Evaluation of The Challenges Impacting Recapitalization of Small and Medium-Sized Enterprises (SMEs) in Zambia's ManufacturingSector (2014 -2020)

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ABSTRACT

Small and Medium sized Enterprises (SMEs) are the backbone of virtually all economies in the world. However, the process has long been constrained by various factors, one of such constraints is the limited availability and accessibility of financial resources to meet a variety of operational and investment needs within the SME sectors. It is against this background that this study aimed at evaluating the challenges impacting recapitalization of Small and Medium-Sized Enterprises (SMEs) in Zambia. The study covered a selected number of SMEs operating in the manufacturing sector within Lusaka's industrial area and the town centre.

It was established that the main challenge faced by SMEs is having access to finances that help foster their operations. Access to finance plays a central role in development of enterprises, but this is only possible if it is accessible in reasonable conditions. SMEs are suffered from liquidity problems. In view of the study findings, the study recommends that SMEs make use of practical and unconventional means of alternative sources of finance, given the challenges faced with traditional sources of finance.

Key words: Evaluation, Enterprise, Impact, Challenges, Trade, Factor, Sector

INTRODUCTION

At the heart of Africa's encouraging growth are small and medium enterprises, commonly known as SMEs. In the Sub-Saharan Africa region, SMEs account for more than 95 percent of all firms (Hatega, 2007; Kauffmann, 2005). It is notable that SMEs are even more significant given their role to reduce poverty, boost countries' GDP and provide employment for majority of the population (Benzing & Chu, 2012). SMEs businesses range from very small micro-firms run by one or two persons and very slow growth or no growth to fast growing medium businesses earning millions of dollars and majority employing as many as 250 employees (Fjose et al., 2010). The businesses' definitions also vary from those requiring little money to start to others demand millions of dollars to start (Adisa, Abdulraheem, & Mordi, 2014). Various sectors in different parts of the world focus on certain indicators to define SMEs among them number of employees, total number of assets, annual turnover and capital investments (Gibson & Vaart, 2008).

LITERATURE REVIEW

The percentage of SMEs in the manufacturing sector has reduced in the recent past. Lack of capital inequality in the distribution of loans remains prominent but current trends this was observed by Moran (2012) shows that there has been progress in giving out loans but this is manly in other sectors such as Agriculture, retail, construction sector. The trends have shown that there has been progress made in bring on

board the manufacturing sector but sadly, there is still a gap. The level at which the SMEs in the manufacturing sector are going down has become a matter of concern Martel (2007). The recapitalization of SMEs in Zambia's Manufacturing sector is manly characterized by challenges of access to capital such as loans and other credit facility (Citizen Economic Empowerment Commission) According to Johnson and Hirt (2010), the collateral agreement which is placed on loans to be obtained, most SMEs cannot afford these conditions. Soyinbo and Adekanye (1992) have discussed in the literature about the implications of bank recapitalization has been scantly, according to them, most banks in Nigeria failed as a result of inadequate capital base, mismanagement of funds, overtrading, lack of regulation and control; and unfair competition from the foreign. Hisrich and Peters (1995) make an assertion that commercial banks constitute the most widely used source of debt financing for small companies. This assertion is also supported by longenecker et al. (1994). Again Longenecker et al. (1994) claim that commercial banks loans to small companies are mostly short-term loans, though some do offer long-term loans to small and medium size companies. According to Kuriloff et al. (1993), commercial banks usually provide loans for working capital or for the purchase of fixed assets. They demand evidence of a company's ability to pay the interest and principal as scheduled. This evidence is usually in the form of cash flows statements. They also demand some form of security. Collaterals are the most widely used form of security demanded by commercial banks. Longnecker et al. (1994) classify commercial bank loans as line of credit and term loan.

Jensen & Meckling, 1976) states that an optimal capital structure that maximizes firm value can be achieved by minimizing conflicts of interest among the stakeholders. However, no single theory can fully explain the effect of the capital structure on firm performance. According to Ardalan (2017), all capital structure theories are based on critical assumptions that are far from financial operations in reality. A real society (which includes managers) is more complex, diversified, and multifaceted than assumed in theory. His study concludes that the results of any model with respect to any theoretical predictions might change in different contexts and statements, so capital structure theories are therefore questionable under different conditions.

(Tahir et al., 2017). Even with the importance of the banking sector in regulating and stabilizing the economy, many empirical studies concerning the relationship between recapitalization and the performance of banks in both developed and developing economies appeared to be mixed, contradiction, and coupled with weak findings. The study of Bhagat et al., 2011; Bhaumik and Selarka, 2012; Ding et al., 2013; Donou-Adonsou and Sylwester, 2017; Ernovianti and Ahmad, 2017; Etri et al., 2016; Nicholson and Salaber, 2013; Yusupov, 2012) found a positive relationship and (Aybar and Ficici, 2009; Bertrand and Betschinger, 2012; Bibi et al., 2018; Forssbaeck and Nielsen, 2016;Tomec and Jagri?, 2017) found negative relationship while (Adedeji et al., 2015;Liao and Williams, 2008) found no relationship between the two variables.

It therefore follows that the universal definition of recapitalization, as such, many authors have defined it from a different perspective. The case of Etri et al. (2016) described recapitalization as a rescue plan by the central bank of a country through capital injections and acquisitions of weaker banks by stronger banks. Recapitalization serves as an instrument to avoid future financial crises and as a security mechanism to absorb any contagion effects (Bitar et al., 2017a).

PURPOSE OF THE STUDY

The study will benefit SMEs in Zambia. It brought additional knowledge in relation to the issues needed to address recapitalization of SMEs. This enabled the entrepreneurs to overcome the competition posed by other established players in the sector. This study contributed literature on SMEs recapitalization. Additionally, the information helped policy makers, at various levels of management of government ministries and agencies on need to support and encourage SMEs to remain strong in the market by providing loans and other incentives such as lower tax rates. This study also has come at the right time seeing that the ruling government through his excellence the president of the Republic of Zambia Hakainde Hichilema

formed a first ever Ministry of Small and Medium Enterprise Development which looks at the affairs of the SMEs.

RESEARCH OBJECTIVE

- To evaluate challenges impacting recapitalization of Small and Medium-sized Enterprises (SMEs) in Zambia's Manufacturing sector
- To evaluate the challenges faced by SMEs in accessing Capital in Zambia's manufacturing sector
- To ascertain the effects of lack of recapitalization among SMEs in Zambia's manufacturing sector
- To establish recapitalization options and Strategies available for SMEs in accessing capital in Zambia's manufacturing sector

RESEARCH QUESTION

1. This study aimed at finding out what the challenges of recapitalization is faced by Small and Medium-sized Enterprises (SMEs) in Zambia's Manufacturing sector and how best they can be managed.
2. What are the challenges impacting recapitalization of SMEs in accessing capital in Zambia's manufacturing sector?
3. What are the effects of lack of recapitalization among SMEs in Zambia's manufacturing sector?
4. What recapitalization options and Strategies are available for SMEs in accessing Capital in Zambia'smanufacturing sector?

METHODOLOGY

This section presents the description of the research methodology used in the study. Collis and Hussey (2009:79) have described a methodology as an approach to the process of research that is made up of a body of methods and these methods are techniques for collecting and analysing data. This study was purely qualitative and quantitative methods. The quantitative part when data converted to numbers for analysis while the qualitative part was used to give a deeper understanding of the effects of recapitalization of SMEs. There was a wide range of methodologies for conducting research, but the choice of methodology depends on the extent to which the methodology reflects the philosophical assumptions of the paradigm adopted for the research (Collis and Hussey,2009:73)

The case study method was chosen for this research because it was suitable for studying newly emerging research areas and reflects the philosophical assumption of the interpretive paradigm adopted for this research.

According to Collis and Hussey (2009), a case study is a methodology that is used to explore a single phenomenon (the case) in a natural setting using a variety of methods to obtain in-depth knowledge. This methodology defines the resources needed for the research process and the approach to be used in data analysis.

Yin (2003), identified the following different types of case study: explanatory, exploratory, experimental, descriptive and illustrative, which are not well delineated as one type may be combined with another.

For this study, the case was applied coz it's a combination of explanatory descriptive approach and provides the right fit for the research study.

DATA ANALYSIS, PRESENTATION AND DISCUSSION

This chapter has focused on analyzing and discussion of the data that was collected in chapter three. The intention was to get the interpretations and findings from data as to what the causes were on Recapitalization of Small and medium-sized enterprises (SMEs) in Zambia's Manufacturing sector. As alluded to in the above statement, the findings presented here were as a result of the proposed research design and methodology highlighted in this study. Data was collected through interviewing respondents, observation and review of relevant documents. The findings of the study which sought to investigate the challenges impacting recapitalization of Small and medium-sized enterprises (SMEs) in Zambia's Manufacturing sector.The results are presented under headings derived from the objectives of the study.

GENERAL INFORMATION

The figures below present the gender, marital status, nationality and age of the respondents who took part in the research. Figure (a) shows the gender, figure (b) shows the marital status, figure (c) shows nationality and figure (d) shows age of the respondents.

The majority of the respondents were male; 29 respondents (58%) were male while 21 respondents (42%) were female.
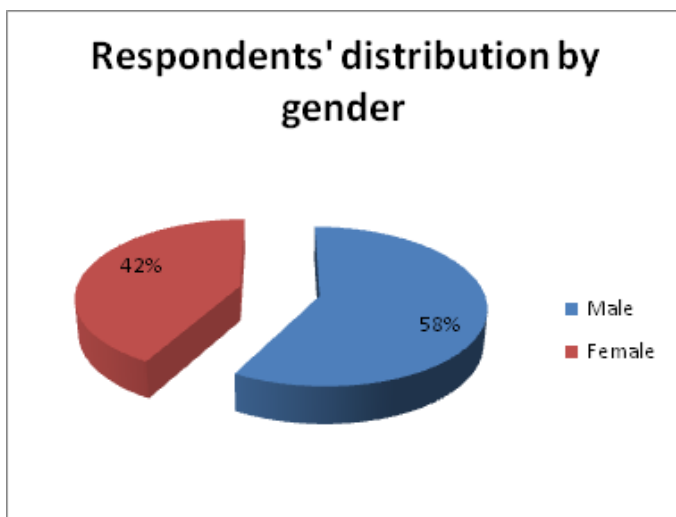

Figure 1. (a) Distribution of sex respondents.

Source: Field work, 2022.

Interestingly, gender bias in the SMEs sampled shows a high number of male entrepreneurs as opposed to females. According to Aterido et al (2013), this pattern is also confirmed by their studies done in other Sub-Saharan African countries as fewer women were able to access finance compared to their male counterparts. This question was used to sample the prevalence of women in business. Team (2014), says women entrepreneurs in Africa have historically had more limited business networks than men. Zewde & Associates (2002) posits that women were active participants in the MSME sector throughout the world, especially as those running informal enterprises. Their research has shown that women entrepreneurs faced socio-cultural, educational, and technical constraints or barriers to starting and growing their own enterprises. With regard to the respondents' age cohort distribution, the age cohort '30-39' relatively constituted the highest distribution at 29%, followed by the '40-49' at 27.5% while the '70 and above' constituted the lowest distribution at 1.4%.

Figure 2. (b) Marital status of respondents

Level of education	Frequency	Valid Percentage
Unmarried	25	50%
Married	25	50%
Total	50	100%

Source: Field results, 2022.

In the table above, 50 % of the respondents were unmarried and the other 50 % were married. Therefore, it can be said that marriage has both positive and negative effects on businesses. Businesses experienced growth when owners received moral support, made an independent decision regarding business activities and used family labour and household resources to support business operations. Businesses were affected when the business owner faced difficulty in balancing business-family responsibilities. Also, some forms of spousal and family support appear to hurt business growth.
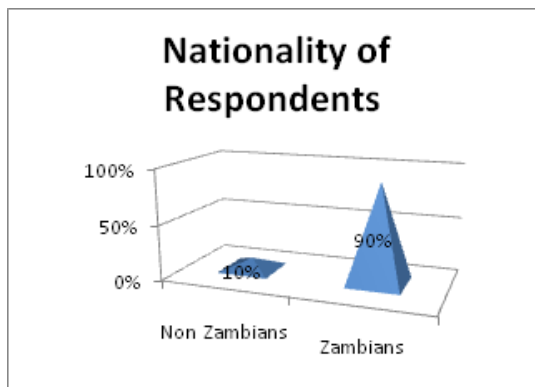

Figure 3. (c) Nationality of respondents

Source: Field results, 2022.

The majority of the respondents comprising of 90% were Zambians. 10 % of the respondents were non Zambia. Working with other countries opens the door for communication gaps. This could be due to a simple misunderstanding. On the other hand, the gap could be caused by lost in translation. In other words, language barriers or translation challenges that creates unwelcome errors.
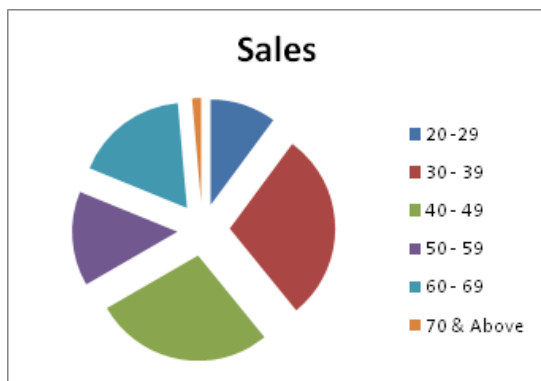

Figure 4. (d) Age of the respondents.

Source: Field results, 2022.

Out of the results of the study population, the age group 30-39 constituted a highest distribution, showing a desire for young people to undertake business ventures. These data signify SMEs willingness in this age range to be their own bosses while the age above 70 was the least. The age distribution shows a combined total of 56.5 percent of still young persons engaged in business activities in the Lusaka Central Business District. The lack of employment among the youth may have caused a big number to go into business ventures as can be seen from these statistcs. Participants in the study gave varied reasons for the non-sustainability of SMEs in Zambia. The reasons included the following: "Most empowerment programmes aimed at supporting SMEs through youths and women groups are mainly for political expedience and as loans/funds are given on political lines". As literature shows, even the government has been targeting youth economic empowerment. The young people of the ages 15-35 years constituted about one-third (36.7 percent) of the total population of Zambia (CS0, 2010). This segment of the population represents a significant proportion that requires well targeted development programmes and policy interventions. For this reason, the Zambian Government had given priority to youth issues as sustainable socio-economic development would only be realised if adequate investment was made in youth development. Hence, the development of the National Plan of Action for the 2015 National Youth Policy which provided a roadmap on how to meet the socio-economic needs of youth in general.

CHARACTERISTICS OF SME'S UNDER STUDY

All the respondents are SME?s located in Lusaka region of Zambia, which have working force between 8 and 53 employees with professionals in some managerial positions of the business. Out of the 50 respondents 60.3% have had their businesses registered as limited liability companies. The rest are registered as sole proprietorships, partnerships and family owned as showed in the table 4.1 below

Table 4.2 Frequency Distribution of Forms of Participants SME?s

Form	Frequency	Percent %
Private limited company	30	60%
Public limited company	0	0%
Partnership	5	10%
Sole proprietorship	10	20%
Family owned business	5	10%
Total	50	100%

Source: Field results, 2022.

As can be seen from table 4.2 above, the bulk of respondents SME?s is registered as private limited liability companies. They accounted for 30 out of 50 respondents, representing 60 %. None of the respondents were public limited liability company, 10 respondents, representing 20 % were sole proprietorship with 5 being partnership with a percentage of 10 % the remaining 10 % of the respondents SME?s were registered as family owned businesses. There SME?s surveyed cut across the various sector of the Zambian economy and also have an average monthly turnover ranging between as low as k10,000 to a maximum amount of k40,000 as shown from table 4.3 and 4.4 below.

THE CHALLENGES FACED BY SMES IN ACCESSING CAPITAL IN ZAMBIA'S MANUFACTURING SECTOR

SMEs known all over the world are faced with lots of challenges in their accessing capital and operations and these were not different from the responses received from the target respondents. SME?s operators who took part in the study were however asked to rank the major constraints they face in accessing capital and operating as well as growing their businesses. Lack or inadequate access to finance (bank loans) was

considered to be a major constraint as it recorded 79.3%. This means that among all the problems faced by SME?s in their operation ranging from capital, competition, high utility tariffs, infrastructure among others, the participant SMEs saw the lack of credit facilities as the major constraints.

The inability of SMEs in Zambia to readily have access to credit from the country's financial institutions (banks) can be attributed to a lot of factors. Schiffer and Weder (1991), attributed this factors to the perceived high risk nature of these SME?s small portfolios of these businesses and the high transaction cost that banks go through in performing credit appraisal on them before granting credit to these SMEs. Berger Udell (2006) in finding out factors contributing to the challenges in financing SMEs attributed some of the causes to the type of lending infrastructure of the nations. For them, it affects the feasibility and profitability of using the different lending technologies in SME financing. Before revealing what this study came out with, the study first tested the possibilities of these SMEs being denied credit from the country's banks. That can be referenced from the results in the table 4.5 below:

Table 4.5 the Total Number of Respondent SMEs granted or denied access to credit

Credit	Frequency	Percent%
Granted	10	20%
Denied	40	80%
Total	40	100%

Source: Field results, 2022.

The above table 4.5 shows a number of participant SMEs who in one way or the other has been granted or denied access to credit from the financial institutions. From the table above, 80 % of the total respondents say they have been denied access to credit, whilst 20 % of them responded to the same question. Out of the 50 respondents sampled, 60 % of the attributed their lack of access to the bank for loans or credit to their inability to provide the required security or collateral for the loans or credits being requested for and in situations where they are able to provide, it ends up to the inadequate, which accentuate the opinion of Binks el al 1992. For them. They attributed this factor to the inability of the SMEs to provide collateral and in some cases where they do, they are inadequate and also the SMEs asset backed collateral are usually rated at the caress value thereby making it difficult for these SMEs to get access to credit they want. The result collated from the survey in the 4.6 below shows the frequencies of various factors hindering SMEs in securing loans for their businesses.

RECAPITALIZATION OPTIONS AND STRATEGIES AVAILABLE FOR SMES IN ACCESSING CAPITAL IN ZAMBIA'S MANUFACTURING SECTOR

Distribution of Sources of Funds for Start-up Businesses

Sources	Frequency	Percentages(%)
Personal savings	10	20%
Bank Credit	6	12%
Friends and Relatives	30	60%
Others	4	8%
Total	50	100%

Source: Field results, 2022.

The above table shows the distribution of SMEs sources of funding in establishing their businesses. It is clear from the table that 60 % and 20 % of the funds are generated from relatives and friend and personal savings respectively with 12% of SMEs start-ups getting their finances from the banks. The reaming 8% get their funds from other sources. This makes it extremely difficult for the SME sector to pursue growth thereby hindering their growth just to stay afloat. In spite of these challenges there is a strong desire among these SMEs to pursue the agenda of growth.

CONCLUSIONS

In line with the objectives of the study, a number of conclusions can be drawn from this study. In the first place, the study purported to find out the challenges impacting recapitalization of Small and medium-sized enterprises (SMEs) in Zambia. The study used questionnaires to collect data. The findings of the study were that SMEs are suffered in start-up capital, business knowhow and cultural liabilities including religious factors. Access to finance plays a central role in development of enterprises, but this is only possible if it is accessible in reasonable conditions. SMEs are suffered from liquidity problems. They usually experience difficulties in accessing loans from the banking sector and other financial intermediaries to finance working capital and to provide credit for smooth business activities. Those difficulties Long Procedures, limited management, technical skills, lack of collateral, poor technology, and lack of credible financial accounts. In addition to that there are reasons that are external to SMEs these reasons include poor physical infrastructure and limited market (local and international). These reasons cause those SMEs to find difficulties in accessing finance based on internal and external factors. Operational stability and expansion in business requires external sources of finance by way of working capital to attend to intermittent cash flow deficits and investment capital to purchase fixed production assets to facilitate expansion. The survey observes that albeit the number of beneficiary SMEs being small, such financial assistance was more readily available, but most of the SMEs came to find to extremely high looking at the interest rates that the financial institutions were charging and thus making it hard for these SMEs to access the loan in order to expand or improve infrastructure state of the business. Stagnation in qualitative growth among micro enterprises against significant growth trends in population among the SMEs was as much a result of non-availability of such loans to this category. On the other hand, Small, Micro and Medium Enterprises (SMEs) are often called „the backbone of the economy?; these dynamic enterprises contribute to economic development in several ways: they have the ability to create economic opportunities through innovation, enhance productivity and social and productive networks; indeed, research has shown that countries which have high start-up rates of such enterprises benefit from higher economic growth. Globally, the SME sector generates substantial employment and economic output. Entrepreneurship has a critical role to play in sustainable development and poverty eradication. It has the potential to stimulate economic growth through job creation; help formalize businesses; create opportunities for and thereby empower disadvantaged groups such as youth and women; and strengthen local productive capacity by developing linkages with transnational corporations and thereby indirectly maximize the impact of foreign investment. It also has the potential to contribute to social development by promoting social and environmental entrepreneurship and gender equality. SMEs need support to overcome barriers to growth and entry, and at the same time the right incentives structures to encourage them to approach their business with a Triple Bottom Line (TBL) in mind. This involves mechanisms to stimulate and facilitate the emergence of enterprises that integrate social, economic and environmental benefits into their business model as part of the transition to the Green Economy.

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