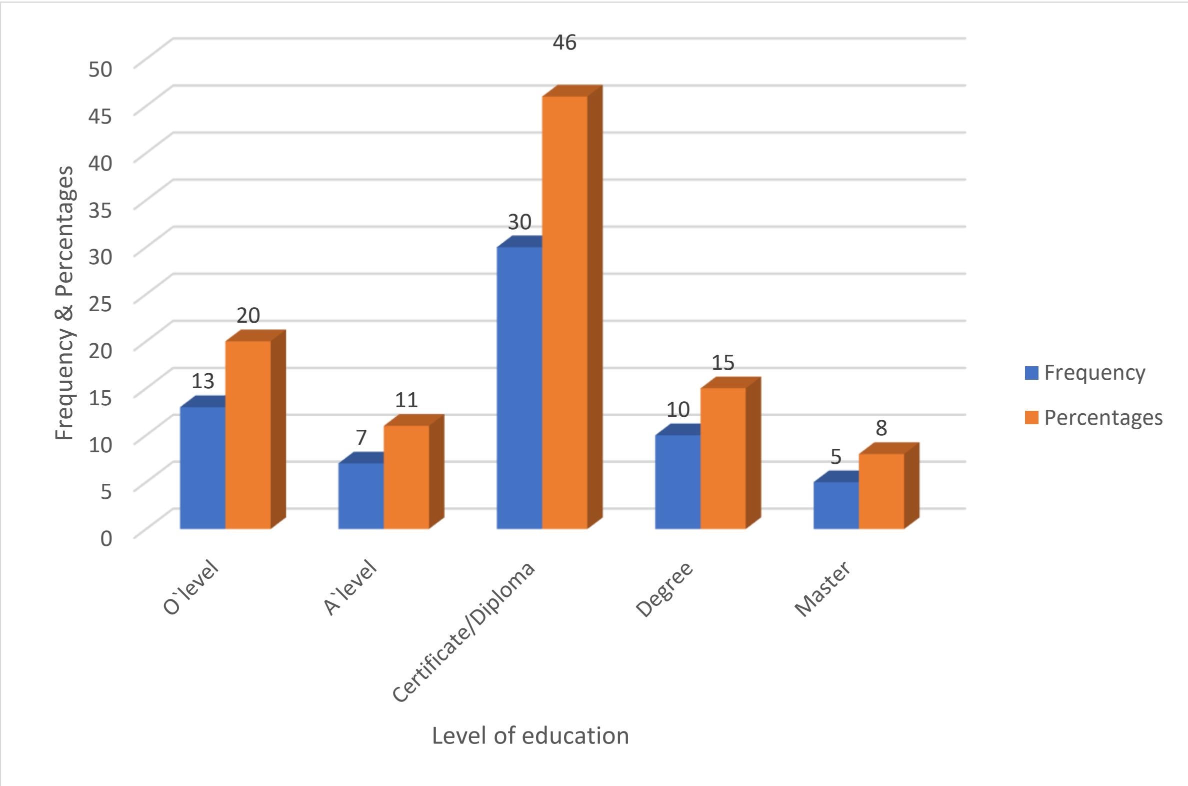

Figure 2 Level of education

Source: Primary data (2022)

The degree of education is critical in this study since it informs the researcher that the owners and company managers are educated enough to comprehend the concerns that the researcher requires. The response also assisted the student in determining how well they comprehended the decision-making process and the environment in which they function. According to the poll, the majority of respondents (46%) held Certificates or Diplomas, followed by O' level

(20%) and Degree (15%). Only 11% had an A' level, while only 8% had a Masters degree. The findings contradict Jameson's (2002) claim that SMEs have difficulty hiring and maintaining qualified graduates because they choose to work for large corporations that can provide greater compensation, employment stability, and career opportunities.

4.2.3 Duration of Business Existence

The figure 3 below shows how long the respondents had been in business.

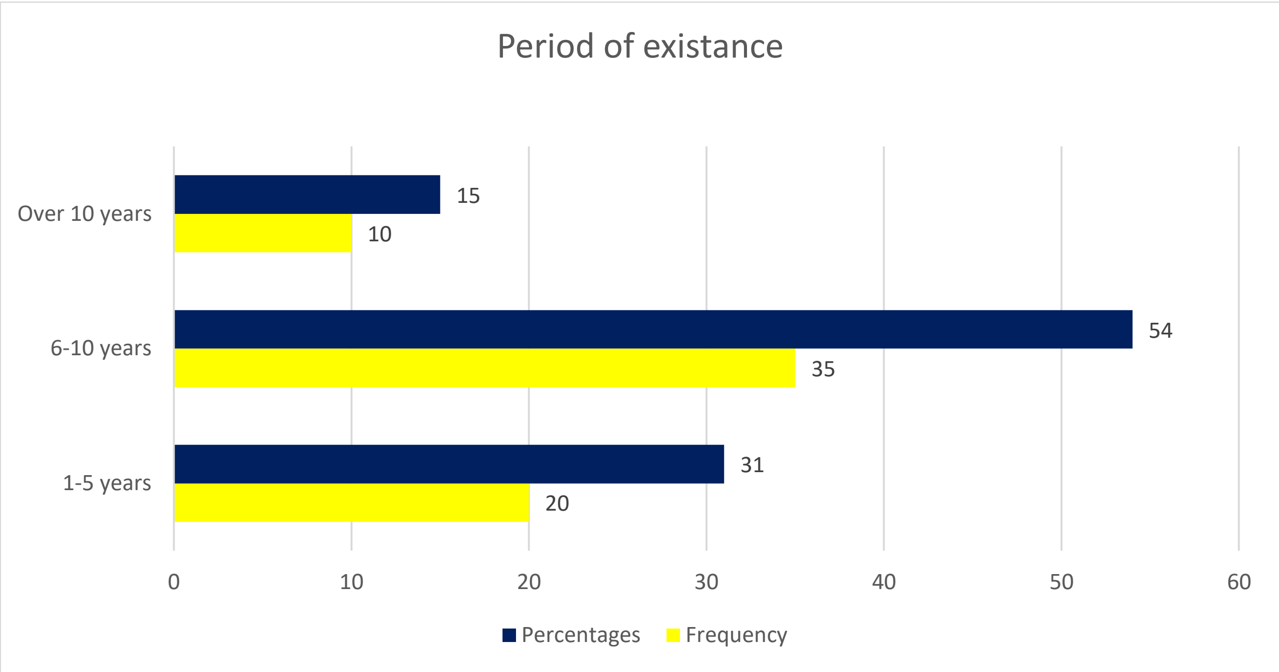

Figure 3 Duration of existance

Source: Primary data (2022)

35 or 54% of respondents had been in the SMEs business for more than 5 years, showing that the respondents had sufficient working experience and understanding with the SMEs. This ensures the authenticity of the data gathered by the researcher because it was obtained from experienced respondents in their organization's operations. The veracity of this data was critical to the researcher since it allowed him to reach valid findings and suggestions.

4.2.4 Responses on Industry they are operating In

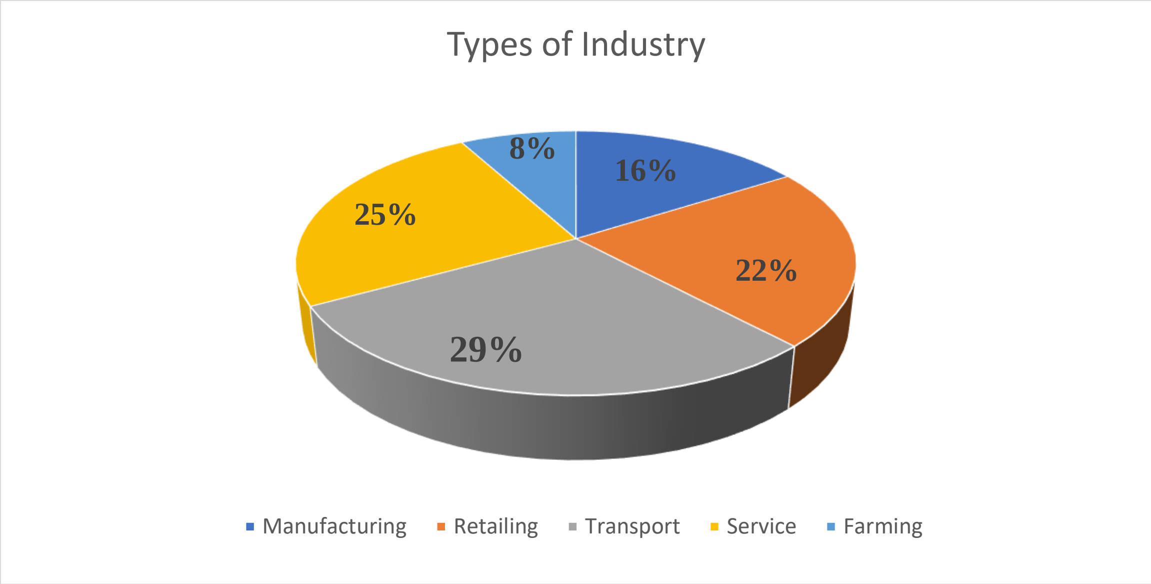

Figure 4 Industry of Operation

Source: Primary data 2022

The respondents were then asked which industry they worked in. 29% of respondents worked in transportation, 25% in service, 22% in retail, 16% in manufacturing, and 8% in farming. The study also discovered that the majority of respondents in farming and industry had just an ordinary or advanced degree of schooling. The findings are consistent with the findings of Mbugua et al. (2013), who stated that SMEs' inadequate financial management abilities and entrepreneurial qualities are statistically important in influencing their finances. Thassanabanjong et al. (2009) agreed that management training is critical for productivity and quality, as well as influencing the organization's effectiveness and efficiency. Shafeek (2009) found that the degree of education and industry of operation are crucial factors in the growth and financial stability of SMEs.

4.3 Sources of finance Used by the SMEs

The composition of the major sources of finance available to Makoni shopping centre SMEs is given in Table 3 below

Statistics

		Indicate the extend to which Bank loan financing is available	Indicate the extend to which Trade credit financing is available	Indicate the extend to which Government grants financing is available	Indicate the extend to which Equipment loan and leases financing is available	Indicate the extend to which Personal resources financing is available	Indicate the extend to which Retained profits financing is available
N	Valid	65	65	65	65	65	65
	Missing	5	5	5	5	5	5
Mean		3.14	3.25	1.31	1.37	4.18	3.02
Std. Error of Mean		.165	.174	.133	.145	.085	.136
Std. Deviation		1.333	1.403	1.074	1.167	.682	1.097

Table 3 Major Sources of finance for SMEs

Source: Primary data 2022

The survey determined that personal resources are the most important sources of capital accessible to Makoni SMEs, ranking first with a mean value of 4.18 and a standard deviation of 3.02. Trade credit was placed second, with a mean value of 3.25. This indicates that other SMEs are getting their funding from financial institutions. Bank loans came in third place with a mean value of 3.14, followed by equipment loans and leases in fourth place, retained earnings in fifth place with a mean value of 3.02, and government grants in sixth place with a mean value of 1.31. This means that the majority of respondents acquire their initial cash from sources of little or no interest, namely personal resources.

The findings are consistent with Manyani's (2014) study on venture capital research, which indicated that the majority of SMEs in Bindura finance their firms using their own money, family, and friends. The findings suggested that the financing alternatives accessible to Bindura

SMEs are impractical for supporting the capital necessary for their operations due to commercial banks' severe standards.

4.4 Challenges faced by SMEs on obtaining sources of finance.

The research main thrust was to probe challenges that are being faced by Makoni SMEs in accessing financing from financial institutions and the respondents were asked to indicate the challenges through a five-point Likert scale (1=no extent, 2=less extent, 3=neutral, 4=great extent, 5=very great extent) and the computed mean values are shown on table 4.4 below

Challenges faced by SMEs on obtaining sources of finance

Descriptive Statistics

	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
Competition from large firms	65	2.45	.177	1.426
Inadequate financial statements	65	2.32	.178	1.437
High interest rate	65	3.55	.174	1.403
Financial Illiteracy	65	2.48	.184	1.480
Lack of collateral security	65	3.06	.187	1.509
Valid N (listwise)	65			

Table 4: Challenges faced by SMEs on obtaining sources of finance

Source: Primary data (2022)

The results show that Interest rate was rated first, with a mean value of 3.55 and a standard deviation of 1.4, as confirmed by Owusu et al (2015) aversion that aversion that Interest rates on SMEs loans are extremely high; repayment periods on SMEs loans are too short, making it difficult to embark on any developmental or expansion projects; most SMEs do not understand the terms and conditions; and, of course, the interpretation of the percentage charged on the loan. These findings agreed with those of a research conducted by Mwangi and Bwisa (2013) on obstacles facing entrepreneurs in getting credit: a case of young entrepreneurs in Makuyu, Kenya, which discovered that most youth entrepreneurs had challenges in accessing credit due to high credit costs. This was demonstrated by high loan processing fees, high legal fees, high interest rates, high credit insurance costs, and high expenses paid when seeking for credit. Inadequate collateral to secure loans came in second (mean=3.0, SD=1.50), and the findings are consistent with those of Matavire et al (2013). In their study on the obstacles that SMEs have in getting money from financial institutions, the case of Bulawayo, Zimbabwe discovered that SMEs struggle to acquire loans due to restrictive conditions, the most important of which is collateral security.

Financial illiteracy (mean =2.5; SD=1.5) came in third place. These findings back up the findings of a study conducted by Samudzimu et al (2022), who concluded that other institutions take advantage of SMEs' lack of education and, for a variety of reasons, fail to provide information and explain interest rates and how they affect loans made to small businesses. There is also information on when they must repay, which causes a problem. Large enterprise competition (mean=2.45; SD=1.4) was in fourth place. Larger established enterprises continually compete with SMEs for access to capital and markets. Finally, but not least, poor financial statements were placed fifth with a mean of 2.3 and a standard deviation of 1. 4.

In-depth interviews also revealed that a lack of collateral security, weak business plans, a lack of understanding, and exorbitant borrowing prices are some of the major barriers to credit for SMEs. Mutezo, AT (2005) and Chimucheka, T (2013) agree, identifying these issues as major barriers to getting credit. The majority of small company owners indicated that they are unaware of the criteria employed by banks when awarding loans.

4.5 Financial management skills that are important for the access to finance by SMEs.

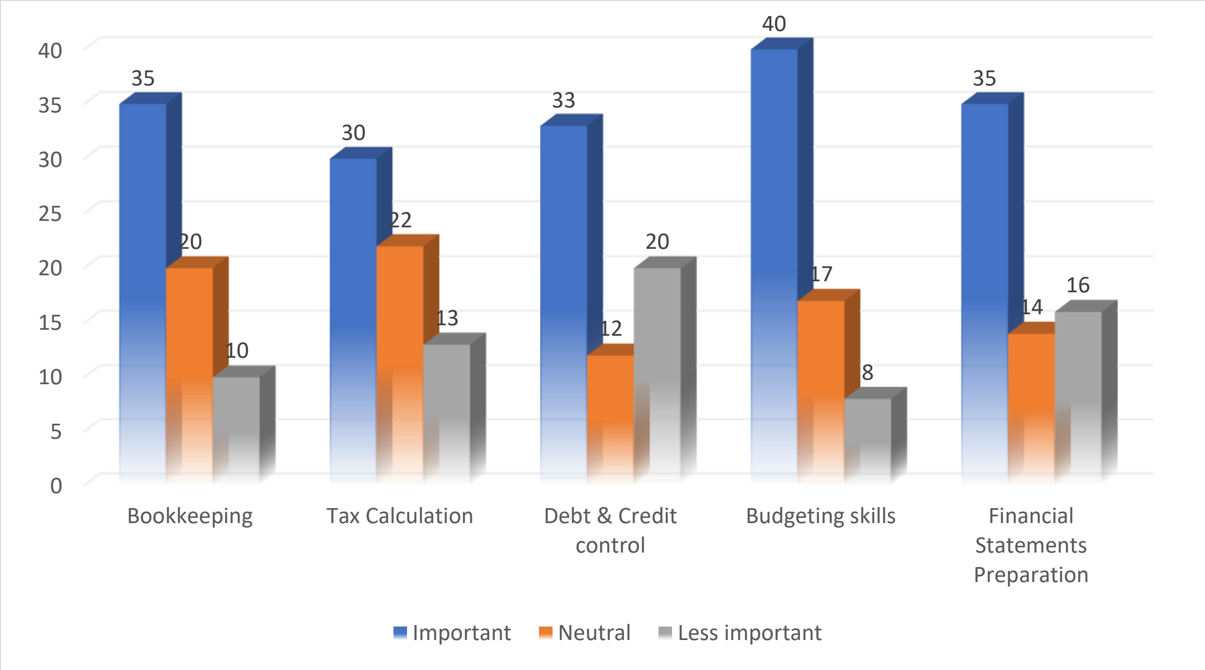

Figure 5 Financial management skills that are important for the access to finance by SMEs

Sources: Primary data 2022

In a nutshell, the findings show that the most critical financial management skills for the growth of SMEs in Chitungwiza are budgeting, accounting, tax calculation, financial statement preparation, and credit control. The findings are consistent with previous research by Makatiani (2006), who said that small and medium-sized businesses lack the requisite abilities in human resource management as well as financial management. According to Ntishika (2002), the key barriers impeding small business access to finance and stability in South Africa include a lack of resources, insufficient funding, and a lack of skills and managerial knowledge.

4.6 Effect of shortage of finance on Business Investment

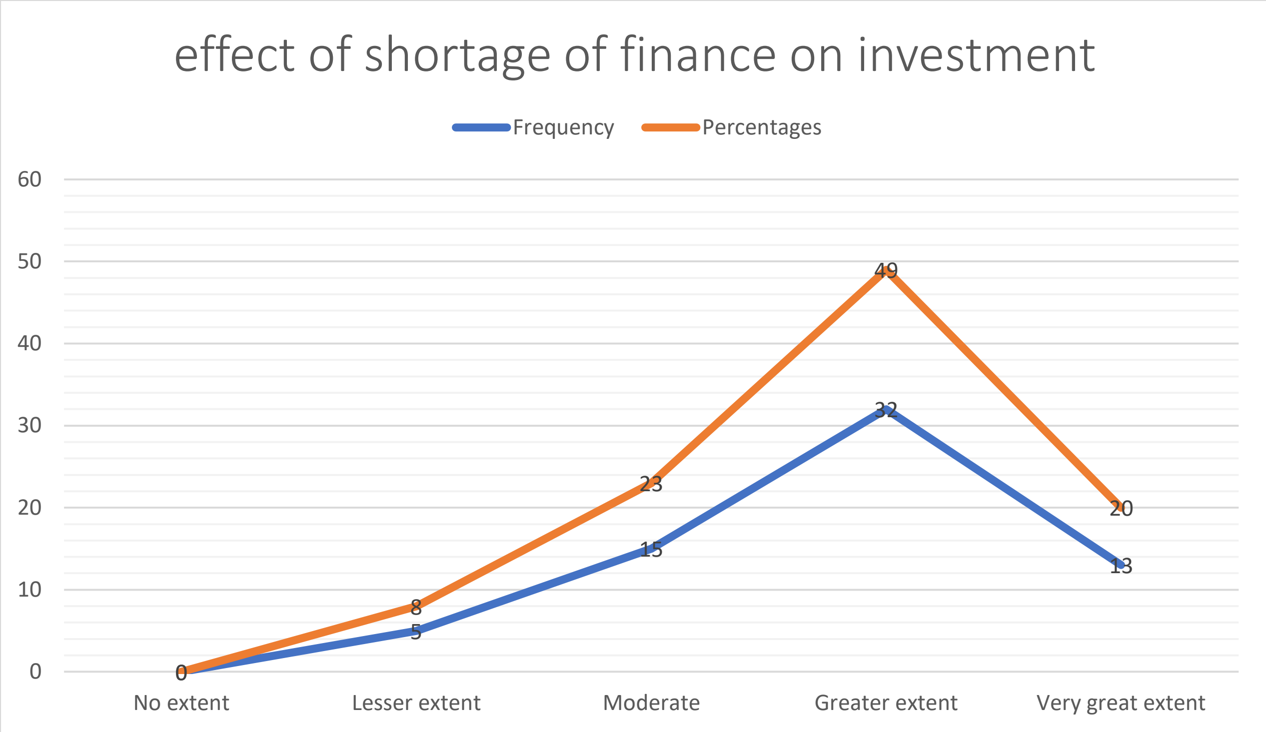

Figure 6: Effect of shortage of finance on Business Investment

Source: Primary data (2022)

The data above demonstrates that a lack of financing has a significant impact on business operations, affecting 49% of respondents, while it has a minor impact on 8% of respondents. This demonstrates that practically every small firm faces difficulties in obtaining financing from banks and other financial institutions, which may result in a funding deficit. The findings are consistent with those of Ahiawodzi and Adade (2012), who indicated that access to credit had a strong positive effect on the development of SMEs in Ghana's Ho municipality. Furthermore, Hwingwiri (2013) discovered that the exceptionally low level of investment encountered by SMEs operating in Msasa is attributable to a shortage of funding. According to the research, SMEs finance their initiatives using personal savings, borrowing from family and friends, and internally produced cash, which proved insufficient as demonstrated by the difficulties experienced.

4.6 Ways to reduce challenges faced by SMEs on obtaining sources of finances.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Preparation of financial statements	6	8.6	9.2	9.2
	Merging	30	42.9	46.2	55.4
	Attending Financial Management Seminars	12	17.1	18.5	73.8
	Be active on government policies	17	24.3	26.2	100.0
	Total	65	92.9	100.0	
Missing	System	5	7.1		
Total		70	100.0		

Table 5: Ways to reduce challenges faced by SMEs on obtaining sources of finances.

Source: Primary data (2022)

The survey also asked respondents to identify methods to lessen the difficulties that SMEs encounter in securing funding sources. According to the report, 46% of respondents advised SMEs margining as a solution to alleviate obstacles in accessing sources of capital. This was further upon in an interview when they increased their collateral security in order to borrow from banking institutions. This outcome is also consistent with the suggestion made by Manyani (2014) that SMEs create groupings and combine their negotiating power for borrowing reasons, rather than depending on loan funding.

According to 26% of respondents, SMEs must be active participants in government policies and programs. According to 18% of respondents, sending SMEs delegates to financial management seminars is another option to reduce issues encountered by SMEs owing to financial illiteracy. As a result, now that they are aware of financial management, they will be able to identify sources of funds to finance their businesses and how to get them. While 9% believe that preparing financial accounts by SMEs every year will lessen issues.

4.7 Conclusion

This chapter discusses the data gathered during the field research. It also analyzed the data and related it to the chapter two literature review. The next chapter provides a summary of the findings, the study's conclusion, and suggestions.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter focuses on the summary of the research findings, conclusions and recommendations.

5.2 Summary of findings

The study sought to identify the issues impeding small and medium-sized businesses in Chitungwiza from acquiring financing. The lack of collateral security by SMEs to be given loans by banks, high borrowing costs, financial illiteracy in financial management on ploughing back profits and working capital management, inadequate financial statements accompanied by competition from large firms were found to be the major contributing factors for failures by SMEs to access finance from financial institutions.

The majority of respondents obtained their start-up money from personal savings, followed by bank loans, retained earnings, government subsidies, equipment loans and leases, and trade credit, according to the study. This demonstrates that the majority of SMEs at Makoni choose to obtain start-up financing from sources of credit that do not need collateral securities or interest rates.

5.3 Conclusion

The study's goal was to identify the barriers to financing that small and medium-sized businesses confront, such as excessive borrowing prices, a lack of collateral security, and financial illiteracy. According to the survey, financial variables and the availability of managerial skills are the most important factors influencing access to finance. Several elements have been identified as critical to the financial health of SMEs in Chitungwiza. Access to capital, cost of funding, entrepreneur skills, general management skills, and finally government rules governing SMEs activities are the determinants.

The management skills that were found to be of importance and they affect the accessibility of finances by small to medium enterprises in Chitungwiza were bookkeeping, tax calculation, debt and credit control, budgeting skill and financial statements preparations.

5.4 Recommendations

The following recommendations are made to lessen the challenges faced by SMEs in obtaining sources of finances in Chitungwiza and in Zimbabwe at large. This is ultimately aimed at all SMEs in different sectors of the economy.

i. Management skills: SME's must make an effort to educate management on the managerial functions that have a direct effect on accessing sources of finance. These financial managerial skills preparation of financial statements, planning skills, budgeting skills and tax calculation. Financial institutions, lenders and interested investors usually require financial statements and budgets.
ii. Good working relations: Since SMEs are affected by finance shortages, they should form partnerships with the government so that they can get funds for the proposed training programs. More so, merging of SMEs in the same line of business in order to boost their sources of finance and to get rid of the lack of collateral affect.
iii. Government intervention: the government should intervene and improve access to finance by SMEs through simplifications of lending procedures and processes by the banks. The collateral requirements may be revisited to accommodate the requirements of SMEs and also the interest rates may be lowered. The government can offer credit

guarantees and make provisions for start-up funds for SMEs. The government can recapitalise SEDCO so that it offers financial assistance for SMEs to have sources of finance easily and at low cost. The government can also set aside funds for the development of SMEs and issue these in a transparent manner and launching more programmes such as to support SMEs and for them to be active on all Zimbabwe enacted policies.

iv. Access to information: SMEs should network and form cooperatives with other SMEs and large organisations to acquire access to large markets for profits since it's a major source of finance to SMEs. SMEs sending their delegates to attend financial management seminars and trainings in order to curb challenges of obtaining sources of finance. They can also set up business centres so as to make sure that SMEs at all levels have access to information at low cost. They can also form an organisation that set up a national website for SMEs as well as some directory service providers. The organization can also educate SMEs on the incentives available to them and how to access them.

5.5 Areas for further research

The research work requires some further research to be done. Firstly, the research was centered on small to medium enterprises in Chitungwiza. It is therefore recommended that further research is done to establish whether the results would be consistent across different cities of Zimbabwe. Secondly, the research was investigating challenges faced by SMEs on obtaining sources of finances, it therefore recommended that further research is done on other variables such as growth of SMEs. Lastly, for comparison purposes, the research could be carried out in some other parts of Southern Africa.

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APPENDIX 1

QUESTIONNAIRE LETTER

Bindura University Of Science Education

P. Bag 741

Chimurenga Rd

Bindura, Zimbabwe

Dear Sir/ Madam

RE: APPLICATION FOR THE AUTHORITY TO CARRY OUT AN ACADEMIC RESEARCH WITH YOUR ORGANISATION.

I am a 4th year student at Bindura University studying towards Bachelor of Accounting Honours degree. I am doing the research as a partial fulfilment of my degree program and the research topic reads:

An investigation into the challenges faced by SMEs in obtaining finance in promoting investment. A case study of Chitungwiza (Makoni) SMEs.

I therefore kindly ask you to assist me in my studies by completing this questionnaire. All the information given is strictly confidential and will be used for research purpose only. Names, Employee code or Job numbers are not required.

Yours Faithfully.

Israel Veterai

APPENDIX 2

THE INTERVIEW QUESTIONS

1. What is your experience with SMEs?

2. What is your level of education?

3. Which industry are you operating?

4. Which sources of finance are you using as an SMEs

5.What are the challenges you are facing on obtaining sources of finance for your business?

6. Which financial management skills are important for the access to finance of your business?

7. To what extent do shortage of finance affects investment by your business?

8. What are the possible ways you suggest reducing the challenges faced by SMEs on obtaining sources of finance?

APPENDIX 3

QUESTIONNAIRE

Show your response by either a tick or completing the gap

SECTION A: BIOGRAPHICAL DETAILS

1.Indicate your gender

Female ☐ Male ☐

2.Your experience with SMEs

Below 5 years	
6-10 years	
Above 10 years	

3.What is your level of education?

O'Level **[ ]** A`Level **[ ]** Diploma **[ ]** Degree **[ ]** Masters **[ ]**

4. Which industry are you operating in?

Manufacturing **[ ]** Retailing **[ ]** Transport **[ ]** Service **[ ]** Farming **[ ]**

SECTION B: DETAILED INFORMATION

5. Sources of finance used by the SMEs

Bank Loan	
Trade Credit	
Retained Profits	
Owners Investment	
Government grants	
Equipment Loans and Leases	

6. Indicate the extent to which the following challenges affect Makoni SMEs in accessing finance.

(1=no extent, 2=less extent, 3=neutral, 4=great extent, 5=very great extent)

Challenges	**1**	**2**	**3**	**4**	**5**
High Interest rate					
Lack of collateral security					
Competition from large firms					
Financial illiteracy					
Inadequate financial statements					

7. Please rate the following statement by ticking appropriate box below

To what extent to which shortage of finance affects Investment by SMEs at Makoni Shopping Centre				
No extent	Lesser extent	Moderate	Greater extent	Very great extent

8. Which of the following Financial Management Skills are important for the access to finance by SME?

Factors	**Important%**	**Neutral%**	**Less important%**
Bookkeeping skills			
Tax Calculation skills			
Debt and Credit Control			
Budgeting Skills			
Financial Statements Preparations skills			

9. In your views, what do you think should be done by Government, Financial Institutions or SMEs operators in order to overcome the challenges faced by SMEs in accessing finance from financial institutions?

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Thank you for cooperation.