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# Taxonomy of Small and Medium Enterprises (SMEs) Constraints: An Analytical Perspective of Zimbabwe

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## Abstract

Small and medium-sized enterprises (SMEs) in Zimbabwe are regarded as the most resilient and the backbone of the economy following years of capital flight since 2000 following the consummation of the fast tract land reform programme. Since then, major corporates disinvested, and this created a huge gap in the products and services supply chain, and the SMEs robustly emerged largely owned by the local people. This paper, however, has established that in as much as the SMEs have a critical role to play, government aided financing infrastructure is characterised by a plethora of policy and regulatory frameworks that limit growth and development of the SMEs to contribute significantly to the development of the economy. Using a review process as a methodology as part of an ongoing doctoral research in this field, the paper puts across that it is vitally important for Zimbabwe to put incentives from a policy and tax rebate point of view, including lessening the bureaucratic red-tape and rigidities that characterise SMEs loan application to access to capital. The various independent and dependent variables in this paper require an overhaul to ensure that the challenges that limit SMEs access to financing are addressed.

***Index terms***— small and medium enterprises, financing,

# 1 Introduction

he central role of SMEs cannot be doubted as globally, this sector account for the majority of businesses worldwide. Essentially, the SMEs are important contributors to job creation, and above all, there is evidence to the effect that the new frontiers of global economic development, will be driven by the SEMs sector. However, the SMEs have to find its place and become the engines and turbines of growth and transformation of economies. Additionally, SMEs arguably represent about 90% of businesses and more than 50% of employment worldwide -with many African countries' businesses dominated by SMEs (Asikhia & Naidoo, 2021). In Zimbabwe, this sector has huge potential to change the circumstances of the economy which has been poorly performing since capital flight from 2000 following the inception of the fast-track land reform and the ensuing external and internal political contradictions. Ideally, the SMEs in the country remain loses as far as their operations are concerned, making it difficult to be funded. Invariably, the SMEs are struggling to formalise. As such, they operate with limited standardisation, when the current funding dictates (variables) demands them to be formal and organised to ensure accountability and tracking of the funded projects. Formal SMEs have greater impact in an economy, and represent about 43% of GDP in Sub-Saharan Africa (Lesser & Moisé-Leeman, 2009). Most of the emerging economies, including Zimbabwe have this competitive advantage and the resilience of the SMEs in the midst of global economic recession, makes SMEs key in sustaining economic growth and development. The GDP contribution could significantly be higher if the SMEs operate formally. The informality characteristics in a wide range of SMEs, demands that the need for formalisation and inclusion of the barest minimum standards of basic business accounting and management. This review established that basic business principles are difficult to adapt among SMEs and in many cases, especially individually run and family management SMEs, such business practices do not exist. This impede attracting potential funding to the SMEs, and this paper examine the dependent and independent variables as they relate to the SMEs funding in Zimbabwe among a plethora of factors.

# 2 II.

# 3 Methodology

This paper derives of current literature of an ongoing doctoral study consisting of a study on the role of government aided financing of SMEs in Zimbabwe. As such, the first part of the study deals with mapping out the financing variables from existing SMEs literature contextualised within the Zimbabwean scenario. This mapping has provided insights to understand the complexities of financing SMEs. More importantly, the mapping process provides indicators in as far as existing reports from governments, public agencies, financial institutions regulatory frameworks and policies that are examined in this discussion. Essentially, the methodology in this instance follows a review pathway, which is critical in applied academic review. As lack of T comprehensive data is a major obstacle to the analysis of SMEs in the Zimbabwean context, a specific effort was devoted by the researcher to improve the literature review factual base by looking at a number of dimensions from existing knowledge and juxtaposed it to the Zimbabwean scenario on SME access to finance from the government aided financing institutions. The second part consists of drawing inspiration from studies done in other jurisdictions. This was key in drawing key comparative lessons. This inspiration of the experiences derived from African countries and beyond, provided the characteristics, diffusion and uptake by SMEs to understand the effectiveness and relationships of variables in supporting SMEs financing to innovative or potentially achieve highgrowth of the SMEs sector. Generally, this review methodology enables this paper to understand SMEs difficulties and in the end, the paper makes recommendations on how to overcome financing constraints, evaluate what contextual factors can improve or hamper SMEs' access to financing and hence illustrate policy experiences and the changes required thereof to identified constraints. Thus, the review leveraged secondary sources, including policies and available literature on SMEs financing.

# 4 III. SMEs Funding -Taxonomy of the Dependent and Independent Variables

SMEs funding is important to the success of any economy (Maziriri & Chivandi, 2020). However, the success of any SMEs business is dependent on many relationships that exist in the marketplace. It is imperative that these relationships, should be understood in their micro-and macro environment. They are the factors which have to be examined in their entirety within a particular setting and they vary from one economy to the other. The Zimbabwean socio-economic and political environment is arguably one of the most dynamic one with policies changing from time to time as the environment is characterised by Volatility, Uncertainty, Complexity and Ambiguity (Troise et al., 2022), SMEs enterprises need to strategize not only to remain competitive and profitable, but also be resilient to overcome potential predictable and unpredictable threats considering the difficult environment they find themselves. It is a reality that selling stocks during the Covid -19 pandemic, had its consequences on the overall performance of the SMEs, and it is one such unanticipated occurrence, which besides having serious implications for public health, also significantly impacted SMEs businesses in almost all sectors. With the pandemic continuing, although much less in terms of impact, SMEs enterprises have to have tools and methodologies to better respond to this situation -and one of them is on how the financing of their operations have to be done in a VUCA environment. As such, enabling effective policymaking, fiscical and strategy formulation within the SMEs sector to address emerging trends, disruptive global changes, and an uncertain future become key for SMEs sustainability without which, many of them face collapse.

Using categorical variables analytic model (Westerlund, 2020), it has been identified in this paper that critical components conceptually articulating the relationship between the dependent and independent variables play a role in the context of SMEs financing. These variables cover six pillars summarized below: Independent, Dependent variable in SMEs financing Source: Adapted from Harvie et al ( **??**013) with Researcher's own additions and conceptualisation

The independent and dependent variables are at the centre of factors that affects accessibility to capital by the SMEs with independent variables being informed by the existing national and bank related policies, regulations and conditions. These are further informed by the monetary and macro-economic policies (dependent) variables. The central critique is that there should be complementarity in terms of the relationships between independent and dependent variables to have the ultimate positive impact on the indicators in as far as the outcomes and outputs of the interplay of the two (independent and dependent) variables **??**Baker et al., 2009). It has to be stated that the overall macroeconomic, legal, regulatory and financial infrastructure in Zimbabwe plays a role both in facilitating and inhibiting SMEs growth, and they are critical determinants of SMEs' prospects to succeed through access to capital. For example, the initial announcement barring any lending by banks announced by the Ministry of Finance, meant tremendous uncertainty in the marketplace. Even though the policy had to be withdrawn, the confusion and negative impact in the business environment had already been done, hence the mention of the Zimbabwe environment as ambiguous and complex. Coupled with this came the prescribed 200% interest rate on bank loans -which ordinarily implies that the cost of borrowing escalated, which in this case, is part of the regulatory framework in terms of policies that are enacted by the government in terms of access to financing.

Essentially, policies have been tried and announced by the government of Zimbabwe through the Ministers responsible for Finance, the Reserve Bank of Zimbabwe. However, it should be mentioned that when it comes to the SMEs, the Minister responsible for the SMEs, has little leverage in as far as determining the direction of funding of the sector. For example, the 200% interest rate signifies exorbitant amount on any loan for new SMEs enterprises, which means that the probability of the SMEs failing to access capital becomes too high. It is imperative to note that there seem to be dissonance when it comes to policy pronouncements and the trajectory of growing the SMEs from an economic development perspective.

The complex correlations of the financial ecosystem and access to financing in Zimbabwe following years of economic meltdown of the formal sector, means that the policies should be flexible to allow SMEs to thrive. However, the financial loan acquisition process go through various stages within the financial institutions, and these processes, need to be revamped in order to allow flexibility on capital accessibility to enable SMEs growth. The argument this paper makes is that the commercial banks and private sector SMEs microfinance institutions, are not adequately facilitate SMEs growth. Gombarume and Mavhundutse (2014) assessed the challenges affecting SMEs in Chitungwiza, Zimbabwe and their overall conclusion was that accessibility to government aided financing through bank loans from formal financial institutions and the impact of government policy on their growth and operations, had a strong bearing on the SMEs performance. Their study found that SMEs were getting inadequate financial support and the various financial services conditions in most financial institutions, were a big limiting factor for the sector's growth. However an unstable macroeconomic environment, which at the time had an effect, was also found to be limiting also the sector's growth as much as it is in 2022. Ultimately, Gombarume and Mavhundutse (2014) advocated flexibility in terms of loan conditions, including offering loan guarantee schemes and formalisation of SMEs. It is imperative to note that the independent variables have a stronger bearing on the dependent variables which are discussed below.

# 5 IV.

# 6 Collateral Requirements and Cost of Funds

Collateral requirements coupled with cost of funds worry many SMEs in developing countries (Njanike, 2019). Collateral requirements have both the positive and negative effect on the firm's ability to have access to finance be it government aided financing or from private capital through commercial banks. In many cases, collateral requirements is mandatory to accessing bank loans -which ordinarily increases the costs of funds since several SMEs start-ups do not have the assets to secure the loans from the financial institutions. The central critique is that collateral security limits investments. Over and above that, the fact that SMEs will be compelled to look for assets as security, also increases the costs on the part of the SMEs aspiring candidates as they look for funds, leaving them in indebtedness.

In the majority of cases, SMEs ability access to finance affects business and this emanates from the regulatory frameworks that have been found to have significant effect on SMEs, implying that the challenges encountered due to some regulations in the banks have an effect on the operations and profitability of SMEs in Zimbabwe. Some studies that were carried out have shown that regulations indeed have had a negative effect of SMEs business operations and profitability (Ocloo et al, 2014;Njanike, 2019).The relationship between collateral requirements and costs of funds affects access to finance which can be interpreted as when the SMEs collateral requirement decreases the firm's access to finance also decreases because the two variables move in the same direction to influence not only the ability but the credibility to access even government aided financing of the SMEs, which in the majority of the cases in Zimbabwe, are channelled

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through the banks and micro-finance institutions. It is of interest to note that where Small and Medium Enterprises Development Corporation (SMEDCO) has significantly reduced the collateral demands, the government aided institutions such as the banking sector administering the facilities, are guided by policies, including complying with tax regimes. The 200% interest rate on bank loans was universally applied in 2022, meaning that the banks had to comply as per the monetary authority requirements, which further affect the costs of funds and impact negatively on the operations of the SMEs.

Collateral security if not looked at critically, affects access SMEs financing and generally slows the growth of this sector which has been resilient in times of economic turmoil. Basically, the problems in accessing finance and its attendant costs implications among SMEs and mandatory requirement of collateral remains a thorn in the flesh of many businesses outside the SMEs, and the consequences have been slow growth economically. Indisputably, demand for collateral security from SMEs owners makes part of their assets committed to the financier or to a lending institution, which again increases exposure of the assets especially when the VUCA environment persists -particularly sudden change in policies that characterise the Zimbabwean environment. As a general practice the assets become part and integral security for debt payment or re-payment without which, most commercial financial entities do not support disbursement of loans to any business . Thus, if the business owner fails to pay, the institution recovers its money by possessing that asset, which has been used to secure the loan. Fundamentally, the security assets should be used to recover the principal SMEs loan in case of default or complete failure to pay the money.

As such, many African countries including Zimbabwe, have had the SMEs in particular, struggling in the face of obtaining collateral security where it is required to be provided as to access loans especially in the form of properties such as houses, business building, movable assets such as car4s, and anything that could actually bring back the principal loan recoverable in terms of value in the case the borrower fails to pay or defaults on loans (Garrett, 2009). Security for loans must actually be capable of being sold under normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most financial institutions, public or private, collateral is set as a precondition for SMEs in order to accept their proposals. There is a strong belief that the assets should be 100 % owned by the borrower and have the value equal to the amount being applied for which is usually difficult to achieve especially where the borrower is a start-up (Mullei & Bokea, 1999). Evidence on the ground indicate that most of the start-ups in Zimbabwe, do not have such assets with the value for the loans they need.

While the intension is to safeguard lenders is justifiable, the risk increases where the borrower may appropriate the loan and not commit it for business -of which collateral requirements, when in place, reduce negative consequences and risk exposure of the lenders against improper utilization of the funds by SMEs. It remains of great interest to understand that the dynamic environment in Zimbabwean affect SMEs, and to a larger extent, these complexities deny and discriminated small businesses the opportunity to contribute in the economy. The central critique is that because of high risk perception over the SMEs in Zimbabwe, the perceivable and conceivable degree of exposure and failure of the businesses, need to be understood so that it informs the amount of loan support that can be rendered to any SMEs. Ideally, the resource are scarce in the banks that are financed by the government. Many of them, are not fully capitalised, which makes it difficult to operate against the backdrop of huge capital requirements from SMEs who want to start their businesses. Essentially, there has to be some form of revolving fund that should operate in a fashion to enable adequacy of resourcing lending capital to SMEs with limited or not collateral requirements (Kihimbo et al. 2012). Thus, collateral security demands for SMEs loans in Zimbabwe impacts on the growth and transformation of sector in the country.

V.

# 9 SMEs Advisory and Support Services

One of the most important aspect in terms of SMEs financing is to identify the factors that influence financial inclusion among SMEs. This relates to the kind of advice and support services that the SMEs ought to have access to from the financial institutions that are given the mandate to offer the funds to SMEs, and these have to be included in the target population of the study. Based on this independent variable of advisory and support services, it will be important to understand the success rate by SMEs to access funds. Some of their business proposals are turned away simply because they are ill-advised and such support services are key to ensure that those with a brilliant business ideas, can be assisted for better packaging and creating a sound business portfolio that is bankable and implementable. It has to be noted that governments all over the world have designed a number of support services for SMEs to help the sector grow and these should benefit the SMEs entrepreneurs. These include various facilities that include policy initiatives and support programmes for the sole purpose of creating an enabling environment and developing the SME sector to contribute to economic growth and development. Thus, business advisory and support services is inescapably integral to

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Volume XXII Issue IV Version I Year 2022 ( ) designing projects and assist SMEs in order to link them to the larger developmental vision of a nation with the main focus being poverty reduction, empowerment, transformation and growth of small firms (Charbonneau & Menon, 2013).

A number of initiatives for SME support are rare, understood not to be easily available and inaccessible in many parts of the Zimbabwean context. Evidence from empirical review indicate that policy initiatives that have been pursued over the years through various Statutory Instruments and legislation appear to change dramatically much to the disadvantage of the small businesses. Consequently, SMEs support channelled by governmental institutions which involves but not limited to the financial institutions, but the Reserve Bank of Zimbabwe in its quasi-government interventions, have not been consistent, which further affects the lending banks in their administration of the facilities. In India for example, they have Micro and SME Development Act, in Kenya there is the Micro and Small Enterprises Act while in Malaysia they have the SME Master Plans. In Tanzania they came up with the SME Development Policy, and in the USA they put in place a consistent Small Business Act which provide the policy guidelines and regulatory framework to support the SMEs and they have been consistent (Charbonneau & Menon, 2013), thereby providing stability in the SMEs sector in as far as support is concerned. It is imperative to note that one of the key element of the success of financing SMEs in any country, are consistent policies that prescribe minimum lending rates and do not change dramatically.

In as much as there Chapter 24:12 in Zimbabwe which was enacted to govern the Small Enterprises Development Corporation (SEDCO) Act, which has changed to SMEDCO as initiative aimed at encouraging establishment of SMEs by creating an enabling environment for small businesses to thrive and enhancing access to funding capital (Maunganidze, 2013), it remains a fact that Statutory Instruments in the macro-economic environment tend to change the pathway and situations for SMEs access to capital. Recently, the Ministry of Finance and Economic Development announced a 200% interest rate. That figure makes loans very expensive yet other countries, the average interest rate is about 10%. In the USA, the Bureau of Labor Statistics point to a continued growth of SMEs due to favourable bank support that has been loosening lending standards for loans to large firms and SMEs, and SME surveys reported that loan availability in 2022, was perceivably near historical high at 8%, an increase by 75-point, which in any case, is very low compared to Zimbabwe's 200% in a US$ denominated economy. The 200% interest rate applies to all lending regardless it's in the local currency or the US$ terms. However, the same data sources point to soft increased demand for SME loans because the interest rates for SME loans by any comparisons are affordable in the USA in the business recovery process. The Main Street business owners were also no exception. As much as 8% is considered higher interest rates in the USA, it is in nowhere comparable to Zimbabwe which is a fairly selfdollarized economy, and one would anticipate some convergence in terms of interests rate or much more reasonable interests rates that support business growth and development. Fundamentally, the cost of business loans from a borrower's perspective, is too high and unaffordable -making investment in the SMEs sector difficult.

Even more significantly, the SMEs have had an economic slowdown in Zimbabwe which is being engineered by the influences high interest rates, and when one borrows the loan, the costs of the loan is passed on to the consumer which again escalates the costs of doing business. The ripple effect has been slow demand and slow growth outlook of SMEs. With the odds of recession mounting in the economy in Zimbabwe as a result of the general economic difficulties, debt repayment and higher cost on new loans will maintain stunted business growth or slow it down drastically.

Essentially, for their sustenance, SMEs need to use a number of enabling tools to thrive including marketing of their products, leverage information and technology in order to become more competitive and create opportunities to participate in the global value chains. The environment in Zimbabwe is tough, although some SMEs thrive through supply of products that are of high quality, and it has been emphasised in literature that credibility of products matters a lot, including conforming to good environmental standards (Charbonneau & Menon, 2013). The setting up of the Ministry of Small and Medium Enterprise and Corporative Development and the Small Enterprises at the time and its subsequent transformation to the current Ministry of Women Affairs, Community, Small and Medium Enterprises Development with its vision to ”To be the ”nerve' centre for economic development and empowerment through the development of MSMEs and Cooperatives in Zimbabwe”, epitomise a great deal of commitment by the government to support SMEs. The number of SMEs, however, have regrettably been underfunded and they have not been able to realise the milestones to fully support SMEs because perennially, the Ministry is underfunded (Maunganidze, 2013). The principal in the same Ministry indicated that more can be done to support SMEs because these SMEs are the most resilient in the economy, yet the support is minimum.

Consequently, this paper is of the view that government is not adequately funding this critical Ministry of Women Affairs, Community, Small and Medium Enterprises Development with its vision to ”to be the ”nerve' centre for economic development and empowerment through the development of MSMEs and

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Cooperatives in Zimbabwe”. One of the aspect this paper established is that informality of the sector makes lending difficult from an accountability perspective and most of the loans, have, in the past, not been paid because the beneficiaries are considerer a high risk informal traders -which again is a challenges that the SMEs in Zimbabwe present as high risk to lenders. It is imperative to note that the government has traditionally left out SMEs from its incentive structures such as tax rebates. This has also caused the sector to avoid paying taxes. Consequently, their pricing regime becomes high to recover their costs, and as a result, they fail to be competitive. The government is also losing a lot on potential revenue and the contribution of the sector to the national treasury by the SMEs sector is hard to quantify so that the sector can be the respect that the sector deserves (Maunganidze, 2013). Therefore, the small business support services are weak, the support the enterprises receive or that are provided by national agencies, both private and public, have not been helpful. Indeed, most SMEs are not aware of funding opportunities, the ever changing policies and programs. This affects them adversely, and most of the SMEs face difficulty in accessing funds to invest in their projects.

# 13 VI.

# 14 Financial Infrastructure and Locational Competitiveness

Location offers mixed advantages to enterprises and resource accessibility which ultimately enhances the chances of different enterprises to benefit from the funds. As such, location of financial services infrastructure such as banks determine specific resources that could serve the SMEs in developing economies. It is understood from the Resource-Based View (RBV) theory that the closer the institutions are to the centre of business activities, the more likely the SMEs can have access to the funds (Lee et al, 2012). Thus, RBV remains relevant in SMEs studies and its development and the central call is that the informal sectors which are scattered in the majority of cases, they would perform better if the financing institutions are closer to them. It is the argument of this study that as it stands, Zimbabwe's financial service sector are unevenly distributed. Hence, it is difficult for SMEs in the rural areas and smaller towns to access capital for their growth, development and improvement. This variable will be examined and determine the impact it has to the growth of the SMEs in Zimbabwe.

# 15 VII. Asymmetric of Information and Agency Problems

Information asymmetry theory postulates that when two parties are making decisions or transactions, there exists a situation where when one party has more or better information than the other. Thus, information asymmetry may cause an imbalance of power between the parties. In this context, for example, the borrowers are more likely to get more information than the lenders. Information related with the risk associated with the investments is likely to be available to the borrowers. Zhao et al., (2021) observed that this may lead to the problems of moral hazard, where a party will take risks because they assume final cost of that risk, as well as adverse selection, where there are adverse results because parties have different/imperfect information; therefore, the problems may cause inefficiency related to the flow or transfer of funds from the lenders (surplus) to the borrowers.

Furthermore, for overcoming these issues, the financial intermediaries use three major ways such as providing the commitment for long-term relationship with the clients. The second way is through the sharing of the information. Lastly is through the delegation and monitoring of the credit applicants. When the customers borrow money directly from banks, the banks should consider the need for relevant information to be addressed and so as to redress the asymmetry of the information (Zhao et al., 2021).

It is argued that the acuteness of information asymmetries between the banks that are given the mandate to loan the funds to the SMEs, including microfinance institutions and entrepreneurs is one of the stumbling blocks to SME financing in Zimbabwe. This problem is pervasive across Sub-Saharan Africa. However, the gap between government aided financial institutions that support the businesses and the SMEs, can be narrowed by developing financial systems that are more adaptable to the changing scenarios so that the emerging SMEs are not pushed out through lack of information at the local contexts level. Additionally, avenues should be explored in this instance for intense sharing of information, advising the SMEs aspirants about what is expected, the risks consideration and the expected reduction of perceived risks should be shared with the borrowers so that they better prepare their projects portfolios to the government aided financing institutions promoting the sustainable development of SMEs and their better access to financing (Leffileur, 2009). Information asymmetries are actually concerned with the two players in the financial market -that is the borrowers who are SMEs entrepreneurs who represent their business interests and the bankers who may not be aware of the businesses and the intensions of SMEs owners. In addition, there is also the critical issue of the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants -and this include an understanding of their credit history, credit worthiness and the ability to repay back the loan in order to access financial products from the government aided financing institutions (Bazibu, 2005). Thus, a study that was done by on agricultural SMEs pointed out that the failure of the current African markets is because of a number of the

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Volume XXII Issue IV Version I Year 2022 ( ) factors. Those cited include agricultural credit problems that are not fully comprehended because of lack of information and not necessarily the failure by the SMEs in this sector but other factors as well with issues of climate change also impacting on agriculture based SMEs failing to perform. Consequently, it is imperative that such kind of information on externalities should be looked at when considering financing SMEs from a business risk analysis. These problems are associated with the imperfection of the information in the risk presences and in most cases, the SMEs fail to access support for their businesses. The failures due to the environmental factors and that of the markets, mostly may be beyond the SMEs, and such information should be considered. Therefore, the imperfections of the information affect almost all SMEs and it is important that this study looks at the critical issue of asymmetric of information as an important independent variable that is at play in Zimbabwe in determining accessibility of funding to various SMEs with their unique risk profiles.

# 17 VIII.

# 18 Loan Tax Concessions and Subsidies

Loan tax concessions and subsidies are important independent variable that can stimulate growth and development. It is important to note that the globe is under siege by the coronavirus and this has impacted negatively on the SMEs sector warranting interventions that can accelerate their recovery, stabilisation and growth. Therefore, other countries have put in place a cocktail of concessions, rebates and subsidies to ensure recovery of the sector. Empirical evidence shows that in South Africa's Johannesburg alone, they set 100 million Rands for SMEs with 50% being accessed as a grand (SABC News, 24 August 2021) while the other 50% is accessed by SMEs at concessionary rates. Meanwhile, the Kiwi Business Boost initiative was launched in the case of New Zealand by business.govt.nz ??Durst & Gerstlberger, 2021). The government of New Zealand has dedicated resources for SMEs to help small businesses become more productive, sustainable, and inclusive for the benefit of the small businesses and this is in addition to a regime of research and development, and tax incentive which was launched by the government in 2019 to support SMEs activities by businesses (OECD, 2020). Tax incentives, research and development and concessions on loan borrowings form part of the strategic interventions that incentivises SMEs to have interest to borrow capital and this can have an impact in improving access to financing. The national government of New Zealand went further and launched research and development tax incentives to help small businesses become more responsible, productive, inclusive and competitive in the marketplace ??Durst & Gerstlberger, 2021). The examples given in respect of South Africa and New Zealand, are important whereas in Zimbabwe, not much has been done to incentivise SMEs from a capital borrowing perspective.

# 19 IX.

# 20 Awareness of Funding Opportunities

One of the key success factors for SMEs that determines access to financing relates to the flow of information in the financial services sector. Indeed, the financial services market is crucial for both SMEs and financial providers and it is argued that information should be accessible. Thus, funding opportunities publicised to give any aspiring entrepreneurs an opportunity to access the funds (Falkena et al. 2001). In order for SMEs to access financial services, they need information -which is important with regards to how funding can be accessed. The financial institutions in Zimbabwe have been criticised for not availing information which makes it difficult for SMEs to prepare their documents to apply for funds availed by the government. One of the limitation on this secrecy of information relates to bureaucratic constipation, bungling and secrecy of government facilities which are all examined in this study, and inadvertently, affects transparency of these facilities. In most cases, this study argues that they are shrouded and clouded in government-party conflation as it appears that the information about the facilities are availed more to those who have particular party inclinations in the political marketplace in Zimbabwe. As such availing the required information to enable the SMEs to apply for bank financing and also to access the location where the financing institutions disburse the money is not open to all and the selection process tend to follow politics rather than economics.

In the majority of cases, the funding opportunities are relayed through governing political parties or those organisations that are aligned to the governing party such as the Affirmative Action Group through its provincial structure or any other associations such as the ruling party aligned and Killer Zivhu led Cross Border Traders Association -thus raising critical questions on fairness and transparency about the facilities. Information is key as it concerns about the awareness of funding opportunities for SMEs. In addition, information about the opportunities goes hand in hand with asymmetry in the sense that it is that relevant information, which is important and should be available and known to all players in the financial market and filter through to the beneficiaries .

The combination of these variables play major roles as independent variables with regards to SMEs financing. The commercial banks that are funded by government to disburse to the SMEs financing still charge exorbitant premium interests and administrative fees on loans to SMEs, making capital not only expensive but restrictive (Obiageri et al., 2019). Even though establishment of specialized lending institutions may exists as a noble intervention, there is still lack of support to nurturing growth of SMEs (Beck et al., 2006).

# 21 X.

# 22 Discussion

The dynamism of the policy posture and regulatory framework governing funding in Zimbabwe changes dramatically. More importantly, the inflation in the marketplace has been going up and to patiently wait for inflation to go away while maintaining low interest rates, is difficult and this tend to affect business. It is clear from the above analysis that SMEs are the hardest hit by the changes in the macro-economic environment, and for SMEs to thrive, they have to be creative and innovative in order to keep operational. With bank loans now statutorised at 200%, the cost of money, investment in the SMEs and on the part of the consumer of the SMEs goods and services escalate so dramatically that the SMEs become uncompetitive. It has been shown that in the USA, the interest rate went up to 8% and in that comparison with a US$ denominated economy, one would expect something reasonable in as far as the cost of borrowing money is concerned. Regrettably, SMEs are being affected at the time when they are supposed to be the engines for growth, transformation and employment creation and empowerment of the populace. Funds set aside for various SMEs appear to be a pie in the sky as the liquidity seem not readily available in the market, hence the offers for loans remains a mirage to many aspiring SMEs in Zimbabwe. The financing of the facilities in Zimbabwe's bank for lending to SMEs is good, but it would appear that this had fundamentally remained on policy papers and public pronouncement without evidently being complimented by real action on the ground to support the SMEs. This, in conjunction with limited incentives to buttress the SEMs in the economy, the SMEs end up using their own funds and they pass on the costs on the consumer, which complicate things especially the majority of them become uncompetitive. Ultimately, this reduce growth and, with more inflationary pressure, undermine the performance of the SMEs, prices increase and in the end, the SMEs fail.

# 23 XI.

# 24 Recommendations

One of the key recommended policy change is to address the critical issue of the informality of the SMEs sector. While the law provided for registration of these SMEs, about 6% of them operate without licences in Zimbabwe and have no traceable record. This matters when it comes to lending money. While important progress has been made in the communication and simplification of rules and procedures, for lending money through the banks that administer the loans for SMEs, the challenges persist related to geographical distribution of the institutions do not help the bigger population in the communal areas who account for about 67% of the population. Tangled improvements should be made to ensure that at least in each district, there is some facility that cater for each area. It has been realised that connectivity is a challenge but there are prospects to exploit ICT solutions to ensure seamless access to SMEs funding opportunities especially reaching out to most parts of the country so that there is intensive inclusion of the population. Countries such as Kenya through M-Pesa (Muriuki, 2011), have leveraged the ICT revolution as integrated model for financial inclusion and reaching out to as many SMEs in the country as is possible, and the effect has been dramatically positive in that country. Equally, simplification of policies and lowering of interest rate remains key if the SMEs are to be fully supported. Buttressing this point, is also the need to review the collateral requirements, which historically, disenfranchises SMEs from accessing investment capital. While it is acknowledged that loan defaults have been high in this sector, but it also reflect lack of follow up mechanisms, which should also be strengthened to ensure that loan repayment is achieved significantly. Another requirement is based on the observation that the loan access process in Zimbabwe is an extremely nebulous one. There is a lot of bureaucracy, and there is need for a new pathway of a comply-or-explain principle which should be introduced that helps to identify business regulations that SMEs perceive as the most burdensome and propose simplification to lessen the process ridden with bureaucracy. For example, the civil servants should be encouraged to develop smart regulations and policies that improves the ease of doing business and create flexible policy parameters that can reduce red tape. In the UK, there was a time when they introduced "the Red Tape Challenge website" which was dedicated to promoting open discussion on how the aims of existing regulations could be fulfilled in the least burdensome way possible. The public participated without taking any offence even on the most critical views from the public. The comments from such public policy discourse, were then used by the British government to design a package of 3000 reforms to cut red tape. Such public consultations when it comes to policies in Zimbabwe appear to be lacking hence the policies are clearly thumb-sucked on the beneficiaries, much to their surprise and disadvantage. Overall, the thrust should be an overhaul of the policy and regulatory framework and introduce policy changes that support and promote the growth of SMEs, including lowering interest rates.

# 25 XII.

# 26 Conclusion

Overall, the institutional and regulatory frameworks taxonomy in Zimbabwe has provided

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Volume XXII Issue IV Version I Year 2022 ( ) tremendous analysis of the SMEs ecosystem. It is clear that the SMEs in Zimbabwe are becoming increasingly underdeveloped, while the cost of money through interests rates has been on the increase standing at the current 200%. The cost of loan in this regards makes the SMEs uncompetitive, and paying the loan in case of other changes in the economic fundamentals, impoverishes business performance. There is no doubt that the institutional and policy frameworks for SME policies have to change and stabilisation of the macroeconomic environment is key to a thriving SMEs sector in Zimbabwe. The pathway to a well-developed SME, starts with strategies and policies that should be put in place, and they should be implemented according to plan and monitoring should take place regularly. However, a comprehensive evaluation of the effectiveness and cost efficiency of policy measures that are put by other sectors on the SMEs, are largely nonexistent and there is no consultative converges with those sectors that potentially are affected by those policy changes in Zimbabwe. This lack of consultation in terms of policy convergence epitomise disconnection from a SME strategic point of view. Nevertheless, engagements can still be made for regulations and policies alignment and mainstreaming to ensure SMEs access to capital, their efficient operations, sustainability and profitability. The recommendations put forward in this paper if followed, address policy reform priorities for building advanced institutional and regulatory frameworks for SMEs to operate.

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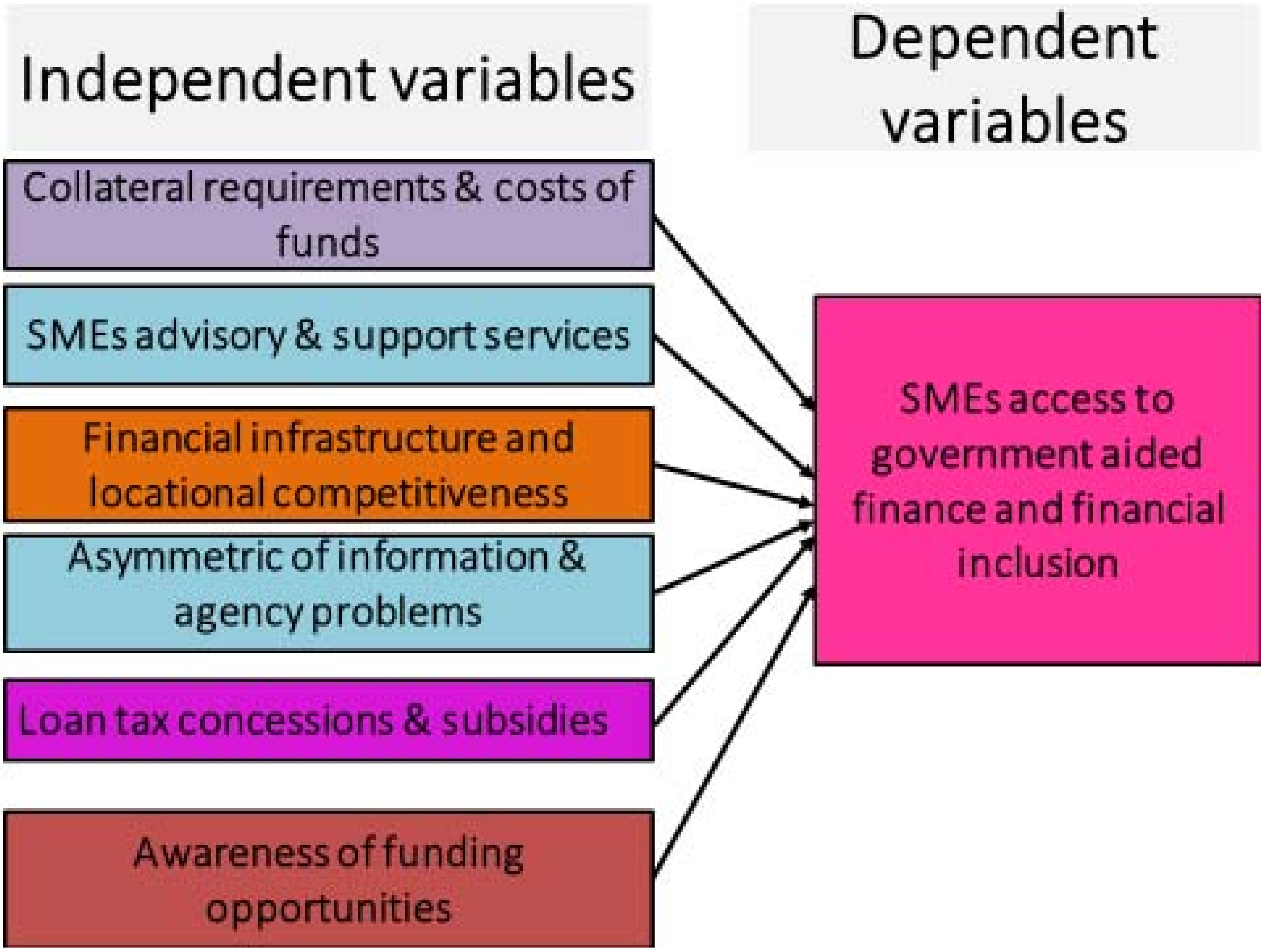


Figure 1:

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