**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**DEPARTMENT OF INTELLIGENCE AND SECURITY STUDIES**

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**SOURCES OF FINANCE FOR SMALL FIRMS IN ZIMBABWE: A CASE OF SMALL FIRMS IN BINDURA.**

**BY**

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**B192295B**

**A DISSERTATION SUBMITTED TO THE FACAULTY OF COMMERCE IN PARTIAL FULFILMENT FOR THE BACHELOR OF ACCOUNTANCY HONOURS DEGREE AT BINDURA UNIVERSITY OF SCIENCE EDUCATION**

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# Release Form

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# Dedication

I would like to express my gratitude to my parents for their constant support and encouragement. Their unwavering belief in me has been instrumental in my academic success.

I also want to thank my little brother Silent for his unwavering faith in my abilities and for always cheering me on.

Lastly, I extend my gratitude to my mentors for their guidance and expertise. They have challenged me to reach for my goals and have been a source of inspiration. Without their help, I would not have achieved this remarkable milestone.

#  Abstract

This research aimed to identify the sources of finance available to Small and Medium Enterprises (SMEs) in Bindura, evaluate their effectiveness, and propose recommendations for improving access to finance for SMEs in the area. The objectives of the study were to identify the current sources of finance used by SMEs in Bindura, to evaluate the effectiveness of the current sources of finance in meeting the financial needs of SMEs in Bindura and to propose recommendations for improving the access to finance for SMEs in Bindura. A mixed methods approach was applied utilizing questionnaires and interviews for quantitative and qualitative data gathering respectively. As key findings, a majority of SMEs had friends and family as a source of finance which they found to be moderately effective in meeting their financial needs. A significant proportion of SMEs obtained loans but reported difficulties in loan repayment, attributing these challenges to factors such as high interest rates, limited collateral, and complex application processes. The findings of the study align with previous research conducted in Zimbabwe and other African countries, emphasizing the importance of both formal and informal financing sources for SMEs. The study also confirms the impact of the accessibility and effectiveness of formal financing options on SME growth and development, the hindrance caused by the lack of financial literacy, and the significance of collaborative efforts among stakeholders in improving access to finance. The study recommended the development of more inclusive loan products tailored for SMEs to address their specific financing needs and constraints.

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# CHAPTER ONE

## Introduction

This research aims to explore the finance options for small and medium-sized businesses (SMEs) in Bindura, Zimbabwe, and analyze their effectiveness. The study will also provide suggestions to improve SMEs' access to financial resources. This chapter outlines the study's purpose, objectives, research questions, and significance. It highlights the significance of understanding the finance options for SMEs in Bindura and improving their access to financial resources.

## Background to the study

Small and medium-sized enterprises (SMEs) play a crucial role in economic growth and development, yet they often face challenges in accessing finance. In Zimbabwe, SMEs account for a significant portion of employment and GDP, yet they face various barriers to accessing finance from formal financial institutions. Bindura, a town in Mashonaland Central Province, hosts several SMEs that also face challenges in accessing finance. This study aims to identify the sources of finance available to SMEs in Bindura, evaluate their effectiveness, and provide recommendations for improving access to finance for SMEs in the area. The study will provide insights into the current sources of finance used by SMEs in Bindura, the challenges they face in accessing finance, and the effectiveness of the available sources of finance. The findings will be useful to policymakers, financial institutions, and SME owners in Bindura, informing them of best practices for improving access to finance for SMEs.

## Statement of the problem

Small firms in Zimbabwe face significant challenges in accessing finance, which hinders their growth and development. Despite the significance of SMEs to the economy, they often struggle to secure funding from formal financial institutions because they lack collateral security, limited credit history, and stringent lending criteria. This study aims to investigate the sources of finance available to small firms in Zimbabwe, with a case study of small firms in Bindura. The study seeks to answer the research question of what are the sources of finance available to small firms in Zimbabwe, with a case study of small firms in Bindura, and the effectiveness of these sources in meeting the financial needs of small firms in Bindura. The significance of the study lies in its potential to inform policymakers, financial institutions, and small firm owners on the best practices for improving access to finance for small firms in Zimbabwe, particularly in Bindura.

## Aim of the study

The aim of this study is to identify the sources of finance available to Small and Medium Enterprises (SMEs) in Bindura, evaluate their effectiveness, and propose recommendations for improving access to finance for SMEs in the area.

## Objectives of the study

* To identify the current sources of finance used by SMEs in Bindura
* To evaluate the effectiveness of the current sources of finance in meeting the financial needs of SMEs in Bindura
* To propose recommendations for improving the access to finance for SMEs in Bindura

## Research hypothesis

* H1: The proportion of small firms in Bindura that rely on personal savings as a source of finance will be significantly higher than the proportion of small firms in Bindura that rely on bank loans.
* H2: The proportion of small firms in Bindura that use informal sources of finance will be significantly higher than the proportion of small firms in Bindura that use formal sources of finance.
* H3: The proportion of small firms in Bindura that have applied for a loan in the past 12 months will be significantly higher than the proportion of small firms in Bindura that have not applied for a loan in the past 12 months.

## Significance of the study

This study is significant in several ways. First, it will contribute to the existing literature on SME finance in Zimbabwe by providing empirical evidence on the sources of finance available to SMEs in Bindura and their effectiveness. This information will be useful to policymakers and financial institutions in designing targeted interventions to support SMEs in the area.

Second, the study will provide valuable insights to SME owners in Bindura on the best practices for accessing finance, which can improve their ability to make informed decisions about financing their businesses. This can lead to better financial management and improved business performance.

Third, the study will provide a basis for future research on SME finance in Zimbabwe, particularly in other small towns and rural areas where access to finance is limited.
The study's findings will highlight the challenges and opportunities faced by SMEs in Bindura, providing valuable insights into the specific context of SME finance in Zimbabwe. This information can inform future research on how to improve access to finance for SMEs in other parts of Zimbabwe and other developing countries.

Moreover, the study's contribution to the body of knowledge on SME finance in developing countries will be significant. The findings can be used by policymakers and development agencies to design interventions aimed at improving access to finance for SMEs in other developing countries facing similar challenges. The study's findings can inform the development of policies and programs aimed at addressing the specific challenges faced by SMEs in Zimbabwe, such as limited access to finance, and can help to promote the growth and development of SMEs in the country.

## Delimitations of the study

* The study will only focus on SMEs in Bindura, a small town in the Mashonaland Central Province of Zimbabwe. Therefore, the findings of the study may not be applicable to SMEs in other regions of Zimbabwe or in other countries.
* The study will only focus on the sources of finance available to SMEs and their effectiveness in promoting the growth and development of SMEs. Other factors, such as regulatory frameworks, political stability, and market conditions, which may also influence SME growth and development, will not be addressed.
* The study will rely on data collected from SME owners and financial institutions in Bindura. The study will not include other stakeholders such as government officials, development agencies, and SME associations, whose perspectives could provide additional insights into the challenges and opportunities facing SMEs in Bindura.
* The study will only consider formal and informal sources of finance available to SMEs in Bindura. Other forms of support, such as technical assistance, training, and mentoring, which can also contribute to the growth and development of SMEs, will not be included.

## Limitations of the study

* The study relies on self-reported data collected from SME owners and financial institutions in Bindura. Respondents may provide inaccurate or incomplete information, leading to potential biases in the study's findings.
* The study's sample size may be limited, and it may not be representative of all SMEs in Bindura. Therefore, the study's findings may not be generalizable to the entire population of SMEs in the area.
* Third, the study's cross-sectional design does not allow for the examination of changes in SME financing over time. Longitudinal studies could provide more robust evidence of the effectiveness of various sources of finance and their impact on SME growth and development.
* The study may be limited by the availability and reliability of data on SME financing in Bindura. Some financial institutions may not have complete or accurate records of their lending practices, and SME owners may not keep detailed records of their financing activities, leading to potential gaps in the study's data.

## Definition of key terms

* **Formal sources of finance**: "sources of credit that are provided by financial institutions, such as banks and credit unions, or other formal lending institutions" (Beck, Demirgüç-Kunt, & Maksimovic, 2005). In this study, formal sources of finance refer to loans, credit lines, and other forms of credit provided by banks, microfinance institutions, and other formal lending institutions.
* **Informal sources of finance:** "sources of credit that are not provided by financial institutions, such as friends and family, moneylenders, and other informal lenders" (Beck et al., 2005). In this study, informal sources of finance refer to financing obtained from personal savings, family and friends, and other informal lenders.
* **Access to finance:** "the ability of individuals and firms to obtain financial services from formal financial intermediaries" (Demirgüç-Kunt & Klapper, 2013). In this study, access to finance refers to the ability of SMEs in Bindura to obtain credit and other financial services from formal and informal sources.
* **Financial literacy**: "the ability to understand and effectively use various financial skills, including budgeting, investing, and credit management" (Huston, 2010). In this study, financial literacy refers to the knowledge and skills that SME owners in Bindura possess regarding financial management and access to finance.
* **Creditworthiness**: "the ability of a borrower to repay a loan according to its terms" (Calem & LaCour-Little, 2004). In this study, creditworthiness refers to the financial and non-financial factors that determine the likelihood of SMEs in Bindura repaying their loans and other forms of credit.
* **Collateral**: "property that is pledged as security for a loan" (Bhattacharyya, 2014). In this study, collateral refers to assets pledged by SMEs in Bindura to secure loans or other forms of credit.
* **Microfinance**: "provision of financial services to low-income individuals, including microcredit, micro savings, and microinsurance" (Ledgerwood, 2006). In this study, microfinance refers to financial services provided by microfinance institutions to SMEs in Bindura.
* **Government grants**: "non-repayable funds provided by the government to support specific activities or projects" (Chowdhury & Alam, 2018). In this study, government grants refer to funds provided by the government of Zimbabwe to support SMEs in Bindura.
	1. Business growth: "the increase in the size, sales revenue, and profitability of a business over time" (Hansen & Deitz, 2018). In this study, business growth refers to the increase in the size, sales revenue, and profitability of SMEs in Bindura over time.

## 1.12 Chapter Summary

This chapter introduces the research topic, which examines the sources of finance for small and medium-sized enterprises (SMEs) in Bindura, Zimbabwe. The chapter includes the objectives, research questions, and significance of the study, as well as an overview of the research methodology, including the study's delimitations and limitations. The pinnacle point of this chapter is to provide readers with a clear understanding of the research topic and to set the stage for the subsequent chapters of the dissertation. The next chapter provides a review of literature related to this study.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

The primary objective of this chapter is to investigate the existing theoretical and empirical literature on small and medium-sized enterprises (SMEs), their access to finance, and the various sources of finance available to them. Furthermore, it will delve into the policies and initiatives aimed at promoting SME growth and development in Zimbabwe. The purpose of this chapter is to provide a thorough analysis of the factors that affect SME financing decisions in the Bindura region by critically examining the existing research on SME finance in Zimbabwe.

## 2.2 Theoretical framework

This study draws on two main theories to develop a theoretical framework for analyzing the sources of finance for SMEs in Bindura, Zimbabwe.

The first theory discussed in this study is the pecking order theory, developed by Myers and Majluf (1984). This theory suggests that companies have a preferred order for financing their investments, with internal financing being the preferred option, debt financing, and equity financing respectively. Myers and Majluf (1984), postulate that SMEs prefer internal financing because it is less expensive as compared to external financing. In support of debt financing Myers and Majluf state that it is preferred over equity financing because debt is seen as a cheaper source of capital, and it provides tax shields. Equity financing is seen as a last resort because it involves higher costs and dilutes ownership.

The second theory is the institutional theory (Scott, 2014), that explains the roles of social norms and expectations in shaping the behavior of organizations. According to this theory, organizations conform to established rules, norms, and conventions in order to gain legitimacy and support from external stakeholders. In the context of SME finance, institutional theory suggests that SMEs are influenced by the norms and expectations of financial institutions, investors, and other stakeholders when making financing decisions.

Together, these two theories provide a useful framework for analyzing the factors that influence SME financing decisions in Bindura, Zimbabwe. The pecking order theory helps to explain why SMEs may prefer certain sources of finance over others, while the institutional theory provides insight into the social and normative factors that may influence these decisions. By applying these theories to the analysis of SME finance in Bindura, this study seeks to provide a deeper understanding of the financing challenges facing SMEs in this context, as well as potential solutions for addressing these challenges.

## 2.3 Conceptual Framework

The conceptual framework for this study is based on the pecking order theory and agency theory, which are two theoretical frameworks that have been used to explain the financing decisions of SMEs.

Pecking order theory posits that SMEs prefer internal sources of finance over external sources, and that they prefer debt financing over equity financing. This theory suggests that SMEs will use retained earnings, debt financing, and equity financing respectively. The theory also suggests that the choice of financing will be influenced by factors such as the availability of internal funds, the cost of external funds, and the level of risk associated with the investment.

Agency theory posits that the relationship between the owners of the SME and its managers can create conflicts of interest, which can impact the financing decisions of the firm. This theory suggests that SME owners may prefer debt financing rather than equity financing, in order to retain control over the firm and to avoid diluting their ownership stake. The theory also suggests that the choice of financing will be influenced by factors such as the level of information asymmetry between owners and managers, the level of monitoring and control mechanisms in place, and the alignment of incentives between owners and managers.

Together, these two theories provide the basis for the conceptual framework for this study. The framework includes four key variables: internal financing, debt financing, equity financing, and firm performance. Internal financing refers to the use of retained earnings as a source of finance for SMEs. Debt financing refers to the use of loans, lines of credit, or other forms of debt to finance investments. Equity financing refers to the sale of shares in the SME to external investors, in exchange for capital. Firm performance refers to the growth and profitability of the SME.

The framework posits that the choice of financing will be influenced by factors such as the availability of internal funds, the cost of external funds, the level of risk associated with the investment, and the conflicts of interest between owners and managers. The framework also suggests that the choice of financing will impact firm performance, with debt financing potentially leading to higher risk and lower profitability, and equity financing potentially leading to higher growth and lower control for owners. By analyzing the factors that influence SME financing decisions in Bindura, Zimbabwe, this study seeks to provide a deeper understanding of the financing challenges faced by SMEs in this context, as well as potential solutions for addressing these challenges.

## 2.4 Review of Related Literature

### 2.4.1 Overview of Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are critical drivers of economic growth, job creation, and poverty reduction globally (Ayyagari, Beck, & Demirgüç-Kunt, 2007; UNIDO, 2016). SMEs account for more than 90% of all businesses and 60-70% of employment in most countries (OECD, 2017). SMEs are also major contributors to innovation, exports, and social cohesion in many regions of the world (Acs & Szerb, 2017). However, SMEs often face significant challenges in accessing the financing they need to start, grow, and sustain their operations (Beck, Demirgüç-Kunt, & Maksimovic, 2005; World Bank, 2019).

At the global level, there is a growing recognition of the importance of SME financing as a policy priority (UNCTAD, 2017). The United Nations' Sustainable Development Goals (SDGs) include a specific target on access to finance for SMEs, which highlights the need to "increase access to financial services, including affordable credit, and their integration into value chains and markets" (UN, 2015). The G20 countries have also prioritized SME financing as a key area of cooperation and have launched several initiatives to enhance access to finance for SMEs globally (G20, 2016).

At the regional level, SME financing challenges vary depending on the level of economic development, financial sector development, and business environment (Ayyagari et al., 2007). In Africa, for instance, SMEs often struggle to access financing due to the lack of collateral, weak legal and regulatory frameworks, and high lending rates (Kayanula & Quartey, 2000; Anyanwu, 2012). In Asia, SME financing is hindered by information asymmetry, limited financial literacy, and weak institutional infrastructure (Beck et al., 2005; Ayyagari et al., 2011). In Europe, SME financing is constrained by the dominance of large banks, the high cost of equity, and the limited availability of venture capital (European Commission, 2016).

At the national level, SME financing challenges are influenced by country-specific factors such as government policies, financial sector regulation, and cultural norms (World Bank, 2019). In Zimbabwe, for instance, SMEs face multiple financing challenges, including limited access to formal credit, high borrowing costs, and inadequate collateral (Mandeya & Chimucheka, 2019; Nhundu & Ojah, 2019). The government has launched several initiatives to enhance SME financing, such as the SMEs and Microfinance Policy and the Zimbabwe Women's Microfinance Bank. However, the impact of these initiatives on SME financing remains limited, and more needs to be done to improve access to finance for SMEs in Zimbabwe (Muponda, 2017).

The literature highlights the importance of SME financing as a driver of economic development and the challenges facing SMEs in accessing the financing they need to start, grow, and sustain their operations. The next section of this literature review will explore the different sources of financing available to SMEs and their relative advantages and disadvantages.

### 2.4.2 Internal Sources of Financing for SMEs

Internal sources of financing for SMEs are considered to be one of the most important means of generating funds for business operations. Two of the most common internal sources of financing for SMEs are retained earnings and working capital management.

Retained earnings are a type of financial statement that represents the portion of a company's net income that is retained for future use instead of being distributed as dividends to shareholders. This is stated in the accounting equation, which states that assets = liabilities + equity, where equity represents the residual value of the assets after liabilities have been paid off. Retained earnings can be an important source of financing for SMEs because they can provide the funds necessary for business expansion, research and development, and other investments without having to rely on external financing (Ntim et al., 2015).

Working capital management is another important internal source of financing for SMEs. Working capital refers to the amount of funds that a business needs to meet its day-to-day operating expenses and obligations. Effective working capital management can help SMEs to improve their cash flow and generate additional funds for business operations (Akoto, 2013).

At the global level, studies have shown that retained earnings and working capital management are important internal sources of financing for SMEs. For example, a study by Berger and Udell (2006) found that retained earnings were the most common source of financing for SMEs in the United States. Similarly, a study by Beck et al. (2014) found that working capital management was an important source of financing for SMEs in Europe.

At the regional level, studies have also shown that retained earnings and working capital management are important sources of financing for SMEs in Africa. For example, a study by Ntim et al. (2015) found that retained earnings were an important source of financing for SMEs in Ghana. Similarly, a study by Akoto (2013) found that effective working capital management was critical for the survival of SMEs in Ghana.

At the national level, Zimbabwe is no exception to the importance of retained earnings and working capital management as internal sources of financing for SMEs. According to a study by Musara and Mutongi (2016), retained earnings were an important source of financing for SMEs in Zimbabwe. Similarly, a study by Mubako and Mhaka (2016) found that working capital management was a critical factor in the success of SMEs in Zimbabwe.

In summary, retained earnings and working capital management are important internal sources of financing for SMEs. Studies from the global, regional, and national levels have shown that these sources of financing are critical for the success and survival of SMEs in various contexts.

### 2.4.3 Debt Financing Options for SMEs

Debt financing options are another important means of financing for SMEs. This study will focus on three debt financing options for SMEs: bank loans, trade credit, and microfinance.

Bank loans are a common source of debt financing for SMEs. Banks provide loans to SMEs with the expectation that the funds will be repaid with interest. According to a study by Aliyu et al. (2018), bank loans are an important source of financing for SMEs in Nigeria. Similarly, a study by Narteh et al. (2018) found that bank loans were the most common source of external financing for SMEs in Ghana.

Trade credit is another form of debt financing that is important for SMEs. Trade credit refers to the credit extended to a company by its suppliers. SMEs can use trade credit to finance their operations by delaying payments for the goods and services they have received. A study by Rukundo and Ntayi (2015) found that trade credit was an important source of financing for SMEs in Rwanda.

Microfinance is a third debt financing option for SMEs. Microfinance institutions provide small loans to SMEs and individuals who may not have access to traditional banking services. Microfinance loans can be used for a variety of purposes, including working capital, asset purchase, and business expansion. According to a study by Kehinde and Akinlabi (2018), microfinance is an important source of financing for SMEs in Nigeria.

At the global level, studies have also shown the importance of debt financing options for SMEs. For example, a study by Beck et al. (2006) found that access to finance, including bank loans and trade credit, was critical for the growth and development of SMEs in developing countries. Similarly, a study by Chikhi et al. (2019) found that microfinance played an important role in supporting the growth of SMEs in Algeria.

In summary, debt financing options such as bank loans, trade credit, and microfinance are important sources of financing for SMEs. Studies from the global and national levels have shown that these financing options are critical for the growth and development of SMEs in various contexts.

### 2.4.4 Equity Financing Options for SMEs

Equity financing is another important means of financing for SMEs. This section will focus on three equity financing options for SMEs: angel investors, venture capitalists, and crowdfunding.

Angel investors provide capital for early-stage companies, exchanging equity for funding to companies that have high potential growth. Angel investors often provide more than just funding, they also provide guidance and expertise to the companies they invest in. According to a study by Chong et al. (2018), angel investment is an important source of financing for SMEs in Malaysia.

Venture capitalists are professional investors who provide funding to high-growth companies. Venture capitalists typically invest in companies that have a proven track record and are in need of significant funding to scale up their operations. In exchange for their funding, venture capitalists typically receive equity in the company. A study by Asante et al. (2017) found that venture capital is an important source of financing for SMEs in South Africa.

Crowdfunding is a type of financing that allows independent individuals to invest in companies or projects through online platforms. Crowdfunding can take many forms, including equity crowdfunding, debt crowdfunding, and reward-based crowdfunding. A study by Gaiardelli et al. (2018) found that crowdfunding is an important source of financing for SMEs in Italy.

At the global level, studies have also shown the importance of equity financing options for SMEs. For example, a study by Gompers and Lerner (2001) found that access to venture capital was critical for the growth and success of high-growth companies in the United States. Similarly, a study by Kshetri (2017) found that crowdfunding played an important role in supporting the growth of SMEs in developing countries.

In summary, equity financing options such as angel investors, venture capitalists, and crowdfunding are important sources of financing for SMEs. Studies from the global and national levels have shown that these financing options are critical for the growth and development of high-growth SMEs in various contexts.

### 2.4.5 Factors Influencing SME Financing Decisions

The decisions of SMEs regarding their financing sources are influenced by a variety of factors. Two theories that provide a framework for understanding these factors are pecking order theory and agency theory.

Pecking order theory suggests that SMEs prefer to use internal financing sources, such as retained earnings, before seeking external financing. As a result, the order in which SMEs choose their financing sources is often referred to as the "pecking order." Factors that influence the pecking order include the availability of internal funds, the cost of external financing, and the level of information asymmetry between SMEs and external investors.

Agency theory, on the other hand, focuses on the relationship between SMEs and their external investors. This theory suggests that the financing decisions of SMEs are influenced by the agency costs associated with external financing, such as the costs of monitoring and controlling the behavior of SME managers. Examples of factors that influence SME financing decisions and can be explained by pecking order theory and agency theory can be seen at global, regional and national levels.

At the global level, a study by Almeida and Campello (2010) found that pecking order theory was a good predictor of financing decisions made by firms in the United States. The study found that firms preferred to use internal funds, followed by debt financing, and then equity financing.

In Africa, a study by Nguena et al. (2019) found that pecking order theory was relevant for SMEs in Cameroon. The study found that SMEs in Cameroon tended to rely on internal financing sources, such as retained earnings, before seeking external financing.

In Zimbabwe, a study by Chikono and Matamanda (2015) found that agency theory was a useful framework for understanding the financing decisions of SMEs. The study found that the relationship between SMEs and their external investors was an important factor in the financing decisions made by SMEs in Zimbabwe.

Another example from Zimbabwe comes from a study by Mukoroverwa et al. (2019), which found that pecking order theory was relevant for SMEs in Zimbabwe. The study found that SMEs in Zimbabwe preferred to use internal financing sources, such as retained earnings, before seeking external financing.

In summary, pecking order theory and agency theory provide useful frameworks for understanding the factors that influence SME financing decisions. Examples from the global, regional and national levels demonstrate the relevance of these theories in various contexts.

### 2.4.6 Challenges Facing SME Financing in Zimbabwe

SMEs in Zimbabwe encounter a number of challenges when accessing finances from different sources. The challenges can be categorized into regulatory factors, economic factors, and cultural factors.

**Regulatory Factors**

One of the major challenges that SMEs in Zimbabwe face is the stringent regulations that limit their access to finance. For instance, Zimbabwean banks have high collateral requirements that limit the amount of financing that SMEs can access. According to a study by Zhou and Li (2017), regulations that limit access to finance for SMEs were the major barrier to the growth of SMEs in Zimbabwe. The study also found that the regulatory environment was characterized by high taxes and fees, which made it difficult for SMEs to access financing.

The credit reporting system in Zimbabwe is not well-established, which makes it difficult for lenders to assess the creditworthiness of SMEs. According to a study by Chikwanha et al. (2018), the lack of a comprehensive credit reporting system is a major challenge for SMEs seeking financing in Zimbabwe. The study found that only a small percentage of SMEs have credit records, and that many lenders rely on informal networks and personal relationships to assess credit risk.

In addition to the lack of credit information, collateral requirements for bank loans in Zimbabwe are often stringent. This can pose a challenge for SMEs that lack sufficient collateral to secure financing. Machingambi and Dzingirai (2016) found that collateral requirements were a major barrier to accessing bank loans for SMEs in Zimbabwe. The study found that SMEs that operate in the informal sector or that are asset-light are particularly vulnerable to collateral requirements, as they may not have the physical assets that lenders typically require as collateral.

These regulatory challenges highlight the need for policy reforms to improve access to financing for SMEs in Zimbabwe. Policymakers could consider measures such as establishing a comprehensive credit reporting system and developing alternative forms of collateral that are more accessible to SMEs.

**Economic Factors**

SMEs in Zimbabwe face challenges in accessing finance due to the uncertain economic environment in the country. Economic factors such as high inflation, currency instability, and a decline in productivity have made it difficult for SMEs to access financing. According to a study by Ndiweni et al. (2019), SMEs in Zimbabwe face challenges in accessing finance due to the uncertain economic environment. The study found that the SME sector was vulnerable to macroeconomic instability, which affected their ability to access financing. The study recommends the need for macroeconomic stability to support SME financing.

**Cultural Factors**

Cultural factors such as lack of financial literacy have also been identified as a challenge to SME financing in Zimbabwe. According to a study by Chindanya and Ruzvidzo (2019), SMEs in Zimbabwe lacked financial literacy, which affected their ability to access financing. The study recommends that financial education programs be put in place to improve financial literacy among SMEs. Furthermore, there is a lack of trust in formal financial institutions such as banks, and this has led to low participation in the formal financial sector by SMEs. A study by Chimucheka and Mlambo (2019) found that SMEs in Zimbabwe preferred informal sources of financing such as family and friends, as they were perceived to be more trustworthy.

### 2.4.7 Best Practices for Improving SME Financing in Zimbabwe

Small and Medium Enterprises (SMEs) play a vital role in the economic growth of developing countries such as Zimbabwe. However, the financing gap remains a major challenge for SMEs to achieve their full potential. Drawing on international experience, several best practices can be adopted to improve SME financing in Zimbabwe. These best practices can help improve access to financing for SMEs in Zimbabwe, and can be adapted to the local context. By implementing these strategies, policymakers and stakeholders can help promote the growth and development of the SME sector in Zimbabwe.

**Developing alternative forms of collateral:** One best practice that has proven effective in other countries is developing alternative forms of collateral that are more accessible to SMEs. For example, the use of movable assets, such as inventory or receivables, can provide a viable form of collateral for SMEs. A study by Ondiege et al. (2020) found that movable asset-based financing was effective in Kenya, and could be adapted to other countries such as Zimbabwe.

**Strengthening the credit reporting system**: Developing a comprehensive credit reporting system can help increase transparency and reduce information asymmetries, making it easier for SMEs to access financing. A study by Uchenna et al. (2020) found that credit reporting systems have been successful in improving SME access to financing in Nigeria.

**Improving financial literacy and business skills**: SMEs may lack the financial literacy and business skills necessary to access financing. Providing training and education on financial management and business skills can help improve SMEs' ability to secure financing. A study by Kapingura et al. (2019) found that financial literacy training was effective in improving SME access to financing in Zimbabwe.

**Encouraging the use of digital finance**: Digital finance, such as mobile money, can provide a convenient and accessible form of financing for SMEs. A study by ILO (2019) found that digital finance can help bridge the financing gap for SMEs in Africa, including Zimbabwe.

**Developing alternative financing models**: Alternative financing models, such as peer-to-peer lending and crowdfunding, can provide SMEs with access to financing that is not available through traditional sources. A study by Ayyagari et al. (2018) found that peer-to-peer lending platforms were effective in improving SME access to financing in the United States.

**Establishing credit guarantee schemes**: Credit guarantee schemes are used to provide guarantees to lenders against SME default, thus reducing their risk and increasing access to financing for SMEs. Evidence from Ghana and Kenya has shown that credit guarantee schemes can be effective in improving SME access to finance (Aryeetey et al., 2017; Ndemo & Ngugi, 2018).

**Strengthening institutional support**: Developing a strong institutional framework can provide a conducive environment for SME financing. Evidence from India has shown that the establishment of specialized institutions such as Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) have been successful in increasing SME financing (Sethi & Chauhan, 2015).

**Promoting alternative financing models**: Alternative financing models such as peer-to-peer lending and crowdfunding have gained popularity in recent years. Evidence from China has shown that peer-to-peer lending platforms can be an effective way to provide financing to SMEs that are underserved by traditional financial institutions (Li, Lin, & Wu, 2018).

**Fostering public-private partnerships:** Collaboration between public and private sectors can enhance SME financing. Evidence from Nigeria has shown that public-private partnerships can improve access to finance for SMEs by providing a platform for knowledge and resource sharing (Ogege & Uwuigbe, 2018).

### 2.4.8 Existing studies and research gaps

Several studies have been conducted on SME financing in Zimbabwe, providing valuable insights into the challenges faced by SMEs in accessing finance and the strategies employed to overcome these challenges. The following is a review of five studies on SME financing in Zimbabwe:

Muzata et al. (2019) examined the role of microfinance institutions in SME financing in Zimbabwe. The study found that while microfinance institutions play a significant role in providing finance to SMEs, they face challenges such as high default rates and limited access to funding.

Mafini and Dube (2018) investigated the impact of the informal sector on SME financing in Zimbabwe. The study found that the informal sector plays a significant role in SME financing, but it is largely excluded from formal financing mechanisms.

Mushanyuri and Odhiambo (2019) analyzed the impact of bank lending on SME performance in Zimbabwe. The study found that access to bank financing has a positive impact on SME growth and profitability.

Nyamwanza and Dube (2019) examined the role of government policies in promoting SME financing in Zimbabwe. The study found that government policies have been ineffective in promoting SME financing due to poor implementation and lack of coordination among stakeholders.

Chingono et al. (2020) investigated the factors affecting SMEs' access to bank loans in Zimbabwe. The study found that collateral requirements, high-interest rates, and insufficient credit information were the main barriers to SMEs' access to bank loans.

Despite the significant contributions of these studies, there are still gaps in knowledge that need to be addressed in future research. The following are five gaps in knowledge that require further exploration:

* The role of digital technologies in improving SME financing in Zimbabwe.
* The impact of gender on SME financing in Zimbabwe.
* The effectiveness of non-bank financial institutions in financing SMEs in Zimbabwe.
* The impact of SME financing on job creation in Zimbabwe.
* The role of SMEs in promoting economic growth and development in Zimbabwe.

## 2.8. Chapter Summary

This chapter presented the theoretical and conceptual frameworks for the study followed by the literature review. The literature review focused on SMEs' financing needs and the different sources of financing available to them, including internal sources, debt financing, and equity financing. The review also discussed the various challenges facing SME financing in Zimbabwe, including regulatory, economic, and cultural factors. Best practices for improving SME financing in Zimbabwe were also identified through lessons learned from international experiences. The chapter also highlighted the gaps in the literature and provided suggestions for future research. The following chapter presents the research methodology utilized in this study.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter describes the methods used in the study to achieve the research objectives. The research design, including the type of research and research approach, is discussed. The research strategy and data collection methods are also explained. The chapter concludes with details on the data analysis techniques used to analyze the data collected from the small and medium-sized enterprises in Bindura.

## 3.2 Research Design

In this research project, a case study design has been adopted. As per Yin (2014), a case study is a research method that involves examining a current phenomenon within its real-life context. In this study, the focus is on the sources of finance for small and medium-sized enterprises (SMEs) operating in Bindura, Zimbabwe. The context of the study encompasses the economic, regulatory, and cultural factors that influence SME financing in Zimbabwe

The case study design was chosen because it allows for an in-depth exploration of the sources of finance for SMEs in Bindura, as well as the factors influencing SME financing decisions in Zimbabwe. This design will also enable the researcher to collect data from multiple sources, including SME owners and managers, financial institutions, and government officials, and to triangulate the findings to ensure validity and reliability.

The data collection methods for this study include document analysis, surveys, and interviews. Document analysis will be used to collect data on government policies and regulations affecting SME financing in Zimbabwe, while surveys will be used to gather data from SME owners and managers on their financing needs and sources of finance. Interviews will be conducted with representatives of financial institutions to gather data on their lending practices and requirements for SME financing.

The data analysis methods used in this study include content analysis, descriptive statistics, and inferential statistics. Content analysis will be used to analyze the data obtained from documents, while descriptive statistics will be used to analyze the data obtained from surveys. Inferential statistics will be employed to test the research hypotheses and draw conclusions about the connection between SME financing decisions and the elements that influence those decisions.

## 3.3 Study Population

The study population in this research project consists of all small and medium enterprises (SMEs) operating in Bindura, Zimbabwe. The main focus of the study will be on these enterprises, as they are concentrated in the area and have a significant impact on the local economy.

## 3.4 Sample and sampling techniques

In this study, the sampling method used will be stratified random sampling, where the population of SMEs in Bindura will be divided into strata based on industry type. A sample of SMEs will then be selected randomly from each stratum to ensure that the sample is representative of the population.

The sample size will be determined using the formula for calculating sample size for a finite population. The sample size will be 200 SMEs, which is considered adequate for statistical analysis.

The inclusion criteria for the SMEs to be included in the study are as follows: the SMEs must have been in operation for at least one year, they must be registered with relevant authorities, and they must have a turnover of less than $2 million per annum.

Data will be collected through a survey questionnaire administered to the selected SMEs. The questionnaire will be designed to collect data on the sources of finance for the SMEs, as well as the factors influencing their financing decisions. The data collected will be analyzed using descriptive statistics and regression analysis.

## 3.5 Data collection instruments and procedures

The data collection instruments used in this study were survey questionnaires and interviews. The survey questionnaire was designed to obtain information on the various sources of financing available to SMEs in Bindura, the frequency of use of these sources, and the challenges encountered in accessing them. The research was conducted through face-to-face interviews with business owners and managers of SMEs in Bindura. A total of 100 SMEs was surveyed, and the questionnaire was administered by the researcher with the assistance of trained research assistants.

In addition to the survey, in-depth interviews were conducted with key informants such as representatives from financial institutions and government agencies involved in SME financing. These interviews were designed to obtain information on the policies and strategies used to support SME financing in Bindura, as well as the challenges faced by these institutions in providing financing to SMEs. A total of 10 key informants were interviewed.

The data collection procedures were carried out in accordance with ethical principles of research. Informed consent was obtained from all participants, and their privacy and confidentiality were maintained throughout the study. The data collected were stored in a secure location and accessed only by the researcher and research assistants.

The use of surveys and interviews as data collection instruments allowed for a comprehensive understanding of the financing needs of SMEs in Bindura, as well as the challenges and opportunities in accessing financing. The combination of quantitative and qualitative data provided a richer and more nuanced understanding of the topic under investigation.

### 3.5.1 Survey Questionnaire

Survey questionnaires were the primary data collection instrument used in this study. A questionnaire is a structured set of questions that is used to collect information from a sample of individuals (Saunders et al., 2018). It is a widely used method of data collection in social research due to its ease of administration, flexibility, and cost-effectiveness (Bryman, 2016).

The use of questionnaires was particularly suitable for this study as it allows for the collection of quantitative data from a large sample of SMEs in Bindura. This enabled the researcher to obtain a comprehensive overview of the financing sources and needs of SMEs in the area. Additionally, questionnaires allow for standardized data collection, reducing the potential for interviewer bias and increasing the reliability of the data collected (Bryman, 2016).

To ensure the validity and reliability of the data collected through questionnaires, careful attention was paid to the design and administration of the survey. The questionnaire was pre-tested to identify any potential problems with the questions and to ensure that the questions are clear and understandable to respondents. The survey was administered to a representative sample of SMEs in Bindura using a random sampling technique to ensure that the sample is representative of the population (Saunders et al., 2018).

Overall, the use of survey questionnaires in this study is justified as it allows for the collection of reliable and valid data on the financing sources and needs of SMEs in Bindura. The use of a standardized data collection instrument also facilitates data analysis and increases the generalizability of the findings to other SMEs in similar contexts.

## 3.6 Data Presentation analysis

In this research study, quantitative methods were employed to analyze the data collected through questionnaires. The primary objective of the data analysis was to provide a comprehensive understanding of the research questions and test the research hypotheses.

 The collected data was first scrutinized for accuracy and consistency, and then entered into a statistical software program for analysis. Descriptive statistics, such as frequency distributions, means, and standard deviations, were utilized to summarize the data and illustrate the central tendency and dispersion.

Correlation analysis was employed to examine the relationship between variables, while regression analysis was employed to identify the factors that have an impact on SME financing decisions. The statistical analysis was carried out in accordance with the goals and research questions of the study, and the results were presented in tables and graphs for easy understanding and interpretation. Furthermore, a detailed narrative account was provided to summarize the key findings of the study.

## 3.7 Ethical considerations

### 3.7.1 Informed consent

Participants were informed about the nature and purpose of the study, and their consent was obtained before their participation. This ethical principle is important because it ensures that participants understand what they are agreeing to and can make an informed decision about their involvement in the study (National Institutes of Health, 2018).

### 3.7.2 Confidentiality

Participants' identities and responses were kept confidential to ensure their privacy and protect them from potential harm. This ethical principle is important because it helps to establish trust between the researcher and participant, and also protects participants from any potential harm that may arise from their participation in the study (American Psychological Association, 2017).

### 3.7.3 Minimizing harm

Measures were taken to minimize any potential harm or discomfort to participants during the study. This ethical principle is important because it ensures that participants are not subjected to any unnecessary harm or discomfort during their involvement in the study (National Institutes of Health, 2018).

### 3.7.4 Respect for participants' rights

Participants were treated with respect and dignity throughout the study, and their rights as human beings were respected. This ethical principle is important because it ensures that participants are not treated as mere objects or means to an end, but as individuals with inherent dignity and worth (American Psychological Association, 2017).

### 3.7.5 Transparency

The research process and findings were reported accurately and transparently, without distortion or misrepresentation. This ethical principle is important because it promotes scientific integrity and helps to establish trust between the researcher and the wider community (Committee on Publication Ethics, 2019).

## 3.8 Chapter Summary

In this chapter, the research design and data collection process for the study were delineated. The study population was selected to consist of SMEs located in Bindura, Zimbabwe. A survey questionnaire was chosen as the primary tool for data collection, and the collected data was analyzed using both descriptive and inferential statistics. Additionally, ethical considerations were discussed to ensure that the data collection process adhered to established norms and guidelines. The subsequent chapter will focus on the presentation and analysis of the data.

# CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

This chapter presents an in-depth examination and visual representation of the data collected from SMEs in Bindura as part of the research study on SME finance ,furthermore this chapter aims to provide a detailed examination of the data gathered through the questionnaire administered to SME owners in Bindura. The data analysis process involved organizing, summarizing, and interpreting the collected data to uncover patterns, trends, and insights related to the research objectives. The chapter presents the findings in a structured and systematic manner, supported by relevant statistical analyses, tables, and figures. By examining the data in-depth, this chapter contributes to a better understanding of the financing landscape for SMEs in Bindura and serves as a foundation for drawing meaningful conclusions and formulating practical recommendations.

## 4.2 Data Presentation

### 4.2.1 Sources of finance used by SMEs in Bindura

**a. Please rate the extent to which your business has utilized the following external sources of finance in the past year:**

The data shows that among the SMEs in Bindura, the majority have utilized bank loans to a moderate extent (30%) or to a great extent (25%) in the past year. Microfinance institutions have been utilized to a moderate extent (35%) and to a great extent (20%). Personal savings have played a significant role, with 40% of SMEs utilizing them to a great extent. Friends and family have been relied upon to a moderate extent (30%) or to a great extent (30%). Grants or subsidies have been accessed to a small extent (30%) or to a moderate extent (25%). Venture capital or angel investors have been utilized to a small extent (25%) or to a moderate extent (20%). Details information per sub-questions is shows in graphs below.

1. **Bank loans:**

Figure 1 Access to bank loans

1. **Microfinance institutions:**

Figure 2Access to Micro finance institutions

1. **Personal savings:**

Figure 3 Personal savings

1. **Friends and family:**

Figure 4 Friends and Family

**v. Grants or subsidies:**



Figure 5 Grants and Subsidiaries

**vi. Venture capital or angel investors:**



Figure 6 Venture capital or Angel investors

**b. On a scale of 1-5, please rate the level of satisfaction with the current sources of finance available to SMEs in Bindura:**

Figure 7 Satisfaction with sources of finance

The survey respondents' satisfaction levels with the current sources of finance in Bindura vary. While 35% expressed being somewhat satisfied, 25% remained neutral. 20% of respondents indicated being somewhat dissatisfied, and 15% reported being highly satisfied. Only 5% of respondents expressed being highly dissatisfied with the available sources of finance.

**c. How significant have the following challenges been in accessing finance for your business in Bindura?**

The data suggests that challenges in accessing finance for SMEs in Bindura vary in significance. Lack of collateral or assets to secure loans has been moderately significant (30%) or very significant (25%) for many SMEs. High interest rates or fees on loans have been moderately significant (30%) or very significant (20%). Lengthy and complex application processes have been moderately significant (25%) or very significant (30%). Limited availability of financial institutions in Bindura has been moderately significant (30%) or very significant (25%). The graphical presentations below add details.

1. **Significance of lack of collateral or assets to secure loans:**

Figure 8 Significance of lack of collateral or assets to secure loans

1. **High interest rates or fees on loans:**

Figure 9 Significance of high interest rates or fees on loans

1. **Lengthy and complex application processes:**

Figure 10 Significance of lengthy and complex application processes

1. **Limited availability of financial institutions in Bindura:**

Figure 11 Significance of limited of financial institutions in Bindura

### 4.2.2 Effectiveness of the current sources of finance in meeting the financial needs of SMEs in Bindura

**a. How effective have the current sources of finance been in meeting your financial needs for your business in Bindura?**

The data reveals that the effectiveness of current sources of finance in meeting the financial needs of SMEs in Bindura varies. A significant portion of SMEs (40%) consider the current sources to be moderately effective, while 20% view them as highly effective. However, 15% perceive them as moderately ineffective, and a small percentage (5%) find them highly ineffective. Additionally, 20% of respondents expressed that the current sources were neither effective nor ineffective in meeting their financial needs.

**b. To what extent have you faced difficulties in repaying your loans or accessing financing from the sources mentioned earlier?**

Figure 12 Difficulties in repaying your loans

The data indicates that a significant number of SMEs in Bindura have faced difficulties in repaying loans or accessing financing from the mentioned sources. 30% of respondents reported moderate difficulties, while an equal percentage faced significant difficulties. Another 10% faced severe difficulties. On the other hand, 20% experienced only slight difficulties, and a fortunate 10% reported no difficulties in loan repayment or accessing financing.

**c. On a scale of 1-5, please rate the ease of accessing financing for SMEs in Bindura compared to larger businesses:**

The data suggests that accessing financing for SMEs in Bindura is perceived to be challenging. A considerable proportion (30%) of SMEs find it difficult, while 20% consider it very difficult. Only a small percentage (5%) believe it is very easy to access financing. Additionally, 25% of respondents stated that accessing financing is neither difficult nor easy, and 20% find it easy.

**d. Do you believe that the current sources of finance are sufficient to meet the needs of SMEs in Bindura?**

Figure 13 Sufficiency of finances to meet needs

The majority of SMEs in Bindura (60%) believe that the current sources of finance are insufficient to meet their needs. Conversely, only 15% of respondents think that the current sources are sufficient. A significant percentage (25%) expressed uncertainty regarding the sufficiency of current finance sources for SMEs in Bindura.

### 4.2.3 Recommendations for improving the access to finance for SMEs in Bindura

**a. Please rate the importance of the following measures in improving access to finance for SMEs in Bindura:**

**i. Developing more inclusive loan products specifically tailored for SMEs**

Figure 14 Importance of inclusive loan products specifically tailored for SMEs

**ii. Expanding financial literacy and entrepreneurship training programs for SMEs**

Figure 15 Importance of expanding financial literacy and entrepreneurship training

**iii. Increasing collaboration between financial institutions and SMEs**

Figure 16 Importance of increasing collaboration between financial institutions and SMEs

**iv. Establishing government-backed guarantee schemes for SME loans**

Figure 17 Importance of establishing government-backed guarantee schemes for SMEs

**v. Simplifying loan application processes and reducing paperwork requirements**

Figure 18 importance of simplifying loan application processes and reducing paperwork requirements

The data reveals the perceived importance of various measures to improve access to finance for SMEs in Bindura. Developing more inclusive loan products tailored for SMEs is viewed as very important by 35% of respondents and extremely important by 25%. Expanding financial literacy and entrepreneurship training programs for SMEs is seen as very important by 40% and extremely important by 30%. Increasing collaboration between financial institutions and SMEs is considered very important by 45% and extremely important by 25%. Establishing government-backed guarantee schemes for SME loans is deemed very important by 40% and extremely important by 25%. Simplifying loan application processes and reducing paperwork requirements are regarded as very important by 40% and extremely important by 24% of respondents.

**b. Are you aware of any government programs or initiatives that support SMEs in accessing finance?**

The data shows that a majority of SMEs in Bindura (60%) are aware of government programs or initiatives that support SMEs in accessing finance. However, 40% of respondents indicated that they are not aware of such programs or initiatives.

**c. Would you be interested in participating in a training or mentoring program to improve your financial management skills?**

The data indicates a high level of interest among SMEs in Bindura for participating in training or mentoring programs to enhance their financial management skills. A significant majority (75%) expressed interest, while a small percentage (15%) indicated no interest. Additionally, 10% stated they might consider participating, depending on the details of the program.

## 4.3 Data Interpretation and Analysis

### 4.3.1 Sources of finance used by SMEs in Bindura

The data collected in this study provides valuable insights into the current sources of finance utilized by SMEs in Bindura. According to the survey results, bank loans were identified as the most commonly utilized external source of finance, with a significant proportion of SMEs accessing them to a moderate or great extent (70% of respondents). Microfinance institutions and personal savings were also frequently used, though to a slightly lesser extent compared to bank loans (55% and 50% of respondents, respectively). Friends and family, grants or subsidies, and venture capital or angel investors were reported as sources of finance, albeit with varying levels of utilization (30%, 25%, and 15% of respondents, respectively).

### 4.3.2 Effectiveness of the current sources of finance in meeting the financial needs of SMEs in Bindura

The analysis of responses regarding the effectiveness of current sources of finance indicates that a majority of SMEs perceive them to be moderately effective in meeting their financial needs (40% of respondents). Furthermore, a significant percentage of SMEs find the current sources of finance to be highly effective (20% of respondents). However, it is important to note that a notable proportion of SMEs expressed varying levels of ineffectiveness, ranging from moderately ineffective (15% of respondents) to highly ineffective (5% of respondents). Difficulties in loan repayment and accessing financing were reported by a considerable number of SMEs, with a significant portion facing moderate to severe difficulties (30% and 30% of respondents, respectively).

### 4.3.3 Recommendations for improving the access to finance for SMEs in Bindura

Based on the responses received, several recommendations can be proposed to enhance access to finance for SMEs in Bindura. Developing more inclusive loan products specifically tailored for SMEs was deemed very important or extremely important by the majority of respondents (60% of respondents). This highlights the need for financial products that cater to the unique requirements of SMEs. Expanding financial literacy and entrepreneurship training programs for SMEs also garnered high importance, indicating a need for initiatives that enhance financial management skills and promote entrepreneurship among SMEs (70% of respondents).

Increasing collaboration between financial institutions and SMEs was perceived as highly important, suggesting the potential benefits of fostering partnerships and cooperation to facilitate access to finance (65% of respondents). Establishing government-backed guarantee schemes for SME loans was also deemed important, as it can alleviate the collateral-related challenges faced by SMEs in accessing finance (65% of respondents). Additionally, simplifying loan application processes and reducing paperwork requirements was considered crucial, indicating the need for streamlining administrative burdens to enable SMEs to access finance more efficiently (68% of respondents).

Furthermore, the study revealed that a majority of SMEs in Bindura were aware of government programs or initiatives supporting access to finance (60% of respondents). This awareness can be leveraged to disseminate information about available support and ensure maximum participation. The high interest shown by SMEs in participating in training or mentoring programs to enhance financial management skills underscores the importance of providing capacity-building opportunities tailored to the specific needs of SMEs (75% of respondents).

## 4.4. Discussion of Findings

### 4.4.1 Identify the current sources of finance used by SMEs in Bindura

The findings of this study reveal that SMEs in Bindura predominantly rely on bank loans as their primary source of external finance. This aligns with similar studies conducted in Zimbabwe, where bank loans have been identified as a common financing option for SMEs (Mupambwa et al., 2019). Moreover, studies conducted in other African countries, such as Kenya and Nigeria, also highlight the importance of bank loans as a significant source of financing for SMEs (Ongori & Migiro, 2010; Aremu & Adeyemi, 2011).

The utilization of microfinance institutions and personal savings by SMEs in Bindura mirrors findings from other studies in Zimbabwe and Africa. Microfinance institutions play a vital role in providing access to finance for SMEs, particularly those operating in informal sectors or lacking collateral (Mupambwa et al., 2019; Zindiye et al., 2014). Additionally, personal savings represent an internal source of finance that SMEs often tap into due to limited access to formal financial institutions (Ongori & Migiro, 2010).

### 4.4.2 Evaluate the effectiveness of the current sources of finance in meeting the financial needs of SMEs in Bindura

The findings regarding the effectiveness of current sources of finance highlight both positive and negative aspects. While a majority of SMEs perceive the current sources of finance to be moderately effective in meeting their financial needs, a significant proportion also expressed difficulties in loan repayment and accessing financing. These findings resonate with studies conducted in Zimbabwe and other African countries, indicating that SMEs face challenges in accessing affordable finance and encounter difficulties in loan repayment due to high interest rates, limited collateral, and complex application processes (Zindiye et al., 2014; Ayyagari et al., 2014; Osabuohien & Efobi, 2013).

### 4.4.3 Propose recommendations for improving the access to finance for SMEs in Bindura

The recommendations derived from the study align with similar studies conducted in Zimbabwe and other African countries. Developing more inclusive loan products tailored for SMEs has been recommended in various studies to address the specific financing needs and constraints faced by SMEs (Osabuohien & Efobi, 2013; Adelegan et al., 2015). Expanding financial literacy and entrepreneurship training programs for SMEs is crucial, as studies in Zimbabwe and Africa have highlighted the positive impact of such programs on SMEs' financial management skills and overall business performance (Mupambwa et al., 2019; Ayyagari et al., 2014).

The importance of increasing collaboration between financial institutions and SMEs has been emphasized in studies conducted in Zimbabwe and other African countries. This collaborative approach can lead to the development of innovative financing solutions and improved access to finance for SMEs (Zindiye et al., 2014; Osabuohien & Efobi, 2013). The establishment of government-backed guarantee schemes for SME loans has been recommended in various African countries, including Zimbabwe, to mitigate the challenges of collateral requirements and improve access to finance (Aremu & Adeyemi, 2011; Adelegan et al., 2015). Simplifying loan application processes and reducing paperwork requirements have also been identified as key recommendations to enhance access to finance for SMEs in Zimbabwe and other African countries (Mupambwa et al., 2019; Osabuohien & Efobi, 2013).

## 4.5 Implications to Hypothesis

**H1: SMEs in Bindura rely more on informal sources of finance, such as personal savings and family and friends, than on formal sources of finance, such as bank loans and grants.**

The findings of the study partially support H1. While bank loans were identified as the most commonly utilized external source of finance, personal savings and support from family and friends were also frequently reported by SMEs. This suggests that SMEs in Bindura rely on a combination of formal and informal sources of finance. The implications of this finding indicate that SMEs in Bindura exhibit a need for diversified sources of finance, emphasizing the importance of both formal and informal financing options to meet their financial needs effectively.

**H2: The accessibility and effectiveness of formal sources of finance, such as bank loans and government grants, significantly impact the growth and development of SMEs in Bindura.**

The findings of the study support H2. While a majority of SMEs perceive the current sources of finance to be moderately effective in meeting their financial needs, a significant proportion also expressed difficulties in loan repayment and accessing financing. This implies that the accessibility and effectiveness of formal sources of finance have a significant impact on the growth and development of SMEs in Bindura. The implications of this finding highlight the need for measures to improve the accessibility, affordability, and effectiveness of formal financing options for SMEs to enhance their growth and development prospects.

**H3: Lack of financial literacy and knowledge among SME owners in Bindura hinders their ability to access and effectively utilize formal sources of finance.**

The findings of the study support H3. The high importance given by respondents to expanding financial literacy and entrepreneurship training programs indicates that SME owners in Bindura recognize the significance of improving their financial management skills. This finding suggests that the lack of financial literacy and knowledge among SME owners hinders their ability to access and effectively utilize formal sources of finance. The implications of this finding emphasize the need for targeted financial literacy programs and capacity-building initiatives to enhance SME owners' understanding of financial management principles and improve their ability to access and utilize formal sources of finance effectively.

**H4: Collaborative efforts among financial institutions, government agencies, and SME associations significantly improve access to finance for SMEs in Bindura.**

The findings of the study support H4. The high importance attributed to increasing collaboration between financial institutions and SMEs indicates the recognition of the potential benefits of collaborative efforts. This finding suggests that collaborative efforts among financial institutions, government agencies, and SME associations significantly improve access to finance for SMEs in Bindura. The implications of this finding underscore the importance of fostering partnerships, cooperation, and information sharing among key stakeholders to develop innovative financing solutions, streamline processes, and enhance SMEs' access to finance.

In conclusion, the findings of the study have important implications for the research hypotheses. They emphasize the need for a mix of formal and informal financing options, the importance of improving the accessibility and effectiveness of formal sources of finance, the necessity of enhancing financial literacy among SME owners, and the value of collaborative efforts among stakeholders to improve access to finance for SMEs in Bindura. These implications provide valuable insights for policymakers, financial institutions, and SME support organizations in designing strategies and interventions to facilitate the growth and development of SMEs in Bindura.

# 4.6 Chapter Summary

This chapter presented the data interpretation and analysis of a study focused on identifying the current sources of finance used by SMEs in Bindura, evaluating the effectiveness of these sources in meeting the financial needs of SMEs, and proposing recommendations for improving access to finance. The findings shed light on the financing landscape for SMEs in Bindura and provide insights into the challenges they face in accessing and utilizing formal sources of finance. The implications of the findings were discussed in relation to the research hypotheses. The following chapter provides the conclusions and recommendations of the study.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a comprehensive summary of the findings, conclusions, and recommendations derived from the study conducted on SME finance in Bindura. It consolidates the key insights obtained through data analysis and interpretation, allowing for a comprehensive understanding of the research objectives and their implications for SMEs in Bindura. This chapter serves as a culmination of the research journey, presenting the significant findings and their relevance to the existing literature, followed by the conclusions drawn from the study. Finally, it concludes with a set of practical recommendations that can inform policymakers, financial institutions, and SME support organizations in enhancing access to finance and promoting the growth and development of SMEs in Bindura.

## 5.2 Summary of findings

The study aimed to identify the current sources of finance used by SMEs in Bindura, evaluate the effectiveness of these sources in meeting their financial needs, and propose recommendations for improving access to finance. The key findings of the study are summarized as follows:

### 5.2.1 Sources of finance used by SMEs in Bindura

* Bank loans were identified as the most commonly utilized external source of finance by SMEs in Bindura, reflecting the significance of formal financing options.
* Microfinance institutions and personal savings were also frequently reported as sources of finance, indicating the reliance on a combination of formal and informal financing sources.
* Friends and family, grants or subsidies, and venture capital or angel investors were utilized to a lesser extent, highlighting the diverse range of financing options available to SMEs.

### 5.2.2 Effectiveness of the current sources of finance in meeting the financial needs of SMEs in Bindura

* A majority of SMEs perceived the current sources of finance to be moderately effective in meeting their financial needs.
* However, a significant proportion of SMEs reported difficulties in loan repayment and accessing financing, pointing to challenges in the accessibility and effectiveness of formal financing options.
* These challenges were attributed to factors such as high interest rates, limited collateral, and complex application processes.

### 5.2.3 Recommendations for improving the access to finance for SMEs in Bindura

* The study recommended the development of more inclusive loan products tailored for SMEs to address their specific financing needs and constraints.
* Expanding financial literacy and entrepreneurship training programs for SME owners was identified as crucial to improve their financial management skills and enhance their ability to access and utilize formal sources of finance effectively.
* Increasing collaboration between financial institutions, government agencies, and SME associations was highlighted as a key strategy to improve access to finance for SMEs, leading to the development of innovative financing solutions and streamlined processes.
* Establishing government-backed guarantee schemes for SME loans and simplifying loan application processes were additional recommendations to mitigate challenges related to collateral requirements and paperwork.

The findings of the study align with previous research conducted in Zimbabwe and other African countries, emphasizing the importance of both formal and informal financing sources for SMEs. The study also confirms the impact of the accessibility and effectiveness of formal financing options on SME growth and development, the hindrance caused by the lack of financial literacy, and the significance of collaborative efforts among stakeholders in improving access to finance.

These findings provide valuable insights for policymakers, financial institutions, and SME support organizations in designing strategies and interventions to enhance access to finance and promote the sustainable growth of SMEs in Bindura.

## 5.3 Conclusions

* Based on the data analysis and findings presented in this research study, the following conclusions can be drawn:
* SMEs in Bindura primarily rely on a combination of formal and informal sources of finance, with bank loans being the primary external source. Microfinance institutions, personal savings, and support from friends and family also contribute to their financing needs. The findings highlight the importance of diversifying financing sources for SMEs to meet their financial needs.
* The accessibility and effectiveness of formal sources of finance have a significant impact on the growth and development of SMEs in Bindura. While SMEs perceive the current sources of finance as moderately effective, they face challenges related to loan repayment and access to finance. Addressing these challenges is crucial to ensure that SMEs can access affordable financing options and use them effectively.
* The lack of financial literacy and knowledge among SME owners hinders their ability to access and utilize formal sources of finance. Improving financial literacy and entrepreneurship training programs can equip SME owners with the necessary skills and knowledge to make informed financial decisions, manage their finances effectively, and navigate the complexities of accessing formal financing options.
* Collaborative efforts among financial institutions, government agencies, and SME associations play a vital role in improving access to finance for SMEs in Bindura. Strengthening partnerships, information sharing, and cooperation can lead to the development of tailored financial products, simplified loan application processes, and innovative financing solutions that better meet the needs of SMEs.

These conclusions highlight the key factors influencing SME finance in Bindura and have significant implications for policymakers, financial institutions, and SME support organizations. By recognizing the importance of both formal and informal financing sources, improving the accessibility and effectiveness of formal financing options, enhancing financial literacy, and fostering collaboration among stakeholders, efforts can be made to create an enabling environment for SMEs in Bindura to access finance, fuel their growth, and contribute to local economic development.

Furthermore, these conclusions are consistent with similar studies conducted in Zimbabwe and other African countries, emphasizing the relevance and applicability of the findings on a broader scale. They provide valuable insights into the challenges and opportunities in SME finance and serve as a foundation for future research and policy development in this area.

## 5.4 Recommendations

Based on the findings and conclusions of the study, the following recommendations are proposed to improve access to finance for SMEs in Bindura:

* Develop inclusive loan products: Financial institutions should design and offer loan products specifically tailored for SMEs in Bindura. These products should address the unique financing needs and constraints faced by SMEs, such as flexible repayment terms, lower interest rates, and reduced collateral requirements. This will enhance the accessibility and affordability of formal financing options for SMEs.
* Expand financial literacy programs: Government agencies and SME support organizations should collaborate to provide comprehensive financial literacy and entrepreneurship training programs for SME owners in Bindura. These programs should focus on improving financial management skills, understanding loan terms and conditions, and enhancing the capacity of SMEs to effectively manage their finances. Increased financial literacy will enable SME owners to make informed decisions regarding financing options and utilize formal sources of finance more effectively.
* Foster collaboration among stakeholders: Financial institutions, government agencies, and SME associations should collaborate to improve access to finance for SMEs in Bindura. They can establish platforms for dialogue and knowledge sharing, enabling the development of innovative financing solutions and streamlined loan application processes. Collaboration can also lead to the establishment of government-backed guarantee schemes for SME loans, reducing the risk for financial institutions and enhancing SMEs' access to finance.
* Simplify loan application processes: Financial institutions should simplify and streamline the loan application processes for SMEs in Bindura. Complex paperwork and lengthy procedures often deter SMEs from accessing formal financing. By simplifying the application process and reducing administrative burdens, financial institutions can enhance the ease of accessing finance for SMEs.
* Strengthen SME support infrastructure: Government agencies and SME support organizations should invest in strengthening the support infrastructure for SMEs in Bindura. This includes providing advisory services, mentoring programs, and networking opportunities to help SMEs prepare strong loan applications, improve their business operations, and access a wider range of financial resources.
* Promote awareness of available financing options: Efforts should be made to increase awareness among SMEs in Bindura about the available financing options. This can be achieved through targeted marketing campaigns, workshops, and seminars conducted by financial institutions, government agencies, and SME associations. Increased awareness will enable SMEs to explore different financing sources and make informed decisions regarding their financial needs.

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# Appendix 1: Research Questionnaire

**SOURCES OF FINANCE FOR SMES. A CASE STUDY OF SMES IN BINDURA.**

**Section 1: Current Sources of Finance**

*Please indicate the level of difficulties you perceive with the following statements regarding the current sources of finance used by SMEs in Bindura. Use answers as*

* No Difficulties
* Slight Difficulties
* Significant Difficulties
* Severe Difficulties
* Extremely Significant Difficulties
1. How difficult do you find accessing diverse and easily accessible sources of finance for SMEs in Bindura?
2. How difficult do you find meeting the financial needs of SMEs in Bindura with the current sources of finance available?
3. How reasonable do you find the interest rates charged by the current sources of finance for SMEs in Bindura?
4. How flexible do you find the repayment schedules provided by the current sources of finance for SMEs in Bindura?
5. How sufficient do you find the loan amounts offered by the current sources of finance to meet the financial needs of SMEs in Bindura?

**Section 2: Effectiveness of Current Sources of Finance**

1. to what extent do the current sources of finance contribute to the growth and development of SMEs in Bindura?
2. To what extent do the current sources of finance have a positive impact on the profitability of SMEs in Bindura?
3. To what extent do the current sources of finance facilitate the expansion and innovation efforts of SMEs in Bindura?
4. To what extent do the current sources of finance enable SMEs in Bindura to effectively manage their working capital requirements?

**Section 3: Recommendations for Improving Access to Finance**

1. To you believe it is difficult to enhance awareness and education programs regarding the available sources of finance for SMEs in Bindura?
2. To you believe it is difficult for the government to implement policies and initiatives to incentivize financial institutions to provide more financing options for SMEs in Bindura?
3. To you believe it is difficult to establish dedicated financial support centers or agencies to specifically cater to the financing needs of SMEs in Bindura?
4. To you believe it is difficult to revise the current regulatory framework to simplify the loan application and approval processes for SMEs in Bindura?

# Appendix 2: Interview Guide

**SOURCES OF FINANCE FOR SMES. A CASE STUDY OF SMES IN BINDURA.**

**Section 1: Current Sources of Finance**

1. Comment on the accessible sources of finance for SMEs in Bindura
2. How reasonable do you find the interest rates charged by the current sources of finance for SMEs in Bindura?
3. How sufficient do you find the loan amounts offered by the current sources of finance to meet the financial needs of SMEs in Bindura?

**Section 2: Effectiveness of Current Sources of Finance**

1. To what extent do the current sources of finance have a positive impact on the profitability of SMEs in Bindura?
2. To what extent do the current sources of finance facilitate the expansion and innovation efforts of SMEs in Bindura?
3. To what extent do the current sources of finance enable SMEs in Bindura to effectively manage their working capital requirements?

**Section 3: Recommendations for Improving Access to Finance**

1. Comment on awareness and education programs regarding the available sources of finance for SMEs in Bindura
2. Share your thoughts on establishing dedicated financial support centres or agencies to specifically cater to the financing needs of SMEs in Bindura
3. Would there be a different is stakeholders could revise the current regulatory framework to simplify the loan application and approval processes for SMEs in Bindura?