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Full Length Research Paper

AN INVESTIGATION INTO VENTURE FINANCING. A CASE STUDY ON SMALL TO MEDIUM SCALE ENTERPRISES IN BINDURA URBAN, ZIMBABWE. (2013-2014).

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This paper sought to investigate on venture financing to SMEs in Zimbabwe. The research focused on SMEs operating in Bindura town under Mashonaland Central Province. The survey research design was used. A target population of 356 registered SMEs operating different types of industries in Bindura was used in this study. Probability sampling was used to select the 188 respondents from the population. A structured questionnaire was used to collect primary data from owner-managers in SMEs. Secondary data and interviews with officials from Small Enterprises Development Corporation (SEDCO) and bank officials were used to gather qualitative data. Interview responses were analyzed by content analysis and questionnaire responses were analysed using Statistical Package for Social Sciences tool and Microsoft Office Excel software. The results indicated that the majority of SMEs in Bindura use their own savings, family and friends to finance their businesses. The results also indicated that the financing options available to Bindura SMEs are impracticable to support the capital required for their operation because of stringent requirements and lack of collateral security. The study also concluded that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology. The study recommended that government should act as a guarantee to banks and credit institutions for SMEs that is by making an undertaking to pay the banks in the event of the SMEs failing to pay back. The study also recommends the use of venture capital rather than debt financing and SMEs should also form groups and make use of pooled negotiating power for borrowing purposes. Further, the study recommended the decentralisation of operating of support institutions such as SEDCO and Venture Capital Company of Zimbabwe (VCCZ) in order to reach SMEs operating in small towns and remote areas of the country.

Keyword: *Small to Medium Enterprises (SMEs), Venture Financing, Entrepreneur, Internal and External Sources of Finance*.

INTRODUCTION

The performance and development of Small and Medium Sized Enterprises (SMEs) has throughout the world, been of great interest to, among others, development economists, entrepreneurs, governments, venture capital firms, financial institutions and non-governmental organisations (Baker, 1992). According to Storey and Westhead (1994), SMEs are regarded as the seed-bed for the development of large companies and are the life blood of commerce and industry at large. Globally, SMEs are being hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Standard, 23 Oct 2011).

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The SMEs sector in Zimbabwe, which now account for about 90% of the country's employable population, is in desire need for government and private sector assistance to secure more funding (Kachembere, 2011). Researchers have been keen to determine the contributions of SMEs to economic development and in particular, to job creation (Rondinelli, 1993). The need to see SMEs grow and increase their contributions has grown over the last two decades, especially in developing nations , where SMEs are believed to contribute significantly to employment, poverty alleviation and ownership of productive sectors (Rondinelli, 1993; Duncan, 1993).

However, the ability of SME to grow depends highly on their potential to invest in restructuring, innovation and qualification. All these investments need capital and therefore access to finance is the major factor for SMEs development and growth (USAID Sept 2008). A dynamic small business sector is, therefore an essential and core component of a more flexible growth oriented and innovative economy, which is one of the key agendas being pursued by the government, under the indigenisation strategy. SMEs development may prove to be an effective antipoverty programme and the foundation for innovation and sustainable growth.

SMEs have their own strengths, weaknesses and needs that are directly related to their size and role in the economy. One of the pertinent issues faced by SMEs is lack of accessibility to capital and credit facilities for the purpose of start-up and expansion. SMEs typically faced problems in getting the finance they needed from commercial banks and government support agencies. They failed to obtain finance mostly due to their failure in providing sufficient business information; financial guarantees as well as they are insufficiently informed or poorly advised about the appropriate sources of finance.

Problem statement

Financing has remained one of the key managerial problem decision that keep confronting business enterprises in Zimbabwe today. SMEs in Zimbabwe have difficulties in accessing finance that they hardly grow beyond start-up stage. Others go out of business at a very early stage. There is evidence that access to finance is an important ingredient to development of SME. They have few alternatives of accessing finance other than relying on their retained earnings to finance their investments. Notwithstanding the financial difficulties faced by SME presently in Zimbabwe, alternative sources of funds have to be sought to sustain this important sector. This makes this paper imperative as it re-evaluates the existing financing alternatives and the role government plays in providing incentives for support from the formal and informal financial institutions.

Research questions / sub problems

What are the sources of financing available to SMEs in Zimbabwe?, Are the financing options available to the SME are practically obtainable to support the capital required for their operation?, What are the factors that contribute or mitigate the exploitation of these sources to SMEs in Zimbabwe?, What is the role of government in support of venture financing to SMEs in Zimbabwe?

LITERATURE REVIEW

Definition of small and medium enterprise

Many authors and organisations have sought to define what actually a small and medium enterprise is. Various definitions have been put forward and are based on measures like number of employees, turnover levels, total net assets, capital base, legal structure and degree of formalization, (Kapoor et al, 1997). Some of the authors (Siropolis, 1997; Stokes, 1995) and organisations in Zimbabwe such as SEDCO and Ministry of SMEs have similarly endeavored to define small and medium enterprises.

SEDCO (2010) has defined a small and medium enterprise as a firm that has not more than hundred employees and maximum annual sales turnover of US$830 000. Government of Zimbabwe (GoZ) (2000) defines a small enterprise as one that employs not more than 50 people and acting as a registered entity. Medium enterprises are firms employing up to 75 and 100 people.

Problems in starting up a business

When starting up a business, the owner is bound to face some problems. There are basic steps and procedures that should be followed by the entrepreneur, while starting a business. But the problem arises when the successful implementation of these steps becomes difficult, due to the problems in the market. Sometimes things do no happen in reality as they were expected and also it may take longer time than expected (Olson et al, 2004).Major problems in starting up a business can be classified as: goodwill, Market prediction, financial gap, getting the premises in prime location and judging the customer expectations. Generally in starting a business it needs knowledge of the industry Marten 2005 in a study on the success of small businesses in Canada found that the education of the owner is positively related to the success of the business.

INTERNAL AND EXTERNAL SOURCES OF SME FINANCING

Traditionally SMEs have been financed to a great extent by internal sources both from the business owner and through retained profit. Many SMEs also need external sources of finance. Here a distinction can be made between informal sources, such as bank loans followed in order of relative importance by leasing, trade credits, large corporations, export finance and factoring (Ruis et al 2009). Venture capital and funds of business angels are only important for a select group of high potential SMEs like seeders/ start-ups, gazelles and management buy-outs and buy-ins.
Internal sources

Owner's investment

This is money which comes from the owner(s) own savings. It may be in the form of startup capital ie used when the business is setting up or in the form of additional capital perhaps used for expansion. The major advantages are that there is no need to be repaid and there is no interest accrues to the funds (Burns and Dewhurst 1989).

Borrowing from friends and family

Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business. This can be quicker and cheaper to arrange and the interest and repayment terms maybe more flexible than a bank loan. However, borrowing in this way can add to the stress faced by an entrepreneur, particularly if the business gets into difficulties (Aruwa 2004).

Retained profits

This source of finance is only available for a business which has been trading for more than one year. It is when the profits made are ploughed back into the business. This is a medium or long term source of finance where it doesn't have to be repaid and it does not attract interest. The major disadvantages are that this source of finance is not available to new business and the business may not make enough profit to plough back (Burns and Dewhurst 1989).

Sale of non-current assets (fixed assets)

This money comes in from selling off fixed assets such as: a piece of machinery that is no longer needed. This medium term source of finance has got an advantage that it is a good way to raise finance from an asset that is no longer needed. As a disadvantage some businesses are unlikely to have surpluses assets to sell and can be a slow method of raising finance (Ruis et al 2009).

External Sources
Debt finance (by banks)

Bankers primarily make business loans in one of three forms (Moore et al 2008): term loans, lines of credit and mortgages.

Leasing and hire purchase (asset financing)

The second largest source of finance is leasing and hire purchase as it represents secured financing-based on the existence of a tangible asset (Ruis et al 2009). By its nature the finance is secured on the leased asset so it can provide an effective source of finance to an SME.

Factoring

Factoring is a financial transaction whereby a business sells its accounts receivable at a discount (Chen et al, 2008). The factor usually charges the seller a service charge, which is interest based, depending on how long the factor must await to receive payments from the debtor.

Trade credit

Traditionally supplier credit is an important way of financing stock inventory held by SMEs (Ruis et al 2009). By using trade credit, SMEs are able to post pone payments for goods and services purchased, which is useful in managing cash flow.

Large corporations

At times large corporations make funds available for investment in smaller firms when it is in their self interest to maintain a close relationship with such a firm (Moore et al 2008. Large firms are now becoming even more involved in providing financing and technical assistance to smaller businesses.

Export finance

The most important step in financing International Trade is in ensuring full and prompt payment (Stokes 2002). The Export Credits Guarantee Department (ECGD) of the DTI provides credit insurance that gives cover in the event of non-payment by an overseas customer. The ECGD offer a variety of insurance schemes, which a small firm can assign to a bank, or other lending body, in order to obtain export finance. Export houses offer a wide range of services to exporters including finance.

Venture capital

Venture capital is the provision of investment finance to an SME in the form of equity or quasi-equity instruments not listed in the stock exchange (Falkena, et al 2001). It is a long capital gains rather than dividends. Venture capitalists taken an active role in the management of the company; they bring both funds and expertise. Venture capital investing can be further subdivided into:

Business Angel

Business angels are a source of pre-revenue seed funding and management guidance for start-ups unto-capital.com (2013). Business angels are wealthy individual investors-usually, people who have made their own money as entrepreneurs. They are better equipped and more than banks and most capital funds to assess the potential of very young business, they contribute not only equity but also much needed business expertise offering company hands-on support and advice.

THE NATURE OF A FIRM AND ITS FINANCING SOURCES

According to Moore et al, 2008 there are four basic factors that determine how a firm is financed:

The firm's economic potential

A firm with potential for high growth and large profits has many more possible sources of financing than does a firm that provides a good lifestyle for the owner but little in the way of attractive returns to investors. Only those firms providing rates of return that exceed the investor's required rate of return create value for the investor.

The size and maturity of the firm

The size and maturity of a company have a direct bearing on the types of financing available. In a survey of small business finance, the Small Business Administration found a positive relationship between the use of bank debt and a firm size sba.gov (2013). Larger and older firms have access to bank credit that simply is not available to younger and smaller companies.

The nature or type of its assets

A banker specifically considers tangible and non tangible assets when evaluating a loan. Tangible assets, which can be seen and touched, include inventories, equipment and buildings. Tangible assets serve as great collateral when a firm is requesting a bank loan.

Owner preferences for debt or equity

The owner of a company faces the question “should I finance with debt or equity or some mix of the two?” The answer depends in part on his/ her personal preference. The ultimate choice between debt and equity involves certain tradeoffs with regard to potential profitability, financial risk, and voting control.

VENTURE FINANCING LIFE CYCLE

SMEs usually do not meet the standards set by lenders of finance to access debt, mainly due to lack of appropriate collateral, excessively outstanding debts and lack of business skills, thus they are forced to rely on the owners personal finance. During the first stages of growth the SMEs is entirely dependent on the owner, and they graduate to other external sources as they grow in size. Falkena, et al 2001 suggests that the general trend for financing SMEs is to initially use self-financing, and move on to debt finance and / or venture capital and they outlined this into four major stages; initial infrastructure investments, lumpy operations costs, next-step expansions and unexpected opportunities requiring quick access to funds.

Early research in SMEs access to finance identified a situation referred to as the “financing gap”- where a firm, due to growth in size, reaches a point where it has exhausted its short-term finance, but its size inhibits it from access to the capital market. However research has indicated that for firms in developing countries, this “financing gap”, arises very earlier than their counterparts in developed economies due to a combination of factors (Ismail and King 2007).

To counter this financing gap, and development an appropriate financing structure for SMEs, Falkena, et al (Ibid) came up with three major hypothesis for explaining SMEs financial structuring in line with growth, namely; lifecycle approach, pecking-order approach and agency and information list theory (Berger and Udell 1998)

Lifecycle approach: suggest that small firms start out by using contributions from the owner, if they succeed, they would then suffer from undercapitalization forcing them to look for other sources, such as trade credit and short-term bank loans.

Pecking-order approach: postulates that firms finance their needs in a hierarchical fashion, using internal funds, debt and external equity; in that sequence. It implies a negative relationship between profitability and external borrowing ie if a firm is profitable it would generate enough profits, thus reducing the need to borrow; will rely more on internal funds and less on external funds.

Agency and information list theory: it focuses on transaction cost, contracting analysis and agency theory. It seeks to underpin that the presence of these problems explain the greater use of collateral lending to SMEs as a way of dealing with these agency problems.

Entrepreneurs, who subscribe to the lifecycle hypothesis, would rely more on equity capital and switch between various types of equity as the enterprise grows.

Forms of government assistance to SMEs in Zimbabwe

It is, however, important to note that a strong institutional framework supporting the development of SMEs is already in place in Zimbabwe. With the advent of the economic reforms in 1991, there has been a significant change in the Zimbabwean government’s attitude towards the private sector and the small enterprise sector is increasingly viewed as an important engine for employment creation and economic growth, (Zindiye et al, 2008). There are long-standing institutions such as SEDCO, Empretec, the International Labour Organization (ILO) arms and other several institutions currently providing technical and financial support to the SMEs sector. However, RBZ (2009:13) recommends that these institutions must be reconfigured into tangible activities in support of the SMEs.

According to the World Bank Conference Paper (2004) propound that in order to stimulate development and entrepreneurship for small enterprises, the Heads of State or government and European Commission developed a Charter and agreed collectively work on the following 10 items to support SMEs’ growth and development; education and training for entrepreneurship, cheaper and faster start-up, better legislation and regulation, availability of skills, improving online access, getting more out of the single market, taxation and financial matters, strengthening the technological capacity of small enterprises, successful e-business models and top-class small business support and develop stronger, more effective representation of SMEs’ interests at union and national level.

Barriers to SME development

In Zimbabwe, the SME sector has faced a variety of constraints that hinder its growth and development. The principal areas of concern affecting the development of the SME sector identified by various studies as highlighted by Nyoni (2002) include limited access and cost of finance, lack of marketing skills and market knowledge, inadequate management and entrepreneurial skills, lack of access to infrastructure, lack of access to land, lack of information and a hostile regulatory environment.

EMPIRICAL STUDIES

Limited access to financial resources to smaller enterprises.

The authors Ligthelm and Cant (2003), in their research article above found out that , typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances. In addition, studies by Liedholm, MacPherson and Chuta (1994) also show that a large number of small enterprises fail because of non-financial reasons such as a lack of forecasting and planning skills, a lack of skilled human resources and poor management practices.

Sources of finance for Small and Medium Enterprise in the United Kingdom.

Hussein et al (2006) in their research paper above, the purpose of the study was to examine the factors or determinants of successful Small and Medium entrepreneurs in the UK and the available sources of financing for them. An interview questionnaire was designed and sent to forty (40) sample questionnaires where in 20 were small scale entrepreneurs and another 20 of them were medium scale entrepreneurs. It was found that at initial (start-up) funding, a large proportion of respondents relied exclusively on financial support from their immediate family. After two years in business, respondents exhibited a higher reliance on own savings and the financial support of bank and other financial institutions. At the end of 5 years of uninterrupted economic activity, most of the owner or managers in the UK sample relied for their borrowing needs primarily on financial institutions and to a lesser extent upon their own savings.

Accounting practices of SMEs in Zimbabwe, an investigative study of record keeping for performance measurement (A case study of Bindura).

The authors Maseko and Manyani (2011) conducted a research in an effort to emphasise the development of record keeping and sound accounting systems to Bindura SMEs in Zimbabwe. The survey research design was used and the target population comprised of 100 SMEs operating different types of industries in Bindura. A structured questionnaire was used to collect primary data from the respondents. The study revealed that the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge and as a result there is inefficient use of accounting information in financial performance measurement. The study recommended that national regulators must develop specific accounting guidelines for SMEs and develop accounting training programmes for entrepreneurs in small businesses and making mandatory record keeping, in improving accounting practices of SMEs in Zimbabwe.

Financing options for Small and Medium Scale Enterprises in Nigeria.

According to a study by Aruwa 2004 on a paper titled above, government has identified the need for the development of Small and Medium Scale Enterprise (SME). One of such sectoral strategies is the introduction and pursuit of policies such as concessionary financing to encourage and strengthen the growth of SMEs in Nigeria. In this paper, a random sample of 10 formal and informal finance sources and 20 SMEs in 6 selected small and medium industries in Kaduna and Abuja have been studied. The study found that financing options for SMEs are numerous but access to these funds have been difficult in spite of several government initiatives. They also found that some schemes of fund lacks standard guideline for fund disbursement, the unregulated informal finance institutions finance the SMEs much more than the formal sources and the informal sources make up more than half of the SMEs’ mix of funds. It was recommended that the informal source of financing is potentially important source of micro financing so much that savings in them should be further encouraged through government intervention and regulatory.

Venture capital, its impact on growth of Small and medium Enterprises in Kenya.

Memba et al 2011 on their paper titled above carried out a research with a purpose of finding out the impact of venture capital on growth of Small and Medium Enterprise (SME). The lack of finance has been cited as a major contributor to SME failure in Kenya. Venture Capital which is the best source of business finance has been in Kenya for long but little used. The methodology adopted was collection of data before and after use of venture capital. The findings in this study revealed that venture capital has an impact on growth of SME they finance. The study has demonstrated that use of venture capital can be profitable in Kenya even in an inauspicious political and economic climate. The study concluded that SME that use venture capital experience improved growth and thus more SMEs should be encouraged to use this form of finance.

An analysis of the impact of targeted government assistance on SMEs growth and development in Zimbabwe.

The authors Maseko et al (2012) on their research article above sought to analyse the impact of targeted government assistance on SMEs growth and development in Zimbabwe. The research centred on SMEs operating in Mashonaland Central and governmental organizations that are involved with SMEs in the province. The survey research design was used, targeting population of 200 SMEs. A structured questionnaire was used to gather data from owner-managers in SMEs. Interviews with officials from governmental organizations were used to gather qualitative data. The study concluded that government targeted support advanced to SMEs is effective in bringing about growth and development in this sector. The study also concluded that the forms of targeted support to SMEs are not complete enough to transform SMEs operations into visible businesses that can compete in the global market place. The study recommended that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology.

RESEARCH METHODOLOGY

The research was conducted in the form of a survey research design. Churchill (1998) defines a survey research design as an approach to data collection that involves collecting data from large numbers of respondent. The design attempted to document conditions and attitudes that existed when the study was carried out using interviews and questionnaires. Data was collected using both primary and secondary sources. A pilot study was carried out to improve on data reliability.

The questionnaires were issued to SMEs in different industries which amounted to188. Interviews were also carried out to 3 banks and SEDCO officials in Bindura.

RESULTS PRESENTATION, ANALYSIS AND DISCUSSION

This section focuses on the analysis and interpretation of the data from questionnaires and interviews. Analysis and interpretation of data are closely related. In data analysis, the collected data is broken up into groups or elements which the researcher examines separately and translates it into meaningful results. In interpretation, the immediate results will be translated into integrated and meaningful general references and findings. The findings must be relevant to the objectives of the research. Descriptive statistics such as tables, pie charts and bar charts were used to aid the analysis of data because they are effective illustrations of depicting relations and trends.

Analysis of response rate

Both questionnaires and interviews were used in the collection of primary data. A total of 188 questionnaires were dispatched to respondents. One hundred and fifty six (156) questionnaires returned back that is a response rate of 83% was achieved and was considered to be satisfactory by the researcher and it justifies the use of the findings as a basis.

Educational qualifications of the respondents

Table 4.1 Responses on the educational qualifications of the respondents

Qualification	Frequency	Valid percent
Post graduation	20	13%
Degree	36	23%
Diploma	44	28%
Certificate	39	25%
Other	17	11%
Total	156	100%

Source: Survey data, 2013

The table 4.1 above shows that 28% of the respondents have diplomas, 25% have certificates, 23% have degrees, 13% have post graduation and 11% have other forms of education. The result indicates that SMEs owners and or managers in the study area are well educated. The majority of the respondents have certificates, diplomas and university degrees. Education increases the knowledge of the SMEs owners in the various sources of finance and the chance of the success of the business. Marten 2005 in a study on the success of small businesses in Canada found that the education of the owner is positively related to the success of the business.

Legal status of the respondents

This information is necessary to enable the researcher to obtain information on whether the business of the respondents is a sole proprietorship, partnership, corporative and private company.

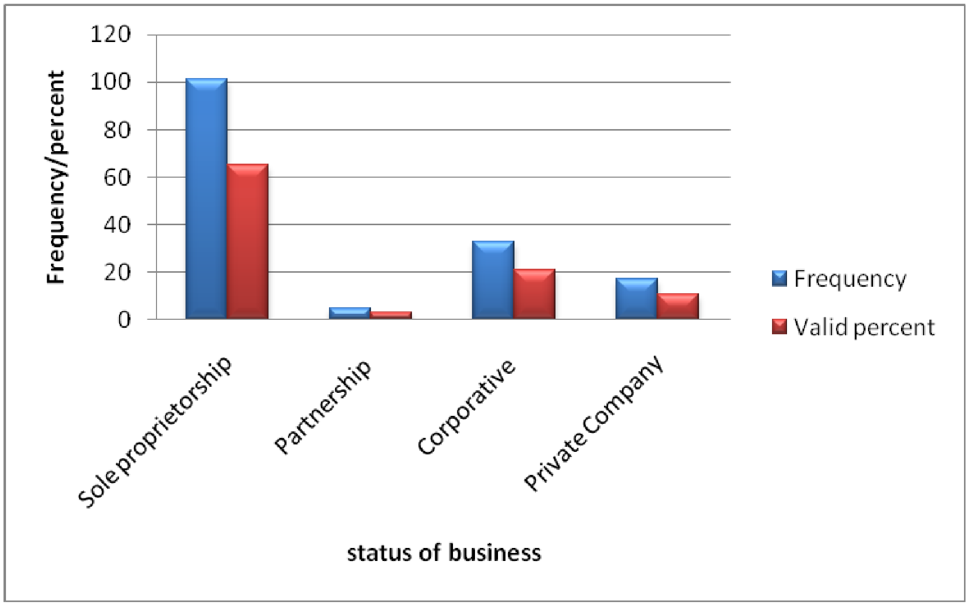

Figure 4.1 Responses on the legal status of the respondents' enterprises.
Source: Survey data, 2013

Sixty five percent of the respondents are sole proprietors. Twenty one percent are partnerships, 11% private companies and 3% corporative. This result indicates that most of the SMEs are sole proprietorships and partnerships. This could be attributed to the fact that sole proprietorships are easy to form. Cronje et al 2004 point out that a sole proprietorship is by far the most popular form of business. A sole proprietorship is a business that is owned and managed by one individual. It is simple form of business, and the least costly form of ownership for starting a business. The result is consistent with the study by Rwigema and Karungu, 1999 which established that 74% of the respondents surveyed are sole proprietorships, 5% corporative and 1% are private companies.

4.2.3 Period of business operating

Figure 4.2 below highlights information on the duration of the business of the respondents.

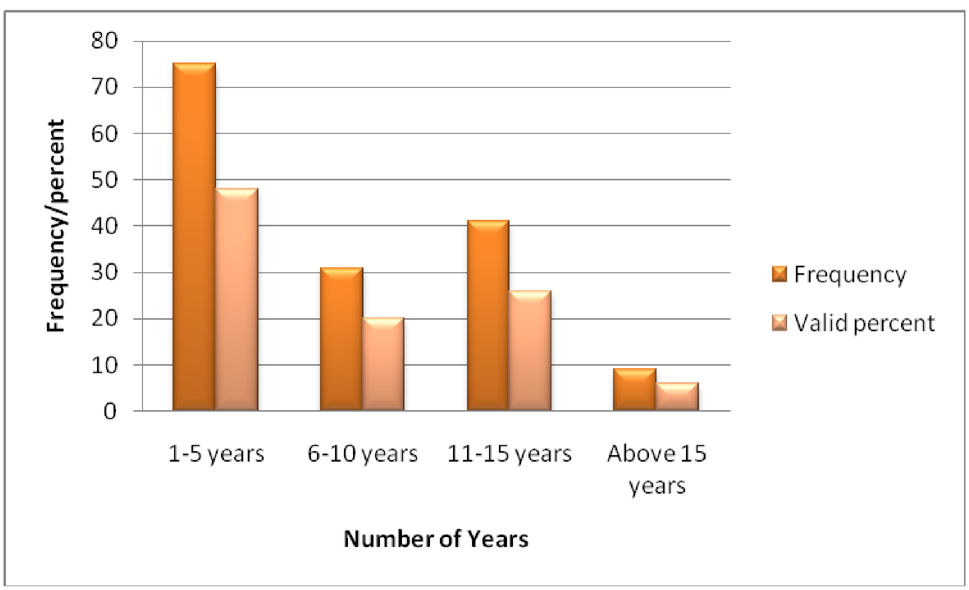

Figure 4.2 Responses on the duration of the business of the respondents
Source: Survey data, 2013

Forty eight percent of the respondents have been in operation for between 1 and 5 years, 20% have been in operation for 6-10 years, 26 % have been in operation for 11-15 years, and 6% in operation for more than 15 years. This result indicates that the majority of SMEs in Bindura, namely 69% operate for less than 10 years. However, 31% of the SMEs operate for more than 10 years. This result is consistent with previous studies Falkena et al 2001. In the empirical research of this study it is also confirmed that most of the small enterprises started from their own savings, family and friends then after two to five years they start to get financing mostly from banks.

The type of industries for SMEs in Bindura.

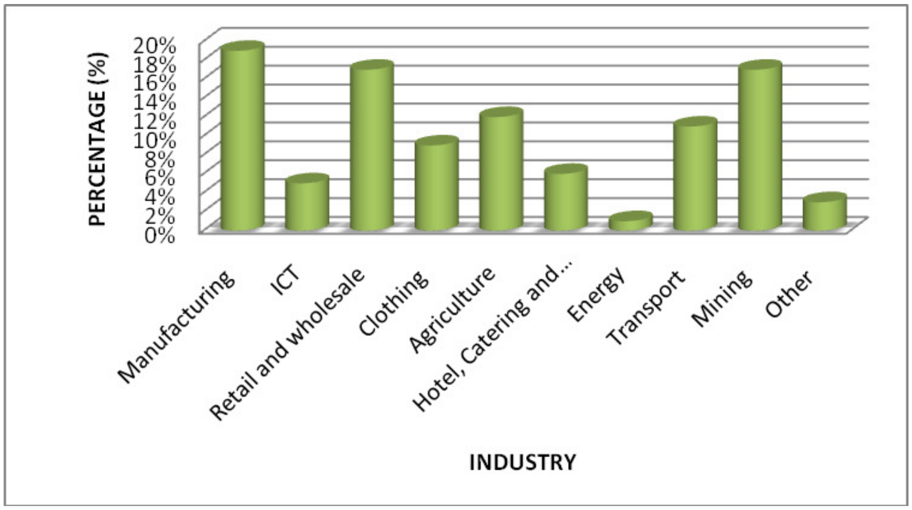

Figure 4.3 Responses on the type of industry
Source: survey data, 2013

Nineteen percent of the respondents were in manufacturing industry, 5% ICT and 17% retail and wholesale. Nine percent indicated that they were in clothing industry, 12% into agriculture, 6% in hotel, catering and tourism and 1% in energy. Eleven percent were into transport sector, seventeen percent in mining whilst 3% in other industries. A closer analysis reflects that SMEs which are dominant in Bindura are manufacturing, retail and wholesale, mining and agriculture. The predominance of SMEs in manufacturing industry can be attributed to the relatively low capital requirement.

External source of financing

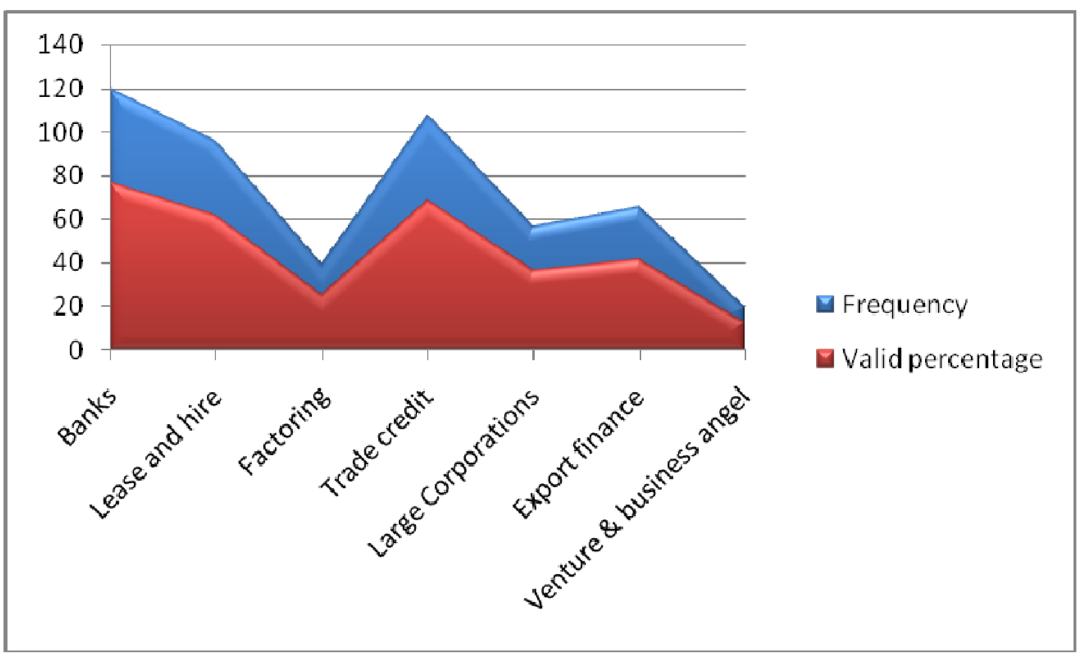

Figure 4.4 Responses on the external source of funding
Source: Survey data, 2013

Seventy seven percent of the respondents highlighted that they obtained external finance from banks. Sixty two percent of the respondents indicated that they source from lease and hire purchase to finance their business operations. Twenty six percent indicated they use factoring whilst 69% obtain from trade credit. Thirty seven percent concluded that they source from large corporations and 42% from export finance. Only 13% regarded venture capital and business angel as their source of finance. A closer analysis on the responses of the respondents shows that banks, trade credit and lease and hire purchase are the most essential external source of finance used by Bindura SMEs.

The findings are consistency with previous studies Aruwa, 2004 who concluded that bank term loan and bank overdraft are more short-term kind of finance which are also widely used by start-ups and small businesses. It is also in line with Ruis et al 2009 argues that the second largest source of finance is leasing and hire purchase as it represents secured financing-based on the existence of a tangible asset. There is empirical evidence Falkena et al (2001) that the financial structures of Malaysian SMEs were generally consistent with the perking order hypothesis. Small firms in Malaysia rely heavily on short and medium-term debt finance and they concluded that overdraft finance remains the most widely used source of funding.

Out of 120 SMEs who obtained finance from banks, 85% ticked term loans and lines of credit. Only 15% accessed mortgage loan to construct infrastructure. Most of the entrepreneurs said they have last applied for mortgage loan but was unsuccessful due to lack of collateral security.

Those SMEs whose assistance where export finance got finance from export houses to facilitate regional trade to nearby countries especially tobacco farmers. Export Credits Guarantee provides insurance schemes to cover for the uncertainties in business export. The minority of Bindura SMEs sourced from Venture Capitalist which is consistency with Memba et al 2011 who also concluded that venture capital organisations typically reject the vast majority that is 90% or more of proposals quickly because they are deemed a poor fit with the firm’s priorities and policies. They then investigate the remaining 10% of the proposals very carefully and at considerable expense. Furthermore, the results are in agreement with the findings of Memba et al 2011 who noted that venture capital the best source of business finance has been in Kenyan SMEs for long but little used.

Sources of internal financing used in businesses

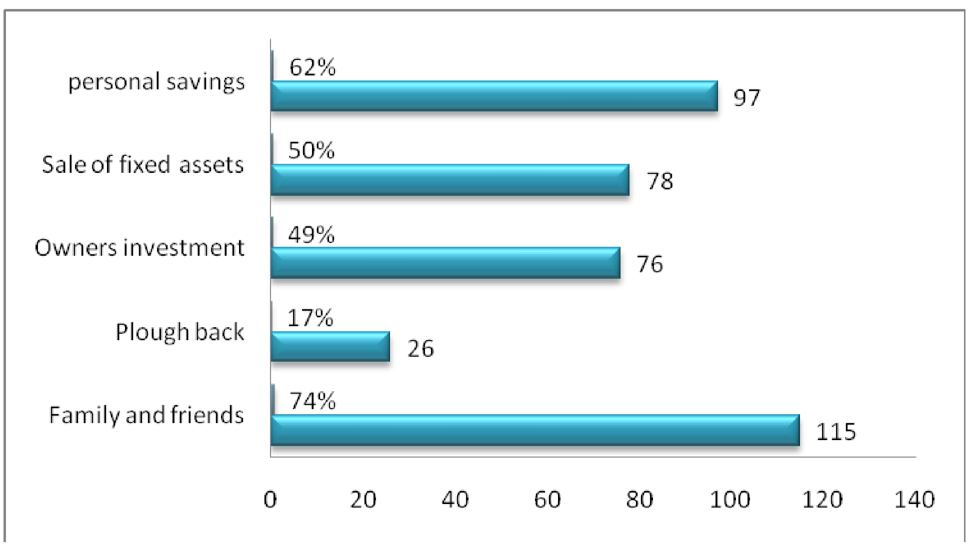

Figure 4.5 Responses on the internal source of funding on business operations
Source: Survey data, 2013

Seventy four percent of the respondents indicated that their internal source of finance is from family and friends. Seventeen percent of SMEs plough back their finances in their business, 49% from owners’ investment, fifty percent of the respondents use internal source of finance by selling their fixed assets and 62% comes from personal savings.

This result is consistent with the findings of the Berger and Udell (1998) who found that small firms’ owner-managers rely on internal finance such as family loans and other own savings. They is empirical evidence that entrepreneurs depend on personal savings, friends and relatives as primary sources of capital at start-up (Hutchinson, 1995). In support of the above findings, Falkena et al (2001) postulate lifecycle approach which suggests that small firms start out by using contributions from their owners. Minority of the SMEs plough back their profits and this suggest that a lot of new businesses are coming into SME sector industry. According to Burns and Dewhurst 1989, retained profits are only available for a business which has been trading for more than a year.

Stages of the firm's life cycle in Bindura

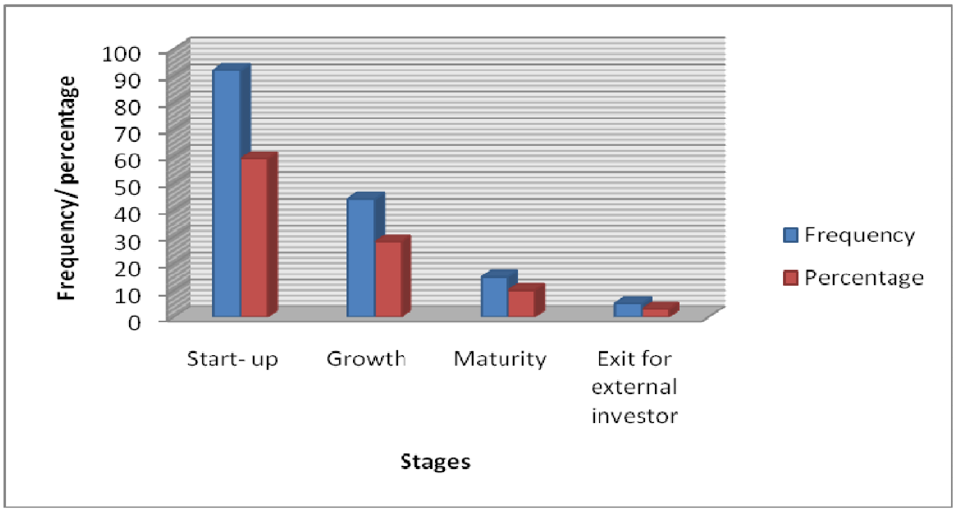

Figure 4.6 Stages of the firm's life cycle
Source: Survey data, 2013

Fifty nine of the respondents indicated that they are at start-up stage of the firm's life cycle. Twenty eight of the SMEs alluded that they are at a growth phase. Ten percent of the respondents were at a maturity stage and three percent indicated that they were now at a decline stage. A closer analysis of this result leads to the conclusion that most of the SMEs are at start-up and growth stages. Taking this into consideration, SMEs usually which are found at start-up stage, find it difficult to access finance to the formal financial institutions that requires collateral security. This result is consistent with the work of Myers (1999) who noted that small and young firms were found to rely heavily on short term finance that is overdraft and lease and hiring short term financing.

Problems encountered when SMEs started their businesses.

Table 4.2 Problems faced by entrepreneurs in starting their businesses

Problem	Important	Neutral	Less important
Goodwill	88%	5%	7%
Market penetration	70%	11%	19%
Financial gap	93%	2%	5%
Premises in prime location	62%	18%	20%
Judging the customer expectations	65%	24%	11%

Source: Survey data, 2013

The information shown in table 4.2 above is statistically portrayed in a bar chart in Figure 4.7 below.

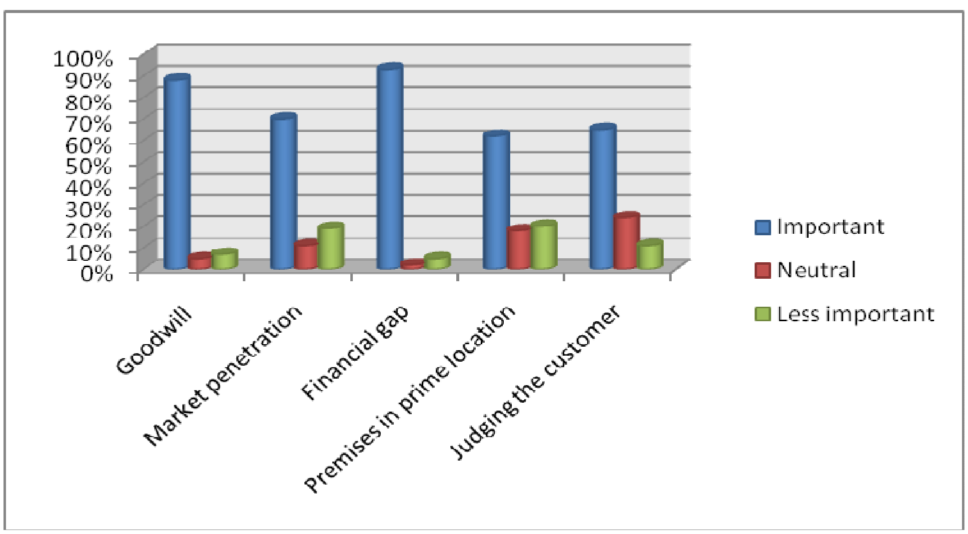

Figure 4.7 Problems faced by entrepreneurs in starting their businesses
Source: Survey data

Eighty eight percent of the respondents indicated that goodwill was the problem when they started businesses. Seventy percent alluded to the fact that market penetration was the problem. Ninety three percent concluded that the financial gap was the main challenge at the stat-up stage. Sixty two percent, premises in prime location was the problem and sixty five percent indicated judging the customer. Based on this result it can be concluded that SMEs had faced major challenges on financial gap, goodwill and market penetration.

The results above are in agreement with studies of (Olson et al 2004) who found that the major problems in starting up a business can be ranked starting with goodwill, market prediction and financial gap. The last category ranking was getting the premises in prime location and judging the customer expectations.

The barriers to SMEs development

Table 4.3 Barriers to SMEs development

Barrier	important	Neutral	Less important
Limited access and cost of finance	81%	6%	13%
Inadequate management and entrepreneurial skills	67%	12%	21%
Lack of market skills and market knowledge	75%	8%	17%
Lack of access to infrastructure and facilities	63%	3%	34%
Information asymmetry between SMEs and investors.	57%	20%	23%

Source: survey data, 2013

Eighty one percent of the respondents indicated that the barriers to SMEs development is limited access and cost of finance, 67% inadequate management and entrepreneurial skills whilst 75% felt lack of market skills and knowledge. Sixty three percent indicated lack of access to infrastructure and facilities whilst 57% indicated information asymmetry between SMEs and investors.

This result is in agreement with previous studies on SMEs. The role of finance has been viewed as a critical element for the development of small and medium sized enterprises. Previous studies by Ligthelm and Cant (2003) have highlighted the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. This is also consistency with studies by Ligthelm and Cant (2003) who found that, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to SMEs. In addition studies by Liedholm, MacPherson and Chuta (1994) also show that a large number of small enterprises fail because of non-financial reasons such as lack of forecasting or planning skills, a lack of skilled human resources and poor management practices.

Areas that need support

Table 4.4 areas in business that needs support

Education and training for entrepreneurship	103	66%
Cheaper and faster start-up finance	121	78%
Better legislation and regulation	95	61%
Availability of skills	89	57%
Improving online access	98	63%
Getting more out of the single market	95	61%
Taxation and financial matters	84	54%
Technology assistance	116	74%

Source: survey data, 2013

Sixty six percent of the respondents felt that they need support to eeducation and training for entrepreneurship, 78% were of opinion that cheaper and faster start-up finance, 61% indicated better legislation and regulation and getting more out of the single market whilst 57% ticked availability of skills. The results also showed that 63% need support on improving online access, 54% need taxation and financial matters and 74% need technology assistance support. A further analysis shows that SMEs in Bindura needs support in all areas.

Research findings by Nyoni (2002) indicated that principle areas of concern affecting the development of the SME sector include limited access and cost of finance, lack of marketing and entrepreneurial skills, lack of access to infrastructure, lack of information and a hostile regulatory environment. The results are also in line with the view of World Bank Conference Paper (2004) who propounds that in order to stimulate development and entrepreneurship for small enterprises, the Heads of State and European Commission developed a charter and agreed collectively work on the above outlined areas to support SMEs' growth and development.

Financial statements that are prepared by SMEs

Table 4.5 Financial statements prepared by SMEs

Pro-forma income statement *(statement of comprehensive income)*	35%
Balance sheet *(statement of financial position)*	28%
Cash flow statement *(statement of cash flow)*	33%
Statement of changes in equity	19%
Only preliminary records of bookkeeping	65%

Source: survey data, 2013

Thirty five percent of the respondents prepared pro-forma income statement, 28% balance sheet and 33% they indicated cash flow statement. Nineteen percent prepared statement of changes in equity whilst sixty five percent furnishes only preliminary records of bookkeeping. So in a nutshell the results show that most of the SMEs they prepare only preliminary records of bookkeeping followed by pro-forma income statement.

The findings above are in line with the findings of Maseko and Manyani (2011) in their paper accounting practices of SMEs in Zimbabwe. The study revealed that the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge and as a result there is inefficient use of accounting information in financial performance measurement. Usually enterprises that do not prepare and keep complete set of financial statements do not qualify for loans from the lenders.

SME support by the Zimbabwean government and other institutions

Zimbabwean government's measures to ensure SMEs access to finance

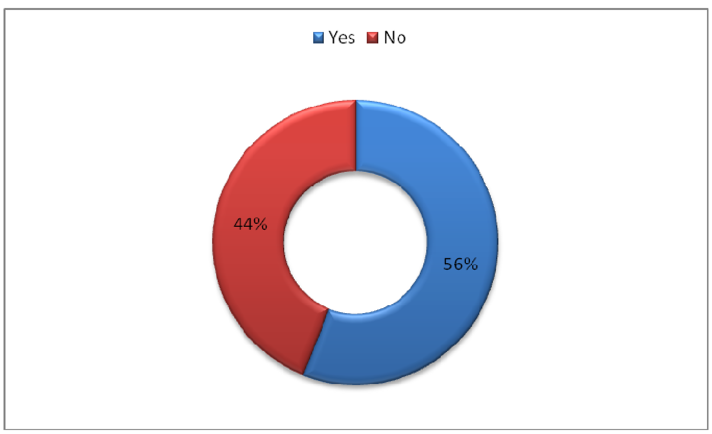

Figure 4.8 Zimbabwe government's measures to ensure SMEs access to finance
Source: survey data

Fifty six percent of the respondents have benefited from the government's measures to ensure that SMEs' have access to finance through the Ministry of Small and Medium Enterprise Development and SEDCO. This result shows that the respondents appreciate government's effort to address financial issues affecting SMEs. This is an important area as most SMEs are severely affected by a shortage of financial resources.
Previous studies by Ligthelm and Cant (2003) have highlighted that they is limited access to financial resources available to smaller enterprises compared to larger ones and the consequences for shortage of finance. However 44% of the respondents have not yet benefited from the Zimbabwean government's measures to enhance SME access to finance.

Empretec, UNIDO, ILO, SEDCO and other several institutions' role
Empretec, International Labour Organization (ILO), Small Enterprise Development Corporation (SEDCO) and other bodies are supporting institutions that work closely with the Zimbabwean government to provide entrepreneurial skills to entrepreneurs and emerging entrepreneurs. The results indicate that the majority of the respondents are satisfied with the roles being played by these supporting institutions. This is supported by the responses from the respondents where 70% eluded to the fact that EMPRETEC, ILO and SEDCO had played a significant role in the survival, growth and development.

The forms of government targeted support received by enterprises

Table 4.6 Form of government assistance received by SMEs

Form of assistance	Responses	Frequency	Ranking
Financial	101	65%	1
Technical training	30	19%	4
Infrastructural	82	53%	2
Market development	19	12%	5
Quality assurance	14	9%	6
Research and development	8	5%	8
Technological	50	32%	3
Other assistance	2	8%	7

Source: Survey data, 2013

The Table 4.6 Shows that financial support ranked the highest form of targeted support received by SMEs from the government with 65%. Infrastructure support ranked the second with 53% of the SMEs having received it and technological ranked third with 32% of the SMEs accessing this form of support. Research and development support ranked lowest with 5% of SMEs followed by Quality Assurance with 9%, market development 12% and Technical training with 21% of the SMEs responding to have received this form of support.

The results are consistency with the previous study of Maseko et al (2012) who concluded that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology. Forms of targeted support to SMEs are not complete enough to transform SMEs operations into visible businesses that can compete in the regional and international markets.

The indigenisation and economic empowerment policies benefit to Bindura SMEs.

From the views of respondents, they eluded that indigenisation and economic empowerment gives the disadvantaged black majority a fair opportunity to chart the path from poverty to a better quality of life. Some of the SMEs were of the view that Zimbabwe's indigenisation and economic empowerment programme gives young people the platform to excel and in all this, skills development will feature prominently. According to Professor Jeffry Timmons (1999) says "the game is all about the creation and or recognition of opportunities". He argues that entrepreneurship is a way of thinking and reasoning and can naturally depend on the prevailing mindset. SMEs do well in an environment where entrepreneurs are opportunity-driven that is indigenisation and economic empowerment policy that will cumulatively go a long way in stimulating broader economic development.

Discussion on the results from SEDCO and bank officials

Definition of Small and Medium Scale Enterprise (SME)

According to the interview with SEDCO officials they didn't differentiate between small and medium entities, but they defined SME as a firm that has not more than 100 employees with maximum annual sales of up to US$830 000. Bank officials defined SME as a firm which employs 100 maximum numbers of employees with maximum revenues or turnover of US$3 million. This is in agreement with definitions of SEDCO (2010); GoZ (2000) who defined the SME as the one that employs people who are not more than 100 employees.

Reasons that impede lending to small and medium-sized firms are in Figure 4.9 below, those banks interviewed by the researcher through his survey, identified four obstacles ranked by their level of relevance: lack of equity in the client's firm, availability of adequate collateral, high credit risk and poor information on the client's firm

As shown in Figure 4.9 below, there are striking differences among the obstacles identified in relation to the development of bank lending to firms of varying sizes. For example, the lack of equity, company risk and available collateral are the main problems for SME financing, whereas low expected profitability is the main brake on financing for large firms. Each of these issues is examined below;

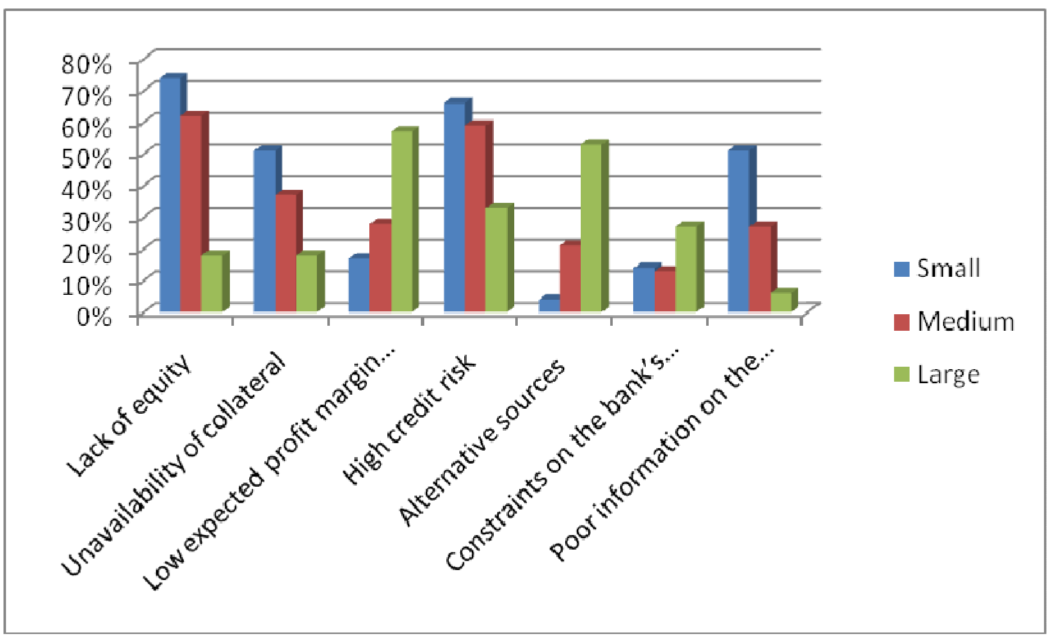

Figure 4.9 Reasons that impede lending to small and medium-sized firms
Source: Reserve Bank of Zimbabwe, 2011

Lack of equity

The average rate of equity financing is usually low in Zimbabwe, owing to the long-anchored loan financing tradition. The availability of equity in SMEs varies among countries and depends on the SME's size. This finding is consistency with the study of Moore et al (2008) who identified the size and maturity of the firm as a factor that determine how a firm is financed. Equity financing is not more prevalent in Zimbabwe and it represents one-third of the total balance sheet.

Availability of adequate collateral

A bank is inclined to ask for collateral to reduce the loan loss in the event of default. For an SME, however, providing collateral is not always an easy task, especially the type that protects the lender for the amount of risk taken. This is also in line with Moore et al (2008) who argued that, a banker specifically considers tangible and non tangible assets when evaluating a loan. Tangible assets serve as great collateral when a firm is requesting a bank loan.

High credit risk

When launching a new business or an innovative project, the entrepreneur is normally better informed about the project risks than those financing it. This may prevent lenders from observing the real nature of the borrower or influencing the borrower's strategic behavior after the credit is released. As a result, the lender could voluntarily raise the risk premium on loans to properly manage its risks, which translates into higher interest rates for borrowers. This situation may trigger an adverse-selection affect that encourages riskier behavior owing to the moral hazard principle, which in turn enhances the probability of default and may encourage credit rationing. In view of the upcoming regulatory changes for Zimbabwean banks, the proper management of credit risk will be even more important than it is today. Hence, banks will rely on more sophisticated risk-management techniques and extensive information on the borrower to derive the probabilities of default and other risk parameters.

Informational Opacity

Small firms are considered to be more vulnerable than larger ones as they face less rigorous reporting requirements owing to their age and their short credit history. According to the interview with the bank officials, indeed, unlike larger firms, small firms do not enter into contracts that are publicly visible and widely reported in the press-contracts with their labour force, their suppliers and their customers are generally kept private. In addition, small businesses do not issue traded securities that are continuously priced in public markets. Nor do they have audited financial statements that can be shared with any provider of outside finance. Some family-owned businesses, for example are very reluctant to report strategic information such as business structure, growth opportunities, strategic orientation and even ownership structures.

As a result, small firms are often unable to convey their status in a credible way, and have more difficulty building a reputation to signal their high quality as a borrower. The inherent characteristics (and weaknesses) of SMEs in terms of size and limited access to capital markets feed their informational opacity, which may prevent easy access to sources of finance and in some cases makes financial contracting problematic. Documents such as budgets for the next few years, financial plans, cash flow forecasts, information on inventories, unpaid invoices or qualitative information are seldom provided.

To explore the list of obstacles to SMEs financing, the researcher further interviewed the SEDCO officials and other banking experts. According to them, they highlight the four factors mentioned above and they further outline the other factors that also impede the granting of loans. Poor business performance, lack of entrepreneurial skills and uncertain development prospects are shown to be equally important. The first of these-poor business performance- can be indicated by a low equity ratio, insufficient cash flow and liquidity problems. The latter two problems can be exacerbated by late payments as well as by bad credit management.

If some of these obstacles are assessed as being prevalent, many banks are not willing to provide or extend a credit line even if the SME can offer enough collateral for some existing clients, the reduction of current credit facilities is more likely to happen than a complete withdrawal of all facilities extended to the firm. The reduction is essentially a consequence of the lender's assessment of the risk profile of the firm.

Based on the analysis above, it can be concluded that although alternative financing sources such as hiring and leasing, factoring, venture capital and trade credit exist, SMEs rely heavily on bank financing. But bank financing requires a large volume of financial and strategic information that ought to be provided by SMEs to reduce the information gap between the borrower and its lender.

SUMMARY OF FINDINGS AND CONCLUSIONS

The findings of this study will be explained in relation to each of these objectives and the research proposition. The findings will also be compared with empirical studies to ascertain their consistency or inconsistency. Recommendations and areas for further studies will be suggested.

To explore the sources of financing available to SMEs in Zimbabwe.

Most of the SMEs rely on family and friends and personal savings as their internal source of funding. It was noted that most of the SMEs in Bindura use banks, trade credits, lease and hire purchases as their external source of finance. It was discovered that there are three forms of bank loans which are used by SMEs namely; term loans, lines of credit and mortgage loan. Majority of SMEs are unable to access mortgage loans due to lack of collateral security. Most of the SMEs are found at initial or start-up stages and they found it difficult to access finance to the formal financial institutions that requires collateral security.

To ascertain the financing options available to the SME are practically obtainable to support the capital required for their operation.

The results shows that most of the SMEs they prepare only preliminary records of bookkeeping, hence failure to meet lenders requirements of full set of financial statements. There is need for entrepreneurial skills such as bookkeeping and tax computations. These skills empower the owners or managers of SMEs in Bindura with the knowledge to manage the cash flow in a manner that enhances the success of their business. It was noted that they are four major reasons that impede lending to small and medium-sized firms namely; lack of equity in the client's firm, availability of adequate collateral, high credit risk and poor information on the client's firm. It was also noted that there are other additional factors that also impede the granting of loans namely; poor business performance, lack of entrepreneurial skills and uncertain development prospects.

To identify the factors those contributes or mitigate the exploitation of these sources to SMEs in Zimbabwe.

The results found that they are certain factors which lenders consider in financing SMEs which are: the size and maturity of a firm, the nature of its assets, the firm's economic potential and owner preferences for equity. The size and maturity of a company have a direct bearing on the types of financing available that is larger and older firms have access to bank credit that simply is not available to younger and smaller companies.

To assess the role of government in support of venture financing to SMEs in Zimbabwe.

Fifty six percent of the respondents have benefited from the government's measures to ensure that SMEs have access to finance through the Ministry of Small and Medium Enterprise Development, Empretec, ILO and SEDCO. It was concurred that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology.

RECOMMENDATIONS

Depending upon SMEs stage of growth, the most appropriate form of finance for SMEs development is frequently venture capital rather than debt. There are a number of ways through which the provision of venture capital can be stimulated in Zimbabwe: legislation should be changed to allow institutional investors to increase their investment in venture capital, unlisted shares and small capitalisation companies (i.e. SMEs).

SMEs should also form groups and make use of pooled negotiating power for borrowing purposes. They can use such negotiating power to purchase from suppliers and receive discounts which might lead to a reduction in the cost of production. Through networking, SMEs in different industries in Bindura, Zimbabwe can be able to exchange services such as bookkeeping, tax calculations and advertising amongst themselves for free.

Banks and credit institutions have stringent requirements when SMEs especially new start up firms when they want to borrow from them, primarily in the form of collaterals. To address the issue of borrowing constraints the government should act as a guarantee to banks and credit institutions for new SMEs that is by making an undertaking to pay the banks in the event of the SMEs failing to pay back. The banks will get the assurance that they can recover their money from the government and also receive interest on the funds they would have given the SMEs.

Zimbabwean government should try to attract investors through incentives such as taxes. Tax incentives such as a scheme whereby a small and medium sized business will be required to only pay tax after a certain period of operation, for example 5 years.

New SMEs in Bindura, Zimbabwe should also be better informed of the available supporting institutions and their roles in the development of SMEs. Although they are aware of the existence of Empretec, SEDCO and ILO, these institutions should embark on community outreach programmes. This should be done in order to inform the SMEs in Bindura about the available services from this supporting institution.

The Zimbabwean government's economic initiatives must be made available and accessible to all SMEs in policy formulation for the small and medium enterprise sector since they are key stakeholders who are affected by these policies. This can be done by involving SMEs owners/ managers in workshops to discuss issues which affect their daily operations and the challenges which could influence their future survival.

SME owners in Bindura and the Zimbabwe government must form more direct partnerships to improve the entrepreneurial skill levels in the sector. This can be done through increased funding for SME staff training by the government. However such training is only provided in the larger metropolitan areas such as Harare and Bulawayo and need to be extended to other cities and towns like Bindura. Further, there is need to establish SME consulting and training centres in certain areas in the Mashonaland Central Province that is Bindura to assist SMEs with their challenges.

Further, the study recommends that those institutions advancing targeted government support like SEDCO and Venture Capital Company of Zimbabwe (VCCZ) should decentralise their operations to cover small towns in order to reach SMEs operating in remote areas of the country.

AREAS FOR FURTHER RESEARCH

The research work suggests some lines of enquiry for further research. Firstly, further research could determine if the findings of this research are consistent across different areas of Zimbabwe to confirm if the results of this research can be generalised across the whole country. A further research onto venture financing is needed to be carried out using a case study of SMEs lenders such as financial institutions, SEDCO and other supporting institutions. Finally, this study can also be carried out in other parts of Africa for comparison purposes.

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