International Journal of Business and Management Invention
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 4 Issue 8 || August. 2015 || PP-48-56

Micro Financing Of Small and Medium Enterprises (Smes) In Zambia

Prof. Alfred Nuwagaba, PhD
Designation: ***Deputy Vice Chancellor, Cavendish University Zambia***
Affiliation with full address, contact numbers & Pin Code:
Cavendish University Zambia
P.O. Box 34625, Lusaka, Zambia

ABSTRACT: *The government of the republic of Zambia realizes the importance of developing the private sector through promotion of small and medium enterprises (SMEs) in the country. It is also realized that, this may not be well achieved without adequate micro financing of these SMEs. This research was about micro financing in Zambia for small and medium enterprises (SMEs). Research objectives were to assess micro financing in Zambia and their and how they can help in the development of SMEs sector in the country. A test was done on two hypotheses i.e. H0 business shift from social factor to profit making by Micro finance institution has contributed to poor funding of SMEs in the country,H1micro financing is vital for the growth of SMEs sector in the country. The study was done on two MFIs namely, Christian enterprise trust of Zambia (CETZAM) and Genesis. Data was collected using interviews and review of secondary data. It covered period of three years i.e. 2012-2014. Correlation coefficients were used to test data. CETZAM was has a correlation coefficient of 0.854415, this reflects a strong relationship in a sense that with more micro funds available, then SMEs will get access, otherwise, SMEs will continue to face a drop in funding as shown with the 37.3 percent. This is a positive test on H1. It also proves that MFIs are not willing to take risks on providing loans to SMEs that may even be lacking collateral and once this is not done, then it hampers the development of the sector. This proves that H0 is correct considering data from the two micro finance institutions.*

KEY WORDS-*Micro finance institutions, correlation coefficient, small and medium enterprises, micro credits.*

I. INTRODUCTION AND BACKGROUND

Micro finance has for a long time been seen as powerful weapon for sustainable social economic development of economies. The granting micro loans at fair and affordable terms to alleviate financial constraints of the poor households have been recognized by the private sector and public sectors, researchers and other stakeholders (Cedric, 2012; Hugh, 2007). The microcredit market sub sector has grown overtime, and by the year 2010, MFIs were able to provide microloans to around 200 million clients and above and about 1 billion persons in developing countries have been able to better their lives due to the microloans. It should also be acknowledged that a lot of micro finance institutions have changed from the social service loans kind of loans delivery to business kind of approach where provision of loans depends on how much profit to be generated and this has been a trend of the past 10 years or so (Cedric, 2012). Though microfinance institutions seem to have taken the profit business approach model, they still receive a lot of borrowers who are even willing to pay higher interest rates that are market comparable and because of this you will find that some firms are credit constrained and others are not in different regions as shown in table 1 below. Bank of Zambia in the year 2012, implemented policy changes in the financial sector and one of them was interest caps on commercial banks at 9.75 percent and 42 percent for on micro finance institutions (Word Bank, 2013). It was observed that in the World Bank, 2013 report on Zambia that, by the end of year 2012, financial institutions were able to lend approximately USD 480 million to SMEs and only USD 20 million were unsecured and this implies that SMEs in the country would still face a challenge to acquire funding without the right loan security (World Bank, 2013; Feyen and Kibuuku, 2012). This research is vital for policy makers on the theme of micro financing for SMEs in the country. The micro small and medium enterprises sector in Zambia has been growing on a phased approach in a sense that, SMEs in the country have always existed in the informal sector and they have overtime been greatly contributing to the economic development of the country (UNDP, 2004). In the country they have been known to employ a large number of people and thus helping to provide income for the households as they are lifted out of poverty and the country continues to recognize that, a clear playing field is vital for the survival and operation of SMEs (UNDP, 2004 and 2006; Zambia development agency, 2015).

II. LITERATURE REVIEW

Development of sub-Saharan economies should depend on the investment in developing SMEs and this can be made possible with committed funding from traditional commercial banks and micro finance institutions. The financial education given to investors in small startups is very crucial (Olalekan and, Oluwaseun, 2010; Areola, 2007). This was confirmed in their study in Nigeria where about 57.5 percent of the aged 47 had some sort of secondary education and this helped them to utilize well the funds received from micro finance institutions. Micro financing is affordable for small holds and it is what can make families and small institutions make ends meet as for instance this was manifested in a study in Ghana on funding of SMEs, though it is asserted that education must be akey factor to the beneficiaries of micro financing by (Gabriel Brafu-Insaidoo and Ahiakpor, 2011; Bank of Ghana, 2007). Zambia is experiencing rapid economic transformation and for this to be sustained the micro financing needs to reach the small investors in all parts of the country and it seems to be getting there as per the policy of the sitting government where it has seen a number of MFIs set up by the public and private sectors for this effect (Bank of Zambia, 2014). According to BOZ, 2104, there are currently 33 MFIs all engaged in Micro financing and they are all registered in Lusaka and their main purpose is financing of SMEs. It is clear research has been done by quite a number of researchers and its virtue has been identified. However, it is vital to research on how micro financing has really impacted on the economies like Zambia and hence the justification for this research. Micro finance institutions are now faced with competition where by its traditional market has now been a target of traditional commercial banks and for that they have to find ways to stay in the market by ensuring most importantly that their customer does not suffer huge costs of financing as was the case in Togo (Kanyurhi, 2013; Bashir et al., 2012; Brafu-Insaidoo and Ahiakpor, 2011). Micro financing plays a pivotal role in poverty reduction in communities and so they should be embraced and this also to say banks need to come up with enabling policy to allow them thrive in society and make them tailor made to beneficiaries demand as done in Nigeria and some other developing countries (Akangbe, Adeola and Ajayi, 2012; UNDP, 2008; Lindsay, 2010). Geographical distribution of MFIs for the purpose of accessibility by the majority rural cannot be underestimated as this will make them economically active and thus contribute to national building of the economy. Micro financing of SMEs needs to be made attractive and appealing to the beneficiaries. This means that MFIs needs to develop cost effective products for the beneficiaries and they also need to use IT and develop e-banking products that can be accessed by for example the rural duels through say mobile phones.

Economies needed to emphasize the development of SMEs as they provide employment and generation of incomes in an economy (Bid Network, 2008). Finance is the life blood of any business and so SMEs cannot be set up if there is lack of finance which the financial institutions and governments can provide at cost or no cost. It is vital to understand that 70 percent of SMEs fail because of poor capital funding in the first two years (Finweek, 2008). Economies like China have been able to grow at a fast pace because of the growth in SMEs and this is a trend developing economies like Zambia should emulate (Li Xue, 2011). The stability and growth of SMEs is vital but it can only materialize if the public sector gives support to these SMEs and some financial institutions may be reserved to provide credit to these institutions due to lack of security and unpredictability of cash flows and this is what has been done for some of the developed economies like United Kingdom (So-Jin Yoo, 2012). This research would be vital in understanding the mechanics of micro financing for SMEs in Zambia and what needs to be done by the government and other stakeholders to ensure their prevalence in the country with cognizance of their importance in accelerating economic development (BOZ, 2014).

The development of many economies in Africa is being aided by the presence of SMEs as they for instance create jobs for the people and payment of taxes among other responsibilities (Africa Business, 2013). Development of SMEs may not be possible if they is inadequate funding for the entrepreneurs and this means, there is need for a concerted effort by both private funding agencies and the government to provide enabling means for access to funding for SMEs (Lisa, 2013). Most of the sub-Saharan African economies lack access to adequate funding for business startups as commercial institutions shy away and yet they are the engine economic development and what is needed is the goodwill of the stakeholders if SMEs problem of funding is to be solved in LDCs (James et all, 2013). This study is intended to assess the state of SMEs in Zambia and specifically look at micro lending and look at the impact that they can generate for the economy. According to a MOF (2002) report on SMEs in Zambia, it was discovered that, their development was slowed down by in adequate financing and yet they are the backbone of Zambia's economy. It envisaged that, the findings would aid policy and decision making on SMEs in the country and the region. Once this is achieved, then, a contribution of knowledge would have been done on what MFIs have done to make micro financing readily available for SMEs to thrive in the country.

Small and medium enterprises (SMEs) are a tested tool in improving economic development of a country. Economies like Pakistan have done well because of SMEs totaling to more than 3.2 million and are a source of employment for more than 78 percent of the population and their contribution to GDP is 30 percent (Hussain, Farook&Akhtar, 2012). For the case of Napal, 98 percent of the enterprises are SMEs contributing significantly to country's GDP, in Bangladesh, SMEs employ up to 82 percent of the population and generally Asia is developing quite steadily due to the contribution of SMEs (Hussain, Farook&Akhtar, 2012). Countries continue to realize the pace of development will largely be dependent of the development of SMEs; however, they continue to face a lot of funding challenges and in some cases governments have not done enough to address the challenge leading to some SMEs not surviving in the market (Asian SME summit, 2009; Economic Survey of Pakistan, 2008-2009). Quite a number of studies by different scholars have revealed that shortage of financing of SMEs in developing countries is a major obstacle in the success of SMEs and thus a potential for the SMEs in economic development have not been fully realized and what this mean is that credit flow is a problem to over 98 percent SMEs (Ayyagari et al., 2006; Beck et al., 2006; Tambunan, 2008; Zia, 2008). African Blocs should strive hard to ensure that development of SMEs in Africa becomes a top agenda item for all its gatherings and to ensure that all the problems faced by SMEs are addressed as this is a sure way to accelerate economic development thus proving employment for the people, increase revenue generation, increased effective demand among other advantages for the states and the people.

In Sub Saharan African and most Asian economies, there are few specialized financial institutions willing to advance loans and other forms of financial assistance to SMEs as in most cases they are considered too risky. There are differing levels of SMEs financial applications to financial institutions in different countries for example in China, 12 percent of SMEs financing is from financial institutions, it is 21 percent in Malaysia, while in Indonesia, it is 24 percent and this would be the same scenario for Sub Saharan African economies (Lin, 2007). SMEs in developing countries are faced with poorly trained workforce and low technological engagements and this in most cases hampers output. Their success should depend as well how well trained the workforce is and their commitment and skill on the job (Batra and Tan, 2003; Lee, 2001). The engagement of Information technology in development of SMEs is a formidable step in ensuring systems efficiency that leads to increased productivity, but unfortunately there is low usage of Information technology in production processes in most Sub Saharan countries and this leads to low productivity and some inefficiencies (Morse et al, 2007; Sikka, 1999; Lucas, 1993). Technology innovations go a long way in ensuring that competences in SMEs are developed and this helps ensuring competitive advantage of individual SMEs and eventually that of a country (Hussain, Farook&Akhtar, 2012; Morse et al, 2007). There is a real need to understand what can really be done to ensure a fluid development of SMEs in Sub Saharan Africa and how technology can be harnessed to improve productivity of SMEs. Governments in the developing economies seem to appreciate the role of SMEs in economic development but they have not done a great deal to ensure they are adequately facilitated and this leads to frustration of entrepreneurs that may be willing to venture in different SMEs. The research findings will advise policy makers on what needs to be done to ensure SMEs become a success in Zambia and indeed all developing countries. The continued funding issues of SMEs call for some research on funding innovations like use of public private partnership where governments work with private businesses. The government for example can provide funding in form of infrastructure and the private partner provides startup capital. This funding approach however is not well developed in SMEs, but it is an area that can be explored (Bovis, 2010; Bult and Dewulf, 2007).

III. IMPORTANCE OF THIS RESEARCH

There are 40 MFIs registered by Bank of Zambia (BOZ, 2015) and 30 of these micro finance institutions in Zambia that lend mostly for development programs and because of the interest rates Caps, a lot of Micro finance institutions and formal commercial banks found it had and stopped lending to small and medium enterprises (SMEs) due to high interest rates that are above the central bank's ceiling rates (Word Bank, 2013). The majority have instead to providing salary loans instead of micro loans to SMEs (BOZ, 2015). Due to the financial crisis that affected businesses around in 2007, there was experiences of heavy delinquencies at looking at global MFIs portfolios risks at 30, in 2007, about 3 percent of borrowers were not able to pay back loans monthly on time and in 2009, it was 5 percent and this sector during this period performed very poorly (Cedric, 2012; CGAP, 2003). This trend affected badly the MFIs asset bases and profit levels and which could have likely forced many of them into financial distress. It is also alleged that poor performance of MFIs could be attributed to growth of the market and the nature of MFIs clients and the criteria that MFIs used in lending to businesses and households. It was vital to do this research to understand the contribution and impact that micro finance institutions have had on the Zambian economy. There seems to be quite a huge number of MFIs in Zambia, but research on the kind of lending they offer to the market was crucial given the government favorable operating environment, that is meant to easy their way of doing business of providing microcredits to the small borrowers.

IV. STATEMENT OF THE PROBLEM

Micro finance is meant for the micro enterprises or investors with small startups who may need capital for capital investments and or operational expenses to keep the business afloat (Trant, 2010; AFDB and OECD, 2005). The micro finance sector is meant to serve the population that are not regularly served by the traditional commercial institutions or banks and the idea is to provide small loans to the poor or less income earners to start small and medium firms that will help them improve their social and economic standing in society (van Maanen, Oikocredit, 2004; Kendall et al., 2010). This research was about micro financing and how this would help in advancing the growth of SMEs in Zambia both socially and economically and ultimately the advancement of the wellbeing of the poor or less income privileged. Whereas the micro financing is meant for the less privileged in society, it seems like the would be qualifying applicant i.e. the poor people seem not to be enjoying the facility as probably they are not meeting the requirements of the micro finance institutions for example they may be lacking security for the micro loans, the loans could be expensive in terms of interest rates, lack of credit history by applicants, poor enabling SMEs legislation, etc. These are issues that cannot be ignored especially that micro financing provides engine capital for SMEs to start and such startups ignite the economic development of an economy as they contribute to a country's gross domestic product, employment etc. (Lyman, 2011; Kendall, 2010). These cases might not be only unique to Zambia, as they could also be causes of concern in other sub Saharan African economies. Whereas the literature has highlighted studies on micro financing in different countries and the gaps therein, this research findings are concentrated from the Zambian micro financing perspective.

4.1 Research objectives

1. Assess micro financing in Zambia
2. Role of micro financing in SMEs development

4.2 Research hypotheses

H0 Business shift from social factor to profit making by MFIs has contributedto poor funding of SMEs in the country

H1 Micro financing is vital for the growth of the SMEs sector in Zambia.

V. RESEARCH METHODOLOGY

The study methodology was crafted in way that would ensure reliable information is gathered based on the researcher's hypotheses and study objectives. Quantitative and qualitative approaches were adopted for this study. As argued by McMillan and Schumacher (1993), triangulation is very effective in finding reliable findings about the study problems. This research is about micro financing of small and medium enterprises by micro finance institutions in Zambia. Though in the literature review, there is a lot of reference to regional experiences, global experiences and some Zambian experiences, this research looked at micro financing for SMEs for the last 3 yearsie 2012 to 2014. Data was collected using interviews, observation and review of secondary data in the organizations published reports. The trend here should be able to provide the researcher with enough data and information to make informed conclusions about the study hypotheses. The MFIs considered for this research were two namely Genesis financial services Ltd, and Christian enterprise trust of Zambia (CETZAM) financial services. They were chosen because they are among the few that offer micro financing activities for the SMEs in Zambia.A purposive sampling was adopted for this research. A survey approach was adopted. The majority of the MFIs in the country do offer salary loans instead of micro financing for SMEs (BOZ, 2015). The period under consideration was for 2012-2014.The period was considered appropriate to provide generalized findings, three years bundle of data is considered reliable to give a clear standing of the MFIs performance in the country. Top executives of the two firms were the ones interviewed during this research.

This research has adopted both a qualitative and quantitative research method approaches and data that has been used is both primary and secondary data. Data was collected from micro finance institutions in the country that specialize in micro loans to SMEs and these MFIs are Genesis and Christian enterprise trust of Zambia (CETZAM).A quantitative and qualitative (Triangulation) approaches were adopted due to the massive data involved that helped in the analyzing and answering of the research hypotheses. It was vital to observe and ascertain the level of dependence or independence of the variables and for this reason, a correlation analysis (coefficient correlation technique) was used for these test in the data analysis. With the use of this approach, a + 1 reflects a strong relationship between the variables, and -1 reflects a weak relationship between the variables.

VI. RESULTS AND DISCUSSION

Zambia overtime has seen an increase in the number of registered micro finance institutions since the 1990s. As of 2015, there are over 40 MFIs licensed by the Bank of Zambia, the majority of them, estimated to be about 30 are only providing salary based loans.This means the majority are not providing pure micro finance services meant to reach financially underprivileged communities to help them improve their social and economic livelihoods. Only 10 do provide pure micro finance services that targets SMEs. Christian enterprise trust of Zambia (CETZAM) was established in 1995 as a microfinance institution (MFI) with the aim of providing financial services to poor and low income communities. It commenced its operations in Kitwe initially focusing on the Copperbelt region of Zambia, though its focus was national. In line with its national focus CETZAM moved its head office to Lusaka in 2003. CETZAM was set up with funding from the British Government through the Department for International Development (DFID). Following microfinance regulations that came into force in 2008, CETZAM restructured its ownership structure with the result that 14 Zambians became shareholders of the institution. The company is a public limited company (Plc) and it transformed into a deposit taking microfinance institution in the year 2001 (BOZ, 2015).

Christian enterprise trust of Zambia (CETZAM) provides credit and savings services and products ieCredit or loans in form of; Group loans which are categorized as follows; Trust bank group loans trust bank loans given as small loans targeting people with little or no asset base. Solidarity group loans which are dissected into two types i.e.there are those who graduate from trust bank loans to solidarity group loans and those who join solidarity groups directly. The institution also provides Individual loans which are usually targeted to graduates from lower ranks. However, there are also those who join directly as individual clients as they have assets that would qualify for collateral to be able to access the credit facility. Individual loan clients over time are segregated further with some being categorizedas small and medium enterprise (SME) loan clients and such businesses may be required by the Christian enterprise trust of Zambia (CETZAM) to produce management accounts before they can access loan funding for their businesses. The differentiation comes in to separate those with formal businesses some of which are registered as companies as opposed to the typical individual clients who remain informal with no clear separation between their business and themselves as individuals.

The institution operates different Savings accounts products targeting different kinds of its clientele i.e.Tusunge savings account which applies to all clients and is mainly a transaction account. The savings are not a long term and clients have ready access to their accounts that is commonly used by trust bank clients.Chitukuko savings account which targeting solidarity group and individual clients and to some extent SME clients. This is a fixed term product that has restrictions on withdrawals. Fixed term product that targetsindividual and SME clients, it is a fixed term product with a longer term designed for large deposits. The company also offers Insurance credit life insurance and funeral benefits insurance. The company provides a lot of micro finance loans and as at June 2015, CETZAM's latest portfolio data was as follows:Microfinance loans amounting USD 1,918,414.965 representing a total of 6,847 loans, and SME loans of USD 161,417.3499 representing a total of 26 loans. This is just 8.4141percent.This is a small portion of micro loans meant for the SMEs sector. The sector may not easily grow if the micro finance institutions do not increase the amounts lent to SMEs and then MFIs can intensify their collection efforts to ensure other borrowers benefit from the loan schemes. Below is a table showing portfolio data for three years from 2012 to 2014. When comparing the gross loan portfolio against the SMEs that receive funding from this microfinance institution, the correlation analysis reflected from data analysis is -0.5529, this is a weak relationship. This could also mean that, it is not necessarily true that as the number of SMEs borrowers grow, and so are associated amounts. The focus of the company could have changed to profit motive instead of social economic factor aimed at improving the welfare of the poor people through growing of the SMEs sub sector.

Table 1:CETZAM Selected portfolio data over 3 years

Narration	**2012**	**2013**	**2014**
No. of active borrowers	10,452	9,364	7,032
Microfinance	10,434	9,352	7,002
SMEs	18	12	25
Gross loan portfolio	$ 3,110,470.027	$2,549,062.113	$1,951,809.847
% women	52.6%	50.30%	49.70%
Portfolio at Risk 30 days	15.09%	13.05%	4.98%
Total savings	$116,970.0718	$96,421.36673	$189,907.4228

Source: Author, 2015

In terms of gender representation the loan portfolio is almost divided equal between men and women during the period 2012 to 2014. From the analysis, it can be observed that over the years, the gross loan portfolio has been reducing since 2012 where the amount was initially USD 3,110,470.027, then it went to $2,549,062.113 in 2013 which reflects an 18 percent drop in gross loan portfolio for SMEs, and in it further reduced to $1,951,809.847 in 2014 and the SME lending was 18 borrowers, then reduced to 12 and then the number went up to 25 in 2014, reflecting an increase by 39 percent but with 37.3 fall in the gross loan portfolio which went to $1,951,809.847. This is a reflection of the reverse correlation where as one variable went up, the corresponding variable went down instead. This leads to a situation of pull and push factor which would not help in attaining the desired results in this case. This is a 37.3 percent drop in the funds lent to SMEs. Upward trend in the amounts loaned to SMEs would be the preferred trend as opposed to the reverse. As more SMEs spring, so is the better for the country in terms of impacting on the economic conditions of the entrepreneurs and the citizenry. This proves H0 that MFIs do not want to take huge risks of providing loans to SMEs that may not be having the credit history to support their credit loan application.

Genesis was established in 2009 as a microfinance institution (MFI) with the aim of providing financial services to SMEs, individuals with money to invest, and people in need of personal loans. It commenced its operations in Lusaka and is still based in Zambia’s capital. The company was established as a for profit organization providing financial services on the basis of viable proposals. Genesis is a limited liability company with shareholders. Genesis provides loans and deposits to the public. The institution provides loans under different classifications ie Order finance to existing SMEs doing a variety of businesses and provided against a confirmed order from reputable buyers or off-takers, Working capital to existing SMEs and as in order finance above, also preferably provided against confirmed orders. Salary based loans to individual working in government and organizations with which agreements have been entered into to recover loans at source through payroll. The financial institution also takes deposits or savings known also as fixed term deposits which are usually investments of a short term nature.As at June 2015, Genesis’ latest portfolio data was as follows: SME loans amounting USD 1,393,144.693 representing a total of 43 loans.

Table 2 showing portfolio data for three years from 2012 to 2014.

Narration	**2012**	**2013**	**2014**
No. of active clients	154	149	140
No. of active borrowers	73	66	60
Microfinance	N/A	N/A	N/A
SME	73	66	60
Gross loan portfolio	$1,393,144.693	$1,374,432.486	$633,952.1302
% women	3.0%	3.0%	3.0%
Portfolio at Risk 30 days	3.0%	21.0%	50.0%
Total savings	$1,473,667.13	$2,125,406.205	$1,678,056.898

Source: Author, 2015

Genesis was established to be a provider of finance to SMEs because SMEs were having difficulties to access finance from banks. Some of the reasons why SMEs could not access funds from banks were the requirement of too much documentation which SMEs would be unable to provide, and the requirement of collateral. As for Genesis all that they require from their applicants is a business plan demonstrating profitability and the capacity of an enterprise to repay. Genesis targets SMEs but excludes micro businesses. Owners also have to provide proof that they have been in business for some time. Genesis targets SMEs in almost any type of business as long it is not illegal. Only 6 percent of the loan portfolio is in personal loans, the rest is in SME loans.Genesis would like to grow its SME clients to a level where the clients outgrow its lending capacity and move on to banks. Genesis is interested in an SME sector that supplies the institution with a customer base that helps it to grow. The institution’s long term aim is to transform into a larger financial institution like a merchant bank.Genesis targets SMEs and offers them solutions in a relationship model. In future Genesis would like to collaborate with business development service (BDS) providers like Zambia Chamber of Small and Medium Business Associations (ZCSMBA). Such a model would help Genesis to identify SME prospects.

Analysis of table 2 above shows that Genesis MFI has had the gross loan portfolio falling drastically from $1,393,144.693 in 2012 to $633,952.1302 in 2014 and the SME has also dropped from 73 to 60 for the years 2012 to 2014 respectively which reflects an 18 percent in borrowers and 54.49488 percent in loans to

SMEs. Whereas it is highly recognized that the development of an economy heavily depends on SMEs, this cannot be achieved if they are starved of adequate financing in form of seed capital for startup and growth financing for the existing SMEs. The gives clear results on H1of the current SMEs micro financing in the country which has dropped by 54.49488 percent as of 2014 in case of Genesis MFI. Without the government putting in place measures to avert the trend, the country would most likely face stagnated growth of the small and medium enterprises (SMEs) sector that are considered as bedrock for the development of any economy in terms of providing employment, taxes, etc. in the country. This microfinance firm has a correlation coefficient of 0.854415 and this shows a strong relationship between the variables ie between number of SMEs and loan portfolio. It is clear from table 2 that in the year 2014, when there are 60 SMEs borrowers, the amounts involved is $633,952.1302 as opposed to 2012, where the loan portfolio is $1,393,144.693 and SMEs clients are 73. This shows that it is vital to increase micro financing if you are to increase the number of SMEs in an economy and this will have a reap on effect on a countries social and economic development while contributing to the GDP of a country.

Genesis views that there is competition in the market for SME loans from banks and other new institutions entering the market. A major challenge mentioned by Genesis was the perceived lack of cooperation from big buyers or off-takers who are customers to SMEs. These would be businesses like the mines and other large businesses operating in the country. The problem is that in the past Genesis has had an agreement with such organizations dealing with SME suppliers whereby Genesis funds the SMEs to meet orders by off-takers and through agreement the off-takers pay Genesis its payment from what is due to the SME. Genesis expressed that arrangements such as these have in the past made it possible for some of its SME clients grow their businesses extensively to the extent that they moved on to becoming bank clients. Unfortunately, for Genesis such arrangements tend to change whenever there management changes in the large organizations. As for CETZAM sees immense opportunities for microfinance in the market and is not worried by competition as it is still quite low. In the microfinance and SME finance market segment competition is low as there are fewer service providers.CETZAM is of the view that the policy to cap interest rates introduced in January 2013 has negatively impacted the operations of the company as it restricts the pricing of loans provided to clients. The impact of the interest rate cap on the company’s operations has been so serious that the company has since the introduction of the cap been loss making. The situation has resulted in the institution failing to expand its branch outreach and client base due to limited funding. Even external investors that had shown interest to invest in the institution were now holding back.

VII. CONCLUSION AND RECOMMENDATIONS

Microfinance emerged in Zambia in the mid-1990s. Most micro finance institutions in the sector are young and evolving with the industry having a lot of potential to even perform better and contribute positively to the country’s economic growth. These institutions do provide financial services primarily to small or micro enterprises or low income customers and includes the following and they specifically provide credit facilities usually characterized by frequent repayments, and the acceptance of remittances and any other services that the Bank of Zambia may designate. The micro finance institutions do face some concerns for example Genesis is not happy with the existing interest rate cap policy. According to Genesis some MFIs have reduced their lending activities due to liquidity challenges. The number of nonperforming loans is on the rise and shareholders are reluctant to invest more money into the business. This is where the regulator and the government need to set policies like market driven rates that would encourage MFIs to lend to the SME sub sector. Clearly, the MFIs face financing costs in Zambia that are high making access to capital a problem. SMEs are not able to borrow freely since they would find it a problem to repay back the loans. Also because the MFIs will lack effective demand from the SMEs borrowers, then they would be faced out of business, or they will revert to a profit policy by lending to borrowers with the capacity to produce security for the loans thus reducing the risk of defaults on repayments. This is where the government of Zambia should consider sub subsidized micro loans which should be administered through micro finance institutions with full micro finance insurance schemes for such loans to specific sectors that are vital for the economy like in Agriculture, mining, tourism etc. such initiatives will encourage players in the MFI and SMEs sector to perform favorably and thus encourage development of the economy. Other issues, are treasury bills are also becoming very attractive to banks as opposed to lending to MFIs given the high risk of default and borrowing offshore is also difficult in the current unstable foreign exchange environment too. These are issues that can be dealt with provided the government of Zambia provides an enabling legal framework. Stabilizing the economy is vital for this to be achieved ie stable exchange rates, interest rate among other factor. Such macro factors can favorably be dealt with by the state and businesses can deal with the micro factors.

VIII. ACKNOWLEDGEMENT

I thank the management of CETZAM and Genesis micro finance institutions for their effort and assistance during the data collection. Their efforts are highly appreciated. Let me thank everyone that has helped to make this research a success ie Cavendish University for the financial and other logistical support during this research.

REFERENCES

[1] ADB. (2000). finance for the poor: microfinance development strategy. Bangkok: Asian development bank.
[2] AFDB and OECD (2005) African economic outlook 2005: financing SME development in Africa. DevelopmentCentre and African development bank, OECD, Paris
[3] African Business (2012) Case Studies, (388), pp. 68-69. (Online). Available from: http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=18&sid=312b1f1f-47d0-42e4-a493-0a6f7e9991c4%40sessionmgr4001&hid=4107 (Accessed April 2015)
[4] African Business (2013) African innovators can lead the world. (Cover story), (396), pp.23-25.(Online). Available from: http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=13&sid=312b1f1f-47d0-42e4-a493-0a6f7e9991c4%40sessionmgr4001&hid=4107 (Accessed June 2015).
[5] Akangbe H. O., Olajide O. A., and Ajayi A. O (2012), the effectiveness of microfinance banks in reducing the poverty of men and women at Akinyele Local Government, Oyo State Nigeria, Journal of Development and Agricultural Economics 4(5), pp. 132-140, (Online). Available from: http://www.academicjournals.org/JDAE (Accessed May 2015)
[6] Asian SME summit (2009) public private partnership in SME development through capacity building, policy & research, available. (Online). Available from: www.philippinechamber.com /index.php?option=com (Accessed June 2015)
[7] Ayyagari, M., Aslı, D., Vojislav, M., (2006) how important are financing constraints? The role of finance in the business environment.World Bank policy research.Working paper. 3820.
[8] Bank of Ghana (2007). "A note on microfinance in Ghana." working paper series. Research department, bank of Ghana, Accra.
[9] Bank of Zambia (2014) registered non-bank financial institutions, micro finance institutions, (online). Available from: http://www.boz.zm/%28s%28nissya45a4cqdo55qyedz245%29%29/nonbanks.aspx (accessed October 2014).
[10] Bank of Zambia, (2014). Draft microfinance services bill, 2014.
[11] Bashir, M., Machali, M., Mwinyi, A (2012). The effect of service quality and government role on customer satisfaction: empirical evidence of microfinance in Kenya Mohammad Sharif, international journal of business and social sciences. 3(14) pp. 312-319.
[12] Batra, G, Tan, H (2003). SME technical efficiency and its correlates: cross-national evidence and policy implications. World Bank institute working paper. (Online) available from: info.worldbank.org/etools/docs/.../ses3.1_smetechefficiency.pdf. (Accessed June 2015)
[13] Beck, T., Demirgüç-kunt, A., leaven, I, and Maksimovic, V., (2006) "The determinants of financing obstacles", journal of international money and finance, 25, pp. 932–952
[14] Bovis, C,H (2010). The state, competition and public services.in: Birkinshaw, P.J., Varney, M. (eds.): the European union legal order after Lisbon. Kluwer, Dordrecht.
[15] Brafu-insaidoo W,G., Ahiakpor, F (2011). Understanding the marketing strategies of microfinance institutions within the Accra metropolis of Ghana: case of selected institutions, Afr. j. market. Manage. 3(2):45-55.
[16] Bult –Spiering, M., Dewulf, G. (2007). Strategic issues in public-private partnerships: an international perspective. Wiley-Blackwell, New York.
[17] Cedric, L, H. (2012) microfinance in evolution an industry between crisis and advancement, deutsche bank, ag, DB, Frankfurt, (online) www.dbresearch.com (accessed may 2015).
[18] CGAP (2003) microfinance consensus guidelines; Washington DC, world bank
[19] Economic survey of Pakistan (2008-2009). (Online). Available from: www.propakistan.com/.../ download-economic-survey-of-Pakistan (Accessed March 2015).
[20] Feyen, E and Katie, K (2012). "Fin-stats 2012: a ready-to-use tool to benchmark financial sectors across countries and time." World Bank, Washington, DC.
[21] Finweek (2008) Not only one option, Special section, pp.7-8. (Online). Available from: http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=29&sid=312b1f1f-47d0-42e4-a493-0a6f7e9991c4%40sessionmgr4001&hid=4107 (Accessed May 2015)
[22] Hugh, A (2007). Finance begins with savings, not loans. In: ditcher, Thomas and Malcolm harper (eds.), what's wrong with microfinance? practical action publishing. Warwickshire.
[23] Hussain, I., Farooq, Z., and Akhtar, W (2012) SMEs development and failure avoidance in developing countries through public private partnership, African journal of business management, 6 (4), pp. 1581-1589
[24] Kendall J. and, Mylenko N, Ponce, A (2010 measuring financial access around the world, Washington: World Bank
[25] Lee, J (2001). Education for technology readiness: prospects for developing countries. J. hums. dev., 2(1) pp.115–151.
[26] Li Xue, C (2011) SMEs as motor of growth: A review of China's SMEs development in thirty years (1978-2008), Human Systems Management, 30 (1/2), pp.39-54.
[27] Lin Y, F (2007). Developing small and medium bank to improve financial structure, working paper, china center for economic research, Peking University (in Chinese).
[28] Linday, J. (2010). Microfinance: developing paths to self –sufficiency. An evaluation on the effectiveness of microfinance institutions.Spea thesis.
[29] Lucas, R (1993). Making of a miracle. Econometrics, 61 pp. 251-272.
[30] Lyman T., Lythgoe T., Miller M., Reille X., Sankaranarayan S (2011) credit reporting at the base of the pyramid: key issues and success factors. Washington: CGAP and IFC
[31] McMillan, J. H. & Schumacher, S. (1993). Research in education: A conceptual understanding. New York: HarperCollins.
[32] McNulty, J; Murdock, M; Richie, N (2013) Are commercial bank lending propensities useful in understanding small firm finance? Journal of Economics & Finance, 37 (4), pp. 511-527. (Online). Available from: http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=33&sid=312b1f1f-47d0-42e4-a493-0a6f7e9991c4%40sessionmgr4001&hid=4107 (Accessed June 2015)

[33] Microfinance information exchange (mix), CGAP (2011) consultative group to assist the poor; mix microfinance world: sub-Saharan Africa microfinance analysis and benchmarking report 2010; mix, Washington, D.C.
[34] MOF (2002) 'Zambia poverty reduction strategy paper 2002 – 2004'. Government of the republic of Zambia.
[35] Morse E, A., Fowler SW, Lawrence T, B. (2007). The impact of virtual embeddedness on new venture survival: overcoming the liabilities of newness. entrep. Theory pract., 1: 139-159.
[36] Sikka, P (1999). Technological innovations by SME are in India. techno., 19: 317–321.
[37] Simanowitz, A. (2004). issues in designing effective microfinance impact assessment system. Imp-act working paper 8, brighton: ids.
[38] Tambunan, T (2008). SME development, economic growth, and Government intervention in a developing country: the Indonesian Story. j. int. entrep., 6: 147–167.
[39] Taylor, R (1990) interpretation of the correlation coefficient: a basic review; JDMS 1:35-39
[40] Trant J (2010) microfinance: investing with an impact. New York: international association of microfinance investors.
[41] Tshuma, M.C and Jari, B. (2013) the informal sector as a source of household income: the case of Alice town in the eastern cape province of south Africa, 5 (8). (Online). Available from: http://www.academicjournlas.org/jasd (Accessed May 2015)
[42] UNDP (2006) "global partnership for development" UNDP annual report
[43] UNDP (2008). Report on human poverty indication for selected countries. Period. 1: 2.
[44] UNDP. (2012). human development report. New york: un.
[45] United Nations, (2008). Millennium development goals report (Online). Available from: http://www.un.org/millenniumgoals/pdf/sub-saharan%20africa.pdf (accessed April 2015).
[46] Van gool, J., Verbeke, W., Sercu, P., Baesens, B. (2012) credit scoring for microfinance: is it worth it? international journal of finance 17 (2), pp. 103- 123.
[47] Van gool, J., Verbeke, W., Sercu, P., Baesens, B. (2012) credit scoring for microfinance: is it worth it? international journal of finance 17 (2), pp. 103- 123.
[48] Van Maanen G (2004) microcredit: sound business or development instrument? voorburg: oikocredit.
[49] Van maanen, G. (2004). Microcredit: sound business or development instrument? hoevelaken: sgouitgeverij.
[50] Wagner, CH., Winkler, A. (2013), the vulnerability of microfinance to financial turmoil – evidence from the global financial crisis, world development, 51, pp. 71-90.
[51] World bank & DFID (2010). microfinance capacity building facility for sub-Saharan Africa (micfac): a regional approach to expanding access to finance for the poor (Online) . Available from; <http://www.slideshare.net/dfid/what-is-micfac-5392255> (accessed June, 2015).
[52] World bank (2004) Zambia country economic memorandum: policies forWorld Bank (2006) World development indicator database. (online). Available from http://worldbank.org/wbsite/external/datastatistics (accessed: may, 2015).
[53] World Bank (2013) Zambia's job challenges, realities on the ground, Zambia economic brief, the international bank for reconstruction and development
[54] World Bank (2013), Zambia economic brief, Zambia job challenges, the realities on ground, the international bank for reconstruction and development/the world bank
[55] Yoo, S; Mackenzie, N, G.; Jones-Evans, D (2012) public sector support and technology-based SMEs in peripheral areas - the case of north wales, Journal of Enterprising Culture, 20 (1), pp.83-104. (Online). Available from: http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=23&sid=312b1f1f-47d0-42e4-a493-0a6f7e9991c4%40sessionmgr4001&hid=4107 (Accessed June 2015)
[56] Zia, B (2008). Export incentives, financial constraints, and the (MIS) allocation of credit: micro-level evidence from subsidized export loans. J. finance. econ., 87: 498–527.