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Small and Medium Enterprises Government-aided Financing in Zimbabwe: A Theoretical Perspective

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Abstract:

Small and Medium Enterprises (SMEs) play a crucial role globally in economic development. Thus, its financing becomes key as SMEs play an important role in employment creation, contribution to Gross Domestic Product, export competitiveness and also uplifting the standards of living of people. The paper builds on data collected through a review of various sources and provides in-depth analysis in the context of Zimbabwe as part of an ongoing study on government-aided institutions financing of the SMEs in general and in Zimbabwe in particular – giving new dimensions and perspectives. The study has established that financing models lack situational inclusivity and flexibility to adapt to the new needs of an emerging SMEs sector as key to the success of the SMEs sector in Zimbabwe. The paper further shows that the SMEs financing on the overall is negligible yet SMEs play a major role in contributing to the economy and the extent of Government support is missing the opportunity to accelerate growth of the sector. In the review, the empirical evidence from literature also shows that the efficacy of government-aided institutions in SMEs financing SMEs is undermined by regulatory and policy environment in the financing process of the SMEs. Thus, this paper recommends inclusivity and flexibility in SMEs financing through a review and elimination of funding gridlocks and conditionalities that are attendant, including collateral and administrative charges that are applied by the institutions. The materiality of this flexibility and review is to stimulate growth of the sector to contribute meaningfully to broad-based socio-economic development.

Keywords: Financing, government, small to medium enterprises, business, growth & development

1. Introduction

The financing of Small and Medium Enterprises (SMEs) in Zimbabwe has been a topic of keen interest among policy makers and economic activists seeking to be empowered, and it gathered momentum in recent years because of the key role that SMEs play in socio-economic development, but more importantly, the SMEs potentially important contribution to economic development, broad-based empowerment, economic diversification and employment generation capacity that is attendant in the whole gamut of its value chains (Ayyagari et al., 2007; Beck et al., 2005a). In developing economies that among others include Zimbabwe in Sub-Saharan Africa, it is imperative to note that SMEs are typically more credit-constrained as compared to large, well established and reputable corporates many of them with huge foreign ownership component and therefore, the SMEs are severely affected in terms of their possibilities to access financing to achieve rapid growth (Beck et al, 2005b; Beck and Demircuc-Kunt, 2006; Beck et al, 2006; Ayyagari et al, 2008; Beck et al, 2008a; Ayyagari et al, 2012). Access to finance by SMEs the government aided financing institutions have an important role to play due to the fact that the desire of governments is to achieve economic transformation. However, it is argued in this case that empirical literature evidence has a dominant theme of the varying definitions, constraining financing models and systems, which do not only create ambiguities but essentially affect the SMEs access to finance, especially as regards serving the broad-masses of the SME market that require more support from its infants to growth levels (Ayyagari et al, 2012). Furthermore, these SMEs have limited access to external financing options such as corporate bond and organized securities markets, which typically leads to most of them struggling and they ultimately fail to compete with established firms. As such, the ability of SMEs to emerge and grow is fundamentally affected especially where these require medium to longer-term funding (Beck et al, 2008a).

2. Theoretical Background

It has to be acknowledged that there has been exponential growth in research attempting to understand the SMEs financing, their growth, development, and the general operations of SMEs across the globe. The SMEs, are inexorably integral to the broader economies of different countries around the world, and governments for several decades, have taken keen interests in SMEs development as they are seen to be part and parcel of empowerment and poverty reduction

among communities (Makotose, 2019). In the African context, Ghana as an example, the SMEs sector has contributed immensely to the extent that it has gone beyond the frontiers domestic production of goods and services to exports, thereby earning the much-needed forex (Appiah et al., 2019). Consequently, in Kenya, Oiro et al., (2019) opined that the Kenyan government came up with an export-led SMEs regulatory framework and financing to support SMEs growth and export competitiveness. Thus, a number of policymakers across the continent, have enacted affirmative policies to support SMEs and key among them is redefining the trajectory of financing the growth of SMEs businesses with keen interest to make access to capital simple and flexible to the majority of aspiring SMEs candidates. It is a reality that in both developed and developing economies, including Zimbabwe, the SMEs account for a vast majority of firms and provide employment opportunities for a large number of people considering that many households participate in one way or the other in some income generation and livelihood SMEs (Ayyagari et al., 2007; Beck & Cull, 2014; Gupta et al., 2015). In the sub-region closer to Zimbabwe, Zambia, Namibia, Mozambique and South Africa, have a promising SMEs sector with huge potential and are noted to play important roles in these economies (Stork & Esselaar, 2006). It is clear from literature that the SMEs account for more than 60% of all jobs globally (Harwood & Konidaris, 2015), and their importance cannot be overlooked in transforming lives and changing the circumstances of communities through empowerment and socio-economic transformation. Essentially, the SMEs have considerable and respectable impact on Gross Domestic Product (GDP) of most countries to the extent that SMEs contribute between 16% to 20% to GDP in most developing countries and high-income countries, SMEs perform much higher and contribute more than 50% to GDP (Bungey, 2017; Haselip et al., 2015; Tadesse, 2009). Among the Asiatic communities known as the Asian Tigers and South East Asia, Malaysia, Singapore, China and Thailand, have strong modern-day exporting firms that emerged from the SMEs sectors, which evidently, puts SMEs in an incontrovertible context to be key in any economy (Lee, 2019, Wild, 2019). Nonetheless, there is consensus in the literature that in many instances, the growth of SMEs is especially in developing countries such as Zimbabwe, they saddled by a plethora of factors. There are many constraints that impede the growth of SMEs. One which comes out prominently is a lack of financing of the SMEs and the owners or aspiring SMEs owners, cite financing as the greatest challenge (Ayyagari et al., 2012). Additionally, without adequate financing of the SMEs, difficulties in the application process, collateral and other constraints growth of the SMEs remain a challenge for them to grow to be large firms (Beck & Demircug-Kunt, 2006; Ayyagari et al. 2012; Carpenter & Peterson, 2002). Researches that have been executed, demonstrated that the owners and managers of SMEs consistently rank access to financing as the number one constraint to the growth of their firms (Beck & Cull, 2014; Beck & Demircug-Kunt, 2006; Dong & Men, 2014; Jones-Evans, 2015). The emergence of SMEs in Zimbabwe was largely a knee-jerk reaction. According to Makotose (2019), available data indicates that 90% of businesses in the country are regarded either as registered or unregistered as small and medium enterprises. These have grown over the years owing to the collapse of the formal economy, which prompted many people to start their small businesses (Mudamburi, 2019). According to Sibanda et al., (2018) SMEs have been identified as the catalyst for the economic growth of the country as SMEs are a major source of economic development, income generation and employment creation. Bure and Tengeh (2019), Watambwa and Shilongo (2021) argue that financing of SMEs remains a big problem warranting the government to be more proactive in supporting SEMs development, without which, there is the real risk of stunted economic growth. To fully understand the SMEs, it is imperative to understand SMEs and their categorization.

3. Data Collection Methods

Instrumental review methodology was employed to gain an in-depth understanding of the theoretical aspects of Small and Medium Enterprises (SMEs) financing. The review is very critical as it underpin the basic theoretical foundation of the debates on SMEs financing. In this case, the information derived from a plethora of literature on SMEs financing covering a wide-spectrum. Imperatively, this review is integrated to doctoral research by the researcher. The literature review methodology was conceived to be suitable as the only available technique to unpack and understand the conceptual and theoretical aspects regarding SMEs financing. The review process covered documentary research from books, journals and relevant official data depositories from available body of knowledge on SMEs covering a number of studies across the globe. Essentially, documentary review of this nature provides strong foundation to understand SMEs concepts, including in-depth comprehension of various discourses around SMEs and their financing.

3.1. Scope and Precepts of Small and Medium Enterprises

Small and Medium Enterprises have been understood in different ways across the globe depending on how a particular jurisdiction classify them using different models. These variations create differences in terms of size and different researchers look at them agree that these differ from country to country and from region to region. Some have used factors such as the number of employees, turnover levels, total net assets and capital base of the SMEs (Hisrich et al, 2004; Maseko & Munyani, 2011). Others have included legal structures with a degree of formalization as a benchmark in defining SMES. Maseko and Manyani (2011) put forward that SMEs are entities seen as from a public accountability point of view especially where they are funded by government and demands that they should publish general purpose financial statements for external users to understand their performance. One of the frameworks the study found useful derives from the National Small Business Act (NSBA) 102 of 1996 of South Africa (Abor & Quartey, 2010). There is also the World Bank (Ayyagari et al, 2008; World Bank Development Report, 2005) framework, which as a collective, provides scope and precepts to the understanding of SMEs. These frameworks use universally accepted definitions, but the World Bank has comprehensive classification shown in the Table 1 below which helps to understand SMEs in terms of how they are defined.

Type of Enterprise	Number of Employees	Extent of Total Assets	Annual Turnover
Micro – enterprises	1 – 10 people	Less than USD100 000	Less than USD100 000
Small enterprises	11 – 50 people	Between US\$100 000 to US\$3 million	Between US\$100 000 to US\$3 million
Medium enterprises	51 – 300 people	Between US\$3 million to US\$15 million	Between US\$3 million to US\$15 million

Table 1: Global Definition of SMEs by the World Bank Group Definitions: Types of Enterprises

Source: Ayyagari Et Al (2008) and World Bank Development Report (2005)

Malhotra and Temponi (2010) then argued that there is a classification that has emerged over the years and this framework uses the clustered approach to identify and define small business categories, which is 'a small business described as a separate distinct business entity that includes cooperative enterprise and non-governmental organisation, managed by one owner or more persons, which include its branches or subsidiaries, if any, and is predominantly carried on in any sector or sub-sector of the economy' (National Small Business Act, 1996 cited in Vestal, 2002). It is from this perspective that these classifications (World Bank and the South African models), were formulated and have been used over time to define SMEs across the globe. The Zimbabwe SMEs are classified into three categories covering the following aspects:

- Employee numbers.
- The annual revenue and,
- Total assets excluding fixed property.

In other instances, academic literature has provided more information regarding the understanding of these categories by way of defining various enterprises as: Survivalist enterprise, the Micro-enterprise; the Very small Enterprise, the Small enterprise and the Medium enterprise (National Small Business Act, 1996 cited in Vestal, 2002). This classification used in South Africa has a sub-regional comparison with the following aspects

Enterprise Size	Number of Employees	Annual Turnover	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 million, depending upon industry	Less than R2 million to R18 million, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million, depending on industry	Less than R2 million to R4,5 million, depending on Industry

Table 2: SMEs Classification in South Africa by Size and Nature of Operation

Source: The National Small Business Amendment Act 26, 1996 of South Africa

Compared to many developed countries benchmarks, Zimbabwe's defining thresholds for SMEs is based on representative headcount which are numerically low. The Department of Trade and Industry (DTI, 2008: 3 cited by Hausmann& Klinger, 2008) refined these categories per sector and segmented them into different sets of criteria. For illustration purposes, a medium venture in Horticulture is cited to employ up to 100 individuals, whereas construction and manufacturing divisions utilize up to 200 individuals. In Zimbabwe, the Ministry of Small and Medium Enterprises Development policy document of 2009, defined a small and medium enterprise (SME) as a legal business entity that has the following aspects:

- Turnover of less than US\$800 000.
- It is not a subsidiary or branch or associate of a large business organization, and
- Maximum number of full-time permanent employees as given in the following table:

Sector/Sub-sector of the Economy	Size/class	Max Total Number of Full-Time Employees (Paid)
Agriculture, manufacturing and mining	Micro	5
	Small	50
	Medium	100
Construction, transport, retail, tourism, catering, arts and crafts, wholesale and fisheries	Micro	5
	Small	30
	Medium	50

Table 3: Classifications of SMEs in Zimbabwe

Source: Ministry of Small and Medium Enterprises and Cooperative Development (MOSMECD) Document 2009

Looking at the above, there are differences in classification depending on the country one looks at the SMEs. These classifications, keep changing. Empirical examples from the above also shows that for South Africa, the SMEs development and support initiatives are skewed along social group formations. The World Bank uses the number of employees, revenue turnover and total asset value to determine whether an enterprise is SME or not. It is clear from the evidence above that

Zimbabwe adopted the World Bank approach in which it uses the number of employees in its definition. However, it has to be noted that the country also clusters the sectors into groups in determining and defining the SMEs classification which aligns to the South African approach.

3.2.Small and Medium Enterprises Financing

Small and Medium-sized Enterprises (SMEs) have become central players in economic growth and sustainable development of many countries globally (Moore et al., 2008). Furthermore, it is asserted that the growth of SMEs is a critical ingredient in the sustainable development of developing economies, particularly in Africa where the development discourse is premised on empowering the formerly marginalised local communities to fully participate in the mainstream economy (Mudavanhu et al., 2011). In addition, Storey and Westhead (1997), put forward that the SMEs are regarded as the bedrock for the development of large companies, and they are essentially important in the commerce and industry value chains. Thus, SMEs the world over, are regarded as a panacea to unemployment, poverty reduction and economic growth. From a global perspective, SMEs are seen as engines to promoting sustainable development equity, but for them to succeed, they require government support, more substantially, in promoting grassroots economic growth and sustainable social development (Munyanyiwa, 2009). In the context of the United Kingdom, access to finance by SMEs is cited as being closely affected by the differences in commercial banks with their varying internal policies, interest rates and the policies of the supply side of finances towards business development. It is argued that most of the commercial banks in Britain do not have homogenous policies and relationships among themselves as lending institutions to existing and new entrepreneurs (Dechanupaprittha et al., 2005), hence there are variations in funding facilities and interest rates. However, funds are generally affordable to the entrepreneurs. In addition, there is a World Bank Report (2003) which identified a number of constraints faced by the SMEs to access finance whether put by the government or by the banks themselves. These constraints, are many and the key ones include distortions of the financial service sectors, coupled with lack of know-how on the banking requirements and conditions for SMEs, information asymmetry (access to business information that helps the entrepreneurs who want to venture into business), the high risk in lending to small businesses that have limited or no performance record.

In Australia, the Australian Bureau of Statistics (ABS) published data which showed that the SMEs sector in that country accounted for 99.8% of all enterprises with 7.6 million employees, and it accounts for 68% of the employment in the private sector (OECD, 2020) where the majority operate (Durst & Gerstlberger, 2021). Thus, the centrality of the SMEs cannot be overemphasized, serve to say, the enterprises play an important role in the development of the economy. The policy of the Australian Government is very clear and proactive in terms of rendering as much as is possible support that promotes the development and transformation of the SMEs by way of improving the operating environment for businesses, improve incentives for the SMEs to invest, and enhance opportunities for private endeavours to produce and be competitive through sustainable and adequate financing (OECD, 2020). However, in as much as the government policy is proactive, it has been noted that the SMEs ability to access government aided finance is partly impacted by revelations at the Royal Commission on banking misconduct – which hardened access and tightened the lending practices, as the research done in Australia, about 22% of SMEs felt that it was harder to access finance in 2018, and in addition, 34% are said to have indicated that funding access was difficult to access which is at variance with what the government intended to do (Scottish Pacific, 2019). In Australia, several initiatives appeared regarding sustainable finance, for example, in June 2018, the Sustainable Finance Roadmap for Australia has been developed by the Responsible Investment Association of Australia (RIAA) and the Australian Sustainable Finance Initiative (ASFI) were all put in place which collectively, have provided 'an unprecedented collaboration formed to help shape an Australian economy that prioritizes human well-being, social equity, and environmental protection while underpinning financial system resilience and stability' (Durst & Gerstlberger, 2021).

In New Zealand, the SMEs, according to MBIE (2018) generate 28% of New Zealand's gross domestic product and represent about 99% of all the business that operate in that country – which implies that there is a vibrant SMEs sector. Meanwhile, in New Zealand, dynamic initiatives have been taking place at the government level to support SMEs. The Kiwi Business Boost initiative was launched in New Zealand by business.govt.nz, a government initiative that is dedicated to resources for SMEs development and also to help small businesses become more productive, sustainable, and inclusive in their value chains. These initiatives have been seen as critical especially with Covid 19 kicking in and there need to help SMEs has increased to caution the business owners to remain operational and serve society. In addition, the New Zealand government put in place a cocktail of tax incentive which was launched by the government in 2019 to support research and development – including market intelligence, innovation and technology incorporation in the production systems for the SMEs to undertake their activities with precision and high productivity (Durst & Gerstlberger, 2021; OECD 2020). Ideally, the New Zealand government also included within the funding portfolio, what is termed the responsible financing – which incentivize production systems in the SMEs for clean production, including climate proof and climate compliant SMEs systems as a way of encouraging adaptation and mitigation to climate change in SMEs investments, including the SMEs in the energy sector (Durst & Gerstlberger, 2020). The central critique in these examples from the developed world is direct cocktail of incentives for the SMEs that are funded – because their governments are liquid enough to finance the businesses with transparency and with clear production targets. However, this seem not to be the story in Sub-Saharan Africa.

In another study by Beck (2007), it identified that the weaknesses in financial services sector from a legal perspective also present huge obstacles particularly in many developing countries in accessing finance products. As such Beck (2007) has analysed a number of developing countries to about seventy countries and therefore, concluded that the governments were actually responsible to build institutions that should support business and local empowerment of the

people through SMEs development from a broad based perspective. The whole idea is to ensure development with equity and address the previous economic structural gaps. Indeed, an analysis of the SMEs sector is important to analyse so that friendly policies are put in place. These should be in such a manner that they provide a proper regulatory framework to reduce financing constraints that work against the development of SMEs and those who may be seeking capital for their businesses (Beck, 2007).

Additionally, Bloom and Van Reenen (2010) put forward that in developing countries, lack of collateral requirements by the SMEs, high risks, information asymmetries, small credit transactions particularly of rural households, and the distance between lender-borrowers as the main causes for credit variation among the different and existent sources of credit to SMEs. These were highlighted in the independent variables and researchers have further stated that the policy aspects should change to ensure government financial institutions in one or in other way determine access to finance. It has been remarked that interest rates charged by the banks in most of the countries in Sub-Saharan Africa create disincentives for most borrowers to acquire funds to invest in their businesses on one hand – and the cost of funds has been highlighted as a major obstacle in the independent variables impeding access to financing (dependent variable).

It is pointed out that in South Africa as an example, there are a number of financial schemes and funding programmes that have been put in place by the government to support the SMEs' access to finance (Asah& Williams, 2020). In this context, the schemes and funding programs that have been put in place, have been promoted by both the private and the public agencies – who are the disbursing institutions between the government funds and the borrowers – who are the SMEs in South Africa. Despite availability of those funding programmes, South Africa, has extremely low awareness of funding programmes especially government support schemes that are available for the SMEs sector, and if known, sometimes accessing the institutions is difficult (DTI, 2010).

More importantly, in respect of Mozambique, a number of difficulties in supporting SMEs have been discussed and established that they are more or less the same with South Africa. In resolving these difficulties, some initiatives have been developed for the purpose of dealing with the issue of access to finance by SMEs in which the government has keen interest to empower its people and take them out of the poverty stricken bracket. One of such initiative was the conference of 'Know and Use Financing SMEs'. It was organized by Alen and Shepherd (2014), entrepreneurs, banks, and insurers to discuss finance constraints by SMEs with a view of helping them through advisory services – which is one of the key elements to the success and growth of the SMEs (MIC, 2007). Generally, the banking schemes and insurance institutions in Mozambique are the bridge for linking these funds from the government facilities to SMEs and the implementation of funding disbursed to the SMEs (MIC, 2007). Therefore, there is need for mutual understanding of the obstacles and difficulties in accessing financing – especially where government has made commitments to ensure that the SMEs contributes to the development of the economy. Imperatively, the SMEs remarkably generate, in total, more jobs than larger companies and are a fundamental sector even when it comes to be geographically spread out to many parts of the country, hence prudent to postulate that they are a competitive force for economic opportunities distribution in the country as well as in stimulating innovation and development (Alen& Shepherd, 2014). One of the key issue that comes out of empirical evidence is that the government channels its money through banks and these commercial banks of Mozambique, are known for imposing excessively high interest rates and fees in various services that they provide, such as transfer of funds, account statements, banking guarantees, and letters of credit (Osano&Languitane, 2016).

Many SMEs do not attempt to acquire finance from commercial even though government would have put money through them to support SMEs because of the high interest rates charged (Kaufmann &Parlmeyer, 2006). Consequently, most of the SMEs use their own capital from family savings with zero interest rate, funding from family and friends who are working abroad and can support them and investment capital as well. The World Bank (2003) further noted that about 90 % of working capital and 64.9 % of new investments in Mozambique's SMEs were being financed by SMEs' own capital, which, it compared to 6.9 % working capital and 8.2 % of new investments which were financed by the banking institutions, indicate how difficult it is for SMEs to access financing from government aided financing. This serves to indicate the difficulties that SMEs face to access financing in Mozambique.

3.3. Zimbabwe SMEs – Empirical Evidence

Empirical evidence from Zimbabwe shows that the government, through enactment of various policies and legislative Acts, leading to the establishment and development of Small Enterprises Development Cooperation (SEDCO), confirms the commitment of the government at the political economy level. The SEDCO which is under the Ministry of Small and Medium Enterprise and Corporative Development, is responsible for SMEs development financing as well as strictly following the loans they give to the SMEs in order to recover the funds and this is done for the continuity of funding SMEs in a revolving fund format of sort (Maunganidze, 2013). Consequently, it is argued that this development remarkably has witnessed some of the SMEs losing their properties after failing dismally to repay the loans that financed their business through government aided financing facility, and they are forced to them to SEDCO. Since SEDCO is under a Ministry, one can therefore postulate that the government sanctions the activities by SEDCO in the spirit of ensuring financing but at the same time, recovery of the borrowed funds to be able to benefit others. In addition, it is important to note that as much as some of the SMEs that are supported by SEDCO default in the payment of their loans due to mismanagement, a significant portion default due to a non-conducive macro-economic environment where these small to medium enterprises exist – and the dynamics of the markets in Zimbabwe's economic environment which is highly unpredictable when doing business.

Essentially, it is argued that the exorbitant cost of capital could be one of the reasons why some SMEs fail to repay the loans (Maunganidze, 2013) and currently, most banks and micro-finance institutions that have partnered government, are charging an average of 55% interests rates of short-borrowing by the SMEs. This, by any standard makes capital

expensive, and at the worst, causing SMEs to eventually lose their assets they would have provided as collateral security when the business take time to perform due to the poor economic performance (Dambaza, 2020). In addition, the Zimbabwe environment is characterised by these inhibiting high rates hence SMEs are not only hesitant to take the risk of borrowing from SEDCO and other institutions, but they end up giving up on pursuing investment opportunities, fearing failure to lose their assets due failure to repay the debt. These independent variables need examination in this study so that the circumstance, the growth of SMEs and their transformative credibility can be ascertained on the back of the support they get from the government. Essentially, literature is generalized but this study examines each independent variable with a view of bringing to the fore, the views and perspectives that provides scope for the reform of the sector to better perform optimally.

In short, empirical evidence shows that variations in terms of how the governments support SMEs from the developed to the developing world. However, the underlying point is that governments play crucial roles by leveraging small businesses to implementing economic transformation programmes, but this requires funding mechanisms that are sustainable and supportive to SMEs by encouraging, promoting and supporting investment in the small businesses where the majority of the people are employed. This is strategic and important for the benefit of the generality of the people who are out of formal employment (MIC, 2007).

Further literature that articulate other experiences noted that for example, in the USA and the EU countries, the estimated contribution of the SMEs ranges from 40-60 percent to Gross Domestic Product and 30 to 60 percent in terms of exports (Majoni et al., 2016). It is imperative to mention that Asian Tigers have been extensively applauded for their contributions as SMEs have grown to be big exporters. In countries such as India, Indonesia, China, Malaysia, Japan and South Korea, the thriving SME sectors are said to be contributing between 70 to 90 percent in employment and an estimated over 40 percent contribution to GDPs of their respective countries (Kanatu, 2015; Majoni et al., 2016).

Zimbabwe's SMEs lack financing, and this conclusion was arrived at after a thorough analysis by this study that many emerging SMEs, fail to reach their full potential. Maunganidze (2013) and Gukurume (2018) converge in that government financing of SMEs in Zimbabwe is characterised by many challenges, some are policies and legislation based which act as both a barrier and a facilitator of the establishment and development of SMEs. Giving the example of SEDCO, Maunganidze (2013) argues that SEDCO now strictly follows the loans they give to the SMEs in order to recover some funds for its continuity, and this has seen SMEs losing their properties they surrendered as collateral security. Since SEDCO is under a Ministry, Maunganidze (2013) says 'one can therefore argue that the Government is directly or indirectly sanctioning the activities of SEDCO.' Gukurume (2018) laments lack of sufficient support from government to resource institutions that render financing to SMEs – thus, directly constraining funding of the SMEs activities in the economy. Whilst in the African power houses, for example, South Africa, Egypt, Nigeria and Kenya, the SME sector is estimated to contribute over 70 percent in employment, and 30 to 40 percent contribution to GDP (Munyanyiwa, 2009), government-aided financing while low, there is active support from the private sector, which is contrary to Zimbabwe, where there was private capital flight since the nationalization policies through the 2008 Indigenization and Economic Empowerment Act was passed. Furthermore, the available empirical evidence according to Mbendi (2003) and Chigudu (2017), they identified that in as much as SMEs are important, the unfortunate part of it is that not much is known, among enterprise owners about access to government-aided financing and many of them perceive that only those politically connected have links to government financing.

Thus, Zimbabwe's SMEs therefore, account for a meagre less than 5 percent to GDP (Mbendi, 2003). It is argued in this study that due to funding constraints from government-aided institutions and government's failure to sincerely put flexible funding conditions for SMEs development, the enterprises in this sector have lost tremendous opportunities. Many of the constraints relate to government policies, legislation and actions – whereon, government-aided financing of SMEs is characterised by barriers, which have not been investigated to proffer sustainable solutions. Notably, the government of Zimbabwe has been promoting SMEs in many of its policy pronouncements after it realized that this sector was important. Consequently, the government, in recognition of the SMEs, demonstrated its commitment by the enacting and establishment of the Ministry of Small and Medium Enterprises and Cooperatives Development (MSMECD), which has annexed the aspect of Women Affairs now including Small and Medium Enterprise Development, the later has been consistently in place since 2002.

One of the most important issues that has emerged since 2002 is that government authorised the Ministry to create financial institutions and engage others that would provide financing to SMEs, including setting up micro financing targeting the SMEs that were fast becoming major players in the economy (Makoni, 2014). In as much as the Ministry has been at the forefront of spearheading SMEs development, and created an important entry point for the SMEs to access financing for various business ventures, the availability of government-aided institutional funds, have persistently remained a challenge – and under researched. It is acknowledged that SMEs have great potential to grow into conglomerates and contribute more in terms of revenue generation, employment creation and contributing to positive Gross Domestic Product (GDP). However, one of the biggest challenges SMEs face that has been identified in literature is financing – and Zimbabwe as a developing country is no exception. In the developed world, for example, Canada, 45 percent of the SMEs have access to commercial financing (Statistics South Africa, 2017).

Developing countries' SMEs face difficulties to have access to capital hence the development of SMEs projects has been sluggish. Findings by FinMark Trust (2006) in South Africa as an example, says that about 2 percent of all new SMEs can access capital loans – which is expensive in terms of high interest rate and difficult to access especially by new entrants. Accordingly, access to funding is important for SMEs to start their operations. For most SMEs, capital loans are viewed as the most significant generally (Berger & Udell, 2002) yet a great deal of SMEs are denied access to credit because of data asymmetry. One of the reasons proffered for the failure of these SMEs across the globe is the fact that the SMEs

businesses face severe financing challenges. Herrington, Kew and Mwanga (2017) who studies SMEs in South Africa, a neighbour to Zimbabwe posit that South Africa faces a high failure rate of start-ups and that SMEs-driven entrepreneurial activity in the country is declining rapidly and falls short to address the critical issue of unemployment.

Furthermore, Downie (2019) cited the Centre for Strategic and International Studies (CSIS) and elucidate that SMEs in many developing countries, including Zimbabwe, are not growing due to the unavailability of adequate financing instruments from their governments as an affirmative action. There are little efforts in many developing countries to ameliorate the financing challenges facing SMEs in developing countries. Institutions such as the Small Enterprises Development Cooperation (SEDCO) was primarily established in Zimbabwe to provide development finance to SMEs. According to Mudamburi (2019) and Bomani et al., (2015), millions of dollars were allocated over the years to SEDCO for SMEs development but still, the issue of financing remains a challenge to several operators who are in the SMEs sector and intending to venture into SMEs business.

Generally, SMEs need financial resources to develop and grow their businesses. These financial resources can come from own capital or external funding such as foreign aid, commercial finance, grants from public finance or development finance institutions. The problems of SMEs financing are big and critical particularly in view of government-aided financing and it should be addressed as a phenomenon (Baas & Schrooten, 2006). As per the findings in other academic literature (Mudamburi, 2019) on financing, SMEs have to be comprehended in their unique situations and hence it is imperative to characterize and group them for clear understanding. Atkinson (2012) argues that SMEs information is scarce, and is genuinely uncommon because of few researches in this sector. SMEs are perpetually conflated with the main focus being around extremely small businesses, new and those that are emerging in this sector, which are without tracing and the sector is not understood in terms of their broad sizes of growth and potential, hence it is taken for granted (Abdullah & Beal, 2003). Besides, the information assortment on SMEs is exceptionally limited, it is consequently hard to track down solid performance of this sector and reliable information on them is hard to find which also determining their economic impact. One of the most difficult aspects on SMEs, is how they are defined to understand them clearly for financing and even measuring their impact for the determination of support.

It is imperative to note that prior to the establishment of Ministry of Small and Medium Enterprises and Cooperative Development, the government of Zimbabwe established SEDCO (Small Enterprise Development Corporation) and other similar institutions which are now in a state of dysfunctionality and have not had any significant impact. These include Venture Capital Company of Zimbabwe (VCCZ) and the Credit Guarantee Company of Zimbabwe (CGCZ), which were meant to provide capital to SMEs (Chivasa, 2014). More importantly, literature also shows that these institutions, supposedly meant to render support to the local entrepreneurs by facilitating access to capital, SMEs funding through government-aided financing, has remained low.

In other cases, and places, SMEs entrepreneurs perceive finance as non-existent as they have little knowledge about its existence and they are not so sure where they can have access to it from. Thus, promoting SMEs and various initiatives for various start-up business face perennial challenges of financing to promote economic growth, leverage SMEs for industrialization, reducing chronic poverty and support broad-based empowerment of the people in marginalized areas in Zimbabwe. Consequently, government-aided financing has not been easily accessible and available to ensure sufficiency of funds and reliability to access it, geographical presence of supporting institutions in different regions to optimise SMEs development – and to ‘nurturing SMEs to multi-billion multinational companies’ (Chivasa, 2014).

Thus, there exist a gap in financing of SMEs despite their central role in development of economies. More importantly, the success of SMEs, depends on the role players. In this case, the concept of institutional theory becomes important, and this takes a neoclassical perspective in which the entrepreneurial public must involve many aspects of the business, and these among others, include innovativeness, risk taking, ability to compete in an ever-increasing competitive global market, ability to learn, delegate, trust and the participants empower themselves and their workers (Chivasa, 2014).

Ideally considering the institutional theory to SMEs development and neoclassical perspective, one can argue that SMEs entrepreneurship, does not end once the business has been set up, but there is need to continue with entrepreneurial activities within the existing business to achieve SMEs growth and this hinges on sustainable financing which is a challenge in Africa. In the case of Zimbabwe from an institutional point of view, the study has identified in the preliminary stages, three key layers of the interplay of institutional arrangements (players) in terms of government-aided financing institutions that constitute the theoretical framework for interrogation and analysis of the interplay of issues. The interplay of these role players, revolve around the following role players in government-aided financing of the SMEs deduced from various players that exist in Zimbabwe's SMEs sectors:

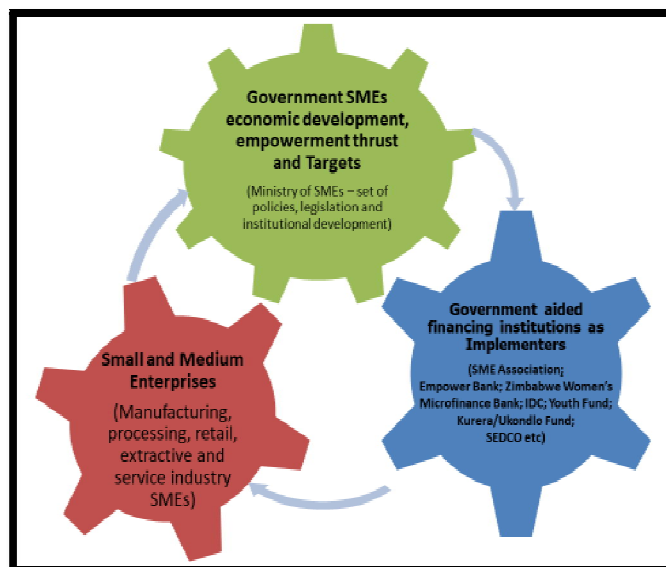


Figure 1: Framework of SMEs Government-Aided Financing Relationships

Source: Researcher Formulated Framework

The SMEs are credited for accounting for about 57% of the productive population in Zimbabwe (Zindiye et al., 2012), have problems in terms of growing and expanding this sector to be competitive – and many of the challenges, relate to lack of appropriate financing of the SMEs in a country with more than 80% unemployment rate (Robertson, 2007). The unemployment figures are increasing due to the shrinkage in the formal sector and is exacerbated by slow growth of the SMEs (informal sector) due to lack of effective government-aided financing of the SMEs. Robertson (2007) stipulates that failure by the government to support SMEs will have ripple effect on the economy and potentially worsen poverty levels in a country where capital flight has resulted in the collapse of the formal sector that used to absorb most of the labour in Zimbabwe. Thus, the conceived analogy of the relationships in Figure 1.2 expresses the relationships that exist, however, the challenge of the support to the SMEs needs unpacking to understand the impact of these relationships in terms of the performance and growth of the SMEs sector financing.

3.4. SMEs Operating Environment in Zimbabwe

It is widely acknowledged in literature that the SME sector, unlike any other business sector, has the potential of creating new jobs – hence its financing is important (Majukwa, 2019). In the European Union for example, the SMEs are a huge part of economic activities with their contribution of a number of enterprises, accounting about 99% of all businesses, and their employment rates are increasing (Stoklasová, R., 2018). Many of them, are growing and have not remained stunted. This potential to grow locates SMEs as an integral part of the economy to ultimately meet the needs for jobs, wealth creation, and contribution to Gross Domestic Product (GDP), poverty alleviation, self-empowerment and economic development in a world with an increasing population (United Nations Economic Commission for Africa, 2019).

In the case of Zimbabwe, it is asserted that Zimbabwe's SMEs comprise approximately 94% of businesses, and yet only contributes less than 50% of the country's gross domestic product (Majukwa 2018). Entrepreneur owners play an important role in strengthening Zimbabwe's economy because they create approximately 60% to 80% of employment opportunities. SMEs especially those in the trading and product brokering sector constantly suffer many challenges including a plethora of taxes, do not enjoy much in terms of rebates and their operating environment is ridden with issues that require capital: taxes, city councils' rates which are in many cases hiked without prior notice and above all, heavy duty on goods. The impact of these charges entail that the SMEs in Zimbabwe have strained relations especially with entities such as the Zimbabwe Revenue Authority (Moyo, 2010).

The conventional bank loans are not very amenable to support most SMEs and therefore, innovations based on solid budgetary support from government should ordinarily close the gap in support of SMEs development (Berger & Udell, 2006). In many cases, empirical financial and management SMEs data lacks in many developing countries, which makes it difficult to lend money to the SMEs (Berger & Udell, 2006). Furthermore, researches on SME financing have tended to look at relationship loaning as an essential arrangement for financing SMEs projects. Garcia-Appendini and Montoriol-Garriga (2013), relationship lending relies on an extraordinary form of relationship between a bank and its borrowing individual or firm in which banks accumulate private data through repeated interaction with the client – and utilize that information to assess credibility to advance funding to the client or not. Subsequently, Makotose (2019) alludes to the fact that the majority of the SMEs in Zimbabwe are turned down. Arguably, most of them are operated without adherence to basic accounting principles, hence incapable of fulfilling the credit application prerequisites such as information on financial performance, transparency and collateral security to the loan (Beck et al., 2008). That leaves government-aided financing as the most viable option – because of the perception that the conditions are less stringent to borrow capital for SMEs projects.

It is imperative to state clearly that SMEs in Zimbabwe are largely affected by a number of constraints. Various studies have pointed out that the major ones are as follows (Nyoni, 2002:10):

- Constraints precipitated by limited access to and cost of finance;
- Lack of SMEs products marketing, which is linked to financing a marketing strategy and market knowledge;
- Inadequate financial accounting skills, general business management and entrepreneurial skills;
- Lack of access to enabling infrastructure and access to capital equipment by those in the productive sectors;
- Lack of access to land, information about where to get capital, and
- A hostile regulatory environment both in the private and public sectors, which makes the SMEs uncompetitive in the marketplace.

Consequently, the SMEs in Zimbabwe largely lack access to finances as they are deemed to lack collateral security even when it comes to government-aided financing since the SMEs loans are administered through banks operating in the same over-regulated environment. To this end, many SMEs end up getting frustrated as they fail to provide such guarantees to access capital to fund their business activities. Again, in the context of Covid – 19, the SMEs especially those in the service industry, have been decimated by the pandemic, the cost of financing SME operations to recover will be difficult to get (Bisong et al., 2020).

As indicated above, there is inadequate knowledge of performance of government-aided financing of SMEs business operations, the reality is that this study has noted complaints from individuals who ultimately fail to access capital (Majuru, 2019). While the institutions have been set up by the government, there is again inadequate knowledge of what they expect and the access to capital process hence the SMEs failing to satisfy the needs of the customers as they cannot capitalize and meet market demands. Furthermore, Nyoni (2002: 10) noted that due to lack of financing, the SMEs lack managerial and entrepreneurial skills, which again hampers the growth of SMEs. The fact that these SMEs operate in an economically difficult environment, the huge shortage of infrastructures such as machinery and equipment to effectively carry out their business activities, implies that the SMEs producers cannot produce competitive products as compared to the big corporates.

All these challenges are causally linked to capital which is important to the success of the SMEs over and above the gridlocks of the hostile regulatory environment which also contributes to the poor performance of SMEs in Zimbabwe (Ngwenya&Ndlovu, 2003:5). Thus, internal financial and regulatory environment in Zimbabwe as far as government SMEs financing is concerned, has not been favourable to the growth of the sector and it is not well researched, and consequently, undermine the performance of the SMEs (Chew et al, 2004; Dumbu&Chadamoyo, 2012). Lack of access to loans, the reason the government-aided financing was established, coupled with inhibiting legal frameworks, access to markets, quality products and registration bureaucracy, collectively affects SMEs performance (Masuko&Marufu, 2003:29). SMEs have limited access to market backwardness, all epitomize lack of financing for the production of quality products which meet international standards, hence their export competitiveness is affected due to their inability to compete with SMEs from other countries producing better quality products – and all these are linked to financing, including in production value chains.

Thus, the dynamic SMEs industries in Zimbabwe face a mammoth task, and their problems are not divorced from financial challenges they encounter, which makes it even more important for the government of Zimbabwe to review certain regulations regarding financing SMEs. As SMEs are required to play an important role in the economy, the same expectation is the reason why the government-aided financing should be flexible in their SMEs financial package offering.

In as much as private capital has been publicizing capital for SMEs, it is unaffordable. The private capital approach has its problematic aspects, which entail that government has to intervene to ensure that facilities are in place to service aspiring SMEs development. It is noted in this study that financing decision making is usually made not in the interest of SMEs entrepreneurs' interests, but in the majority of cases, follow strict laid down rules including that of insisting on collateral and security (Sibanda et al., 2018). Thus, lending decisions become prohibitive and deprives the individual from accessing capital. Berger and Udell (2002) demonstrated that these restrictions or limitations to access financing cut across the public and private capital. It is worsened by the fact that most SMEs, lack a performance track record financially and in terms of management, many SMEs have no proven record, and they end up being side-lined because of not having track history and lack security.

Ideally, the issue of security towards lending is contentious in SMEs development and most of them are left out from participating in the economy. Due to the problems of accessing financing due to conditionality, emerging SMEs businesses, who constitute the majority of enterprises, are unlikely to participate in the economy and private capital, through bank credits, is unaffordable and out of reach of many SMEs. Personal and family savings may not be sufficient to start meaningful SMEs (Herrington, Kew & Kew, 2009). Moreover, Fatoki&Odeyemi, (2010) have inquired about them and observed that around 75% of the SMEs in most developing countries with reference to SMEs in South Africa, just like in Zimbabwe, fail inside two years of their resumption and operation due to lack of capital, mainly. Sustainability of the business hinges on adequate financing, which implies that government-aided financing becomes key in transforming SMEs (Fatoki, 2012). However, the SMEs in terms of accessing financing continue to face administrative limitations with government financing caught up in bureaucracy which is a burden on SMEs (Fatoki, 2012).

According to Newman (2010) and Mahadea (2008) government financing institutions are hesitant to take the tremendous remuneration bill of SMEs as they are more inclined to support and finance the operations of the actual business than deal with compensation issues. This is the case in Zimbabwe where SMEs financing fail to engage qualified accountants so that the businesses are operated on the basis of professionalism and acceptable accounting standards (Maseko&Manyani, 2011). As a result, the SMEs in many developing countries including Zimbabwe, fail to access capital even in public financing institutions on account of failing to prove their ability to sustain their operations as they cannot be able to meet basic overheads (Brink, Can't &Ligthelm, 2003). Yet, SMEs hiring and retaining of competent staff is one of the requirements to drive the fortunes of the enterprise more efficiently. This explanation is bolstered by Radipere and van

Scheers (2005), when they stated that skills deficit impacts adversely on the capacity of SMEs to manage human resources to remain highly productive, and it is indisputably a major factor that affects SMEs capacity to attract funding where the perceptions are that there is no guarantee to the management of the money. The high rate of SMEs disappointing failures in Zimbabwe can be ascribed to lack of effective government financing of the emerging businesses with management skills, and therefore, the need for capacity building including financial management is inexorably integral to the SMEs success. Thus, anything going for the Zimbabwean SMEs, including training, implies that government-aided financing has to take into consideration adequate financing of SMEs management (Radipere & van Scheers, 2005).

4. Theory and Practice – The Pecking Order Model and the Trade-Off Model

One of the dimensions relates to financing as a key theory in SMEs development. The central critique of the pecking order theory is that financing is the most important element and vital cog in SMEs development and, therefore, determines the ability of SMEs grow (Cook, 2001). Ideally, this financing is the glue that holds all elements of an enterprise together (Cook, 2001; Green, Kimuyu, Manos Murinde, 2002, p. 9). The reason is that for any SME enterprise to be able to grow and develop, there is no doubt that financial support from various financing schemes is important. This has to focus in many areas of SMEs development, which among others, includes start-up capital, market development, research and development, increased capacity, skills, up-to-date technology to push through product innovation and so forth (Chigudu, 2017). This support, in an environment where private capital in Zimbabwe is very negligible, requires government to play a more active role. However, this has not been the case. As such, it has to be emphasized that all these aspects of support in various forms of activities of SMEs, are ongoing processes, which ordinarily require financing for the SMEs to be competitive over longer periods of time (Kumar & Rao, 2015, p. 3). Because of limited financing in Zimbabwe, the nature of the SMEs that have developed, are exposed to different risks and hence inhibit their financeable competitiveness, and they fail to graduate to large enterprises. In the end, it is noted in literature that SMEs usually have limited resources, and they are forced to depend on a small range of customers while at the same time, lacking sound credit history, which, again, affect the ability to attract funding and are considered more riskier to support especially using private capital, leaving the government-aided financing as the most probable financing option (Doh & Kim, 2014, p. 4). The pecking order theory, according to Martinez et al. (2019), as introduced by Wiczorek-Kosmala et al., (2020) and further expanded by Zoppa and McMahon (2002) and Myers and Majluf (1984) alludes to the fact that, hierarchically, financing structure of firms (Martinez et al., 2019) involves stakeholders within a financial ecosystem. Thus, SMEs managers or owners are expected to provide sufficient information asymmetric as they know more about their SMEs, for instance, the firm's economic performance, its financial clean bill of health including the information pertaining to the outside investors who also compete with the SMEs to guard against the collapse of the business (Martinez et al., 2019). Therefore, financing data is dependent on the entrepreneur to provide this information which informs decision making by the financiers. Furthermore, for a new undercapitalized SMEs business to operate, it will not be able to compete nor sustain its operations considering most of them run almost twice the probability of failure in the first couple of years of their commencement than a properly capitalized business – which implies that financing is important, and should be provided at all times to SMEs. Evidence gathered to so far show that without sound support from the governments at a cheaper rates, most SMEs firms risk failing (Cressy, 2006 .p. 9) – and the pecking order theory demands that funding should be provided even if it means governments harness private capital to support the policies to enhance SMEs development, this should be done with a clear forethought and intentionality to prevent any inhibitions on SMEs growth and development. Researchers have come to similar conclusions and have put forward that one of the major issues limiting SMEs ability to develop is provision of funding, and lack of finance inhibits the SMEs growth potential (Beck & Demirguc-Kunt, 2006, P. 10).

This essentially justifies the fact that government should and must take a more active role to support the SMEs through sustainable financing. Arguably, SMEs in Zimbabwe lack the access to external finance from formal sources than large enterprises with credit history have and have created institutional relationships with private capital, and women in particular, find it more difficult to access capital for their enterprises (Chigudu, 2017). The reason is that large corporates in Zimbabwe, are favoured financially because of their strong enterprise prowess and are identifiably of low risks, for example, banks have higher appetite to provide them with financing at fairly lower rates because they have credit worthy history and capacity to pay, whilst the SMEs cannot afford the rates and have low capacity to pay, leaving government-aided financing the most prudential option. Therefore, the financing source hierarchy (pecking order model) in terms of government-aided financing, puts emphasis on SMEs that aim to reach target or optimum leverage (trade-off model). This implores on government to redefine itself in its intervention as a critical step for the growth of the SMEs sector growth since private capital through banks, is not tailor-made to support lending services to SMEs at the low interest rates – implying that cheap capital should be provided by government to support local SMEs entrepreneurs. Due to lack of sufficient and accessible government-aided financing, it in turn can explain SMEs growth trajectory constraints and further explains why SMEs do not reach their full potential to contribute as much to a nation's growth (Beck & Demirguc-Kunt, 2006; Berger & Udell, 2006; Doh & Kim, 2014, p. 4).

In the case of Zimbabwe, the role of government-aided financing is central to SMEs development. However, from an institutional theory perspective and the financing source hierarchy (pecking order model and trade-off model) theory point of view, it was established that most of the conditions on capital by the financing institutions that are government aided do not accommodate the SMEs interests in terms of their development. The rhetoric with regards to flexibility to support SMEs in terms of financing has not translated into tangible material support to SMEs to access capital (Maunganidze, 2013). It is imperative to note that SMEs are generally more productive enterprises where they are fully supported to get the capital and market share because they can easily adjust to smaller business sphere (Nyandeni, 2018). However, the SMEs in Zimbabwe face a vicious cycle of restricted financing and access, capital is limited, hence obstruct

the growth potential of the SMEs (Nyandeni, 2018). The SMEs operations appear to be labour intensive, hence it is imperative to support them as they have a higher capacity to generate employment opportunities regardless of their slow growth in developing countries (World Bank, 2002, 2004).

4.1. Neo-classical Theory

The main theories underpinning the study include the Neoclassical Growth Theory expounded by Robert Solow in 1956 which stressed the importance of savings and capital formation for economic development (Degong, 2018; McGuinness & Hogan, 2016). In summary, the Neo-classical Growth Theory established that savings and capital formation and integration by government can spur SMEs growth and this can be aided by private capital pooling resources towards productive SMEs and real sectors in an economy, serve as measures for economic growth and development (Degong, 2018; Carpenter & Petersen, 2002)

4.2. Finance-Growth Theory

The second one is the Finance-Growth Theory which addresses the finance-led growth theory as expounded and initiated by Bagehot (1873). The financial growth theory expounded that financial intermediary through which financing of enterprises goes through, ordinarily should create a productive environment for growth and economic sustainability through the supply-leading and demand-following effects to the SMEs (Afrifa&Tingbani, 2018). The principle of demand-following effect is premised on the argument that in many cases, the financial system does not inspire economic growth rather simply react and affect the real sectors' development. To this end, this study will examine how the government aided financing of SMEs confound to this assertion has and the details will be discussed in chapter three more elaborately.

4.3. Lending Theory

This is one of the most important theories. The lending theory is of the view that lending markets, including government aided financing institutions, can reduce lending to credit ratio where small and medium enterprises accept loans with high interest rate. This implies that increasing cost of borrowing make it impossible for firms to engage in any type of business project and the start-ups, are usually the most affected ones (Igwe et al., 2018). It is therefore important for this study to look at this theory from a government financing point of view, especially drawing examples from developing countries, including Zimbabwe, which is a country struggling with low economic growth. Thus, to understand financing of SMEs, the lending theory is important as it helps to understand control borrowing costs so that SMEs can be assessed if they can afford credit lines or not on what government aided financing institutions offer through its lending institutions.

4.4. Signalling Theory

Briefly, the Signaling Theory is predicated on delivery and examination of information in relation to business enterprises to the capital market. The information provided on the business enterprises gives an insight on the terms and amount of loan to be made available to those firms (Abor, 2007). In other words, information flow between the SMEs business firms and capital markets is important as this determines how the entrepreneurs access the funds, and further determined enterprise potential to start once information on funds and access is defined and understood (Moss et al., 2018). There is no general consensus on how signaling theory enhance credit availability to SMEs – but what is very clear is that access to information about funding is important and this should be accessed from government entities where funding is provided by government (Abor, 2007). Moss et al (2015) in support of this assertion opined that there has not been unanimous view on how signaling theory offers insight or connection with SME financial management. In his study, it is the view of the researcher to put across that the SMEs from a Signal theory, is important and according to Ennew and Binks (1995) SMEs require information in terms of how to access financing and should disclose their earnings and forecast to inspire confidence for lending by fund holders. It is imperative that this study uses the Signal theory to give clear understanding of how to SMEs finance information plays a role in access to funding (Moss et al., 2015).

4.5. Access to Finance Theory of Change

Lack of access to finance for investments among SMEs is one of the major hindrances to the growth of SME and credit accessibility is an essential determinant of SMEs performance (Rijkers et al., 2010). The theory asserts that credit availability enables SMEs entrepreneurs to invest in productive assets that are likely to increase production leading to growth of their SMEs in productivity and hire new and more employees as inputs to production (Rijkers et al., 2010). There is need working capital and finance for SMEs to make investment projects where the terms and conditions match the expected chronology of the earnings – that is the return on investment. However, as much as this theory is clear, this research will situate this theory in the context of the credibility of the SMEs in Zimbabwe's competitiveness to attract government aided financing and therefore, government aided financing institutions particularly the banks, can support the SMEs. It remains to be seen if the SMEs in the developing world such as Zimbabwe, have the appropriate products, and the business acumen as SMEs associated with requisite competitiveness to attract funding or they operate on high transaction costs for lenders to support them. This theory is indeed critical in the analysis of government aided financing institutions in Zimbabwe.

5. SMEs Financial Gap

The existence of a funding gap in the funding of SMEs is not unique to Zimbabwe. Throughout the region, SMEs appear to struggle in terms of accessing capital for their development and growth. It is imperative to mention that the

critical element of financing gap exist everywhere. Practically, it was identified in the United Kingdom by the Macmillan committee, which was set up by the government to study the British financial system in 1931 and the report of the Committee highlighted financing as one of the greatest impediment to SMEs growth and development (Predkiewicz, 2012). According to Brown and Lee (2019) the financial crisis that affected the rest of Europe had serious consequences on SMEs funding, with many of them facing challenges to remain operational – leading to demand from government that some innovations be instituted for crowdfunding to ensure operability of the SMEs enterprises.

In South Africa, Goga et al., (2019) argue that the critical issue of interest rates is particularly important considering that one of the challenges for SMEs growth is source and costs of funds that they can access, and the process of accessing it which ultimately determines flexibility and growth potential. Goga et al., (2019) further postulated that there was the need to allowing the Industrial Development Cooperation to consider the issue of cross-subsidization of financing activities and increasing focus on possible zero-rated interest loans in order to meet its mandate of funding for SMEs and industrialization of the economy. The central critique in this instance is that IDC being a government arm, was being called for reform and financial re-engineering to create space to support the SMEs development. This, ordinarily is indicative of the financial gap that exists.

Empirically, Watambwa and Shilongo (2021) highlighted that in Zimbabwe, poor funding is a major problem facing entrepreneurs in general signaling that there was need to revise the formula of supporting the SMEs. In his study of SMEs Njanike (2019) further revealed that the challenges faced included funding, regulations, inaccessible financial institutions by outlying SMEs leading to lack of growth of the SMEs. These challenges in the case of Zimbabwe are linked to the variables mentioned which deal with location and accessibility over and above the critical variables of costs of funds from government aided institutions, which are blamed for slow growth of SME businesses. Equally, the SMEs sector policies where there are financial intermediaries, also put a strain on the SMEs growth potential with many aspiring SMEs being unable to access funding. Thus, the government aided institutions for SMEs financing require to redesign to ensure they have appropriate conditions and financial products and services for SMEs, and this should be coupled by strategies for re-engineering the growth and sustainability of the SMEs in the country.

In other literature, there is a report that Cressy (2002) provides that two formal approaches to understanding the funding gap shares. In the positive approach, it is Cressy (2002 p.20) has argued that funding should be understood in the context of the equilibrium, in which the volume of lending is below that which would emerge in a competitive capital market with costless and complete contracting, no private information and rational expectation (Cressy, 2002: p. 2). Additionally, the normative approach assumes that the funding gap is considered as a market failure, the appropriate policy response to which is an increase in the volume of lending (Cressy, 2002; pg. 2). Ideally, a funding gap appears when there is a mismatch between supply and demand for funds in the market place, which result from permanent market failures (Predkiewicz, 2012). The funding gap for SMEs thus constitutes the difference between the amount of funds the SMEs require for start-ups and their operations and growth, and the amount of funds that they actually access and actually receive. This has been a problem especially in Zimbabwe where the funds set aside by government seem to be overpriced in terms of interest rates with no sufficient safeguards to protect the SMEs. This perspective is in line with the variable on cost of money which is generally very high for most SMEs in Zimbabwe.

It has to be noted that linked to this matter is the critical issue of information asymmetry, which is put forward that it exist in two forms that are either be ex-ante or ex-post (Abdullah, 2011; Scholtens, 1999) and these two elements are already captured in the variables and exists to mediate relationships between all businesses and outsiders as far as funding is concerned. Ex-ante accordingly (Lu et al., 2020) relates to the information asymmetry that exists before finances are given and this limits finance sources while ex-post information asymmetry increases default and makes financing more expensive by increasing transaction costs that are built into the SMEs loans and credit facilities (Sansa, 2019). However, both ex-ante and ex-post information asymmetry between SMEs and outside stakeholders is usually more acute as highlighted in the diagram on independent variables where, it is indicated that apart from information asymmetries, there is also the problem of agency roles is in question.

Thus, there is a close correlation between SMEs and funding and the independent variables clearly indicate in general terms that access to formal capital is a big challenge, and consequently, the amounts of funding and the number of SMEs that are funded, become limited. Apart from government aided financial institutions having these challenges, small and medium businesses are more prone to the consequences of any gap in funding – be it in planning and implementation of the projects, their growth, poverty alleviation and employment creation capacity become constrained when one looks at the outcome and output indicators of both the independent and dependent variables in 2.3 of this study. It is clear from this perspective that funding gaps for SMEs are more acute in developing countries in Sub-Sahara Africa (Collier et al., 2009; Abaho, 2016; Dong & Men, 2014). Zimbabwe is no exception to this problem. Accordingly, Peria (2009) has postulated that small and medium businesses find it particularly difficult to access bank financing, which leaves them with limited options except to rely on government aided institutional funding which is limited and there are many other considerations. Making the challenges even more, there is the critical issue of locational and geographical competitiveness that determines accessibility. In many aspects, there is poor financial infrastructure and macro-economic factors account for this problem whereby banks and SMEs micro-finance institutions, tend to be concentrated in cities and town, far away from marginal areas where bank services are rarely available in many parts of Sub-Saharan Africa (Peria, 2009; Taiwo & Falohun, 2016).

The SMEs gap also arise from the dependent variables which constrains access to funding through stringent legal and business environment. For example, the monetary and macro-economic policies that are announced from by the government of Zimbabwe affects SMEs. The study carried out by Hanedar, Altunbas, and Bazzana (2014) revealed that sometimes even when formal sources of finance are available, it is noted that the SMEs still do not access due to the

complexities involved in the application process that requires capacity to pay and credit worthiness. In addition, credit from commercial banks is expensive with Ecobank, Commercial Bank of Zimbabwe, Agribank and NMB Bank in Zimbabwe charge 55% on bank loans to SMEs, which is higher than in developed countries where legal procedures are less cumbersome. Thus, Shen et al (2009) found that the higher interests rates and insistence on other conditions as part of bank law enforcement, affect banks' willingness to lend to SMEs. Therefore, there are links between what the literature says with regards to the financial gaps and there are correlations with the theoretical frameworks especially on the dependent and independent variables. Thus, although there is no specific literature stream tracing the effects of contextual factors on SME financing, the influence of the macro and monetary policies and the business environment, affects SMEs growth and transformation. Besides, the sharp contrast between the sources of government aided intuitions financing of SMES in developing countries unambiguously affect the availability of funding to SME.

6. Recommendations

In as much as the literature discusses SMEs financing, the gap that exists relates to government aided institutional financing of SMEs. Theories that exist in the discourse of SMEs financing concentrate largely on private capital and the role that government can play has been restricted to policy making, yet the government has the ability to provide cheap capital to enable the growth of the SMEs across the globe. What was witnessed in 2020 following the outbreak of Covid 19 is that the global economies were affected. This prompted governments to come up with stimulus packages to help SMEs and families in various communities to help them have sustainable livelihoods. It has dawned on governments to have reliable sources of cheap funds to support to SMEs. Thus, government aided SMEs financing is key to the transformation of the sector and hedge the entrepreneurs against potential risks on their livelihoods. However, the funding is limited and strategic interventions by governments is mandatory in this perspective. The model of support to SMEs should change and it is advisable that governments have to set aside insurance as a caveat to protect SMEs in times of crisis. To this end, the discussions have demonstrated that beyond the theoretical funding models, these largely are driven by private capital whose interest are return on investment, recovery on investment and profit making, hence their consideration are based on profitability, sustainability and affordability of the investment that entrepreneurs seek to undertake. The fact that the majority of the people are involved in SMEs, demands that the government of Zimbabwe should consider seriously how these SMEs can be provided with financing to enable the majority leverage on the businesses to address the critical issues of poverty and unemployment arguably over 90% in the country. Additionally, insights from the above literature also provides a better understanding of how the funding environment across regions vary and in developing countries like Zimbabwe, the SMEs are confronted with access and capital affordability difficulties – requiring the need to reform the financial infrastructure so that it is flexible to accommodate the majority of the people who are embarking on SMEs to empower themselves and improve their lives. Imperatively, there is need for private capital convergence with public funding in terms of access conditions and the amounts that one can obtain to address the very limited collaboration that pervasively exist at the moment. There is scope for government aided financing to improve and merging the rules of access between private capital and public capital in support of SMEs is highly transformative of the financial landscape that can change the fortunes of SMEs.

7. Conclusion

The overall observation is that there is limited information in as far as the extent to which government aided financing of SMEs support the enterprises largely because the current regime of support is dominated by private capital through commercial banks and other lending institutions that support SMEs. As such, the success of SMEs in developing countries particularly in Zimbabwe will depend on a range of country- level reforms to ensure more government support is channeled to specific institutions that should adhere to flexible funding models. Among the main factors impacting on government aided financing for SMEs are *inter alia* the macro-economic environment especially with limited fiscal scape and, the legal and regulatory frameworks, the state of the government aided financial services sector infrastructure, internal limitations such as political considerations when supporting SMEs in terms of improper capacity evaluation and technology and innovation by the aspiring SMEs to optimally exploit the opportunities. Fundamentally, SME specific factors, particularly the SME landscape in terms of number, size, and focus of operations, as well as the opaqueness of information all come into context and affect their performance. It is critical to note that due to the opaqueness of SMEs at times, which include the challenges associated with ascertaining the reliability of some SMEs candidates, the information provided about their businesses has conventionally been assumed that will succeed. However, the discussion has also shown that proper due diligence is imperative to ascertain viability, sustainability and profitability of the SMEs. Thus, the literature review has demonstrated the weaknesses of the SMEs support side from government that have been shown to negatively contribute to SMEs failing. The critical issues of collateral security demands by the existing financial services sectors including government aided financial services infrastructure, for instance, through movable and unmovable properties, all create loan access rigidities in Zimbabwe. Cross-country evidence on government aided financing of SMEs have shown that financing for SMEs is key and can only be effective if there is effective support from government. The empirical literature data serves as a reference point to interrogate the gaps in terms of government aided institutional financing, and therefore, and offers an opportunity for re-modelling SMEs financing for economic growth and development.

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