



Challenges and prospects faced by small medium enterprises (SMES) in terms of growth and development (case study of Lilongwe district, Malawi)

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ABSTRACT

This study examined challenges and prospects which sellers and distributors of SMEs sampled from the City of Lilongwe face in growth and development and accessing credit from financial institutions. The study aimed to attain three objectives, namely: To assess the nature of the SMEs in which the sellers and distributors belonged, identify the challenges faced in accessing financial credit and lastly to identify the strategies used in accessing financial credit from growth and development, financial institutions. Both purposive and random sampling techniques were used to obtain 110 respondents from SMEs. The instruments of data collection were questionnaires and checklists. The findings from the study indicated a 50% of the SMEs in Lilongwe had registered as the Family Owned Businesses. Moreover, the retail traders were many (constituting 62%) of the SMEs studied. Data revealed that 70% of the total respondents faced the challenge of lack of collateral/security. Moreover, the SMEs operating in Lilongwe City are skewed more towards the internal sources of funding.

I. INTRODUCTION AND BACKGROUND

1.1 Introduction

SMEs in Malawi are businesses that can be defined by the number of employees employed in an organization just as the International Labor Organization has researched. These SMEs spreading across all industries of the Malawian economy and offering one of the most efficient sources of jobs, revenue generation and poverty reduction (Ministry of Labor and Human Resource Development, Malawi Government 2004).

Entrepreneurs and Small to medium enterprises are an important constituent of the economy of Malawi. Small to medium enterprises are important for economic growth, job creation, reduction of poverty and promoting equality. However, these entities are not immune to

challenges. This study seeks to identify challenges experienced by SMEs in Lilongwe, Malawi. This area experiences high levels of poverty, inequality and unemployment. Small- medium enterprises in the region are a major contributor to local economic development and job creation. The study will also explore the managerial competencies needed by managers of these enterprises to cope with challenges, as well as what will be done to alleviate the challenges faced by Entrepreneurs and SMEs.

1.2 PROBLEM STATEMENT AND JUSTIFICATION

The small to medium enterprise sector has a significant role to play in the economic development of Malawi. This includes Lilongwe where the majority of people depend on government grants for survival. The role played by SMEs has encouraged the government to support people-based businesses and upcoming entrepreneurs both in rural and cities (Nkonde, 2012). However, despite support from the government and the importance that SMEs have on the economy, more than 70 percent of these businesses fail within three years of establishment (Chimucheka and Manipaka, 2015). It is therefore important to research why businesses fail despite support from the government. This could be an opportunity to ascertain challenges faced by SMEs in Malawi. These challenges could be financial or political among others but does affect the management of SMEs. Therefore the study further examines core competencies and resources needed by SME owner and managers to ensure the sustainability of these businesses. Therefore, to avoid assumptions, this study aims to provide research based evidence.

1.3 Research Purpose

➤ The main aim of this study is to investigate challenges and prospects faced by entrepreneurship and small medium enterprises



(SMES) in terms of growth and development Lilongwedistrict, Malawi.

II. LITERATURE REVIEW

2.1 Potential Challenges Faced by SMEs

The main factors that contribute to failure of SMEs may be categorized into internal and external factors. The external factors include financing (such as the availability of attractive financing), economic conditions, market competition, government regulations, technology and environmental factors. The internal factors are managerial skills, workforce, accounting systems and financial management practices. These are some of common potential challenges, but differ from one area to another. The researchers need to understand the SMEs conditions and operation in Lilongwe City when the city grows and extends its potentials in terms of enterprising spirit, markets, products and policy changes.

Coleman, (2000) comments that most of SMEs in the country lack qualified personnel. As a result, they are unable to publish the same quality of financial information as the big firms. They are incapable of providing audited financial statements. The said statements are one of the essential requirements for accessing credit from financial institutions. Financial conditions, earnings and prospects may be incomplete or inaccurate. Thus, a lender may be denied credit. Sometimes the firms that are credit worthy may be unable to report their financial statements.

2.2 Research Gap Identification

In the foregoing discussion, a number of literatures on the challenges faced by SMEs have been reviewed. It is notable that the writers have addressed the general challenges that are faced by SMEs. It is also notable that most of the cited literatures are not empirical studies. Instead of looking at the general challenges faced by SMEs, this study focused only on the challenges related to SMEs financial credit accessibility. Moreover, it will go further to explore on how the challenges could be surmounted, using a case study of sellers and distributors of different products in Lilongwe City.

III. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter introduces the reader to several key factors considered in regard to the methodology of the study. They include description of the study area, justifications for selection of the study area and research design. Other components in the chapter

include sampling procedures, data collection procedures and data analysis.

3.2 Research Study Strategy and Design

A cross sectional research design and distribution will be used. The researcher will use such design because it is convenient for this study journey to be focused, cover and try to be accurate with precision, considering time and resources limits to fulfill research objectives, where by both qualitative and quantitative approaches will be used.

3.3 Sample and Sampling Procedure

From the population of sellers (Vendors) and distributors SMEs, the researcher will pick randomly 110 SMEs, represented by the owners of the business but further, used stratified sampling to select form of SMEs ownership that is family business owned business, private limited company, public limited company, partnership firm, and sole proprietor at the places mentioned in population.

3.4 Data Collection Procedure

The below are the types of data and collection procedures that will be used in the present study: Both quantitative and qualitative data will be gathered. Quantitative data will be collected using structured questionnaires which will contain both closed and open-ended questions. The likert scale will be used in the questionnaires which aimed to measure the attitudes of the respondents towards the challenges faced by SMEs in terms of growth and development in obtaining the bank credit.

3.5 Data Based on Documentary Review

The current researcher has to review several documents based on SMEs from the world perspective to Malawian perspective and refocus on selected SMEs in Lilongwe. Mostly Secondary data for this study will be collected from various sources such as semiannual, annual reports, journals, articles, internet, published and unpublished papers. These will be obtained from SMEs firms in the study area and various banks and Government offices and libraries. Other sources such as research reports will be obtained from the library, including Malawi National Library, in Lilongwe, Malawi.

3.6 Data Processing and Analysis

Data from the respondents was verified, compiled, coded, and summarized before analyzed by using Statistical Package for Social Sciences (SPSS Version 16), Excel etc. Descriptive analysis such as frequency and percentage will be calculated.



IV. DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Nature of SMEs

4.1.1 Nature of Sellers and Distributors of SMEs

The first specific objective of this study sought to assess the nature of the SMEs in which the sellers and distributors belonged. The motive behind this objective was to ensure that any kind of analysis related to SMEs had to start with an understanding of this concept which is a major focus of the study. Thus, the researcher was convinced that it was so important to understand the nature and typology of the SMEs found in Lilongwe before investigating on the challenges they were facing and the prospects for overcoming the challenges, currently and in the future as Lilongwe and Malawi in general keep on changing.

Findings show that majority 50% of the respondents were family owned business and 23% were private companies while 15% were public limited companies and 11% were partnerships. Only 1% was sole proprietor. Respondents were requested to mention kinds of their organization. The data from the study show that retail traders were (62%), manufacturers were (14%). Export trades were (13%), import were 2%, import and retail trading were (1%); manufacturing and export were (1%), manufacturing and wholesale and retail were (1%) and wholesale were (1%).

4.1.2 Monthly Turnover for Sellers and Distributors of SMEs in Lilongwe

Findings revealed that majority (55%) of the respondents' monthly turnover were less than 20 million while 13% were above 100 million and 11% were 61- 80 million. About 8% of the respondents' monthly turnovers were 21 – 40 million and 7% were 81-100 million while 6% were 41 – 60 million. Lilongwe Market is growing in most of SMEs field and therefore there is a potential market for SMEs at Lilongwe and no one can specify a consistency in growth of particular type of SMEs.

4.2 Challenges to Access Credit Facility

The second specific objective of this study sought to find out the challenges faced by sellers and distributors in Lilongwe in accessing financial credit. The SMEs operators who took part in the study were asked to rank the challenges they were facing in accessing financial credit from financial institutions. In the first place, the researcher was interested in studying the pattern of the SMEs which applied for loans from financial institutions in order to ascertain

the possibility of getting or not getting the loan. The data in Table 4.3 provides an illustrative picture:

The results shows that out of total 100 SMEs selected 54 percent were denied access to credit facility due to lack of collateral, while only 18 percent were given, reason being good network with financial institutions official and so on. 12 percent were not sure why not being given access to credit, and 8 percent were given half of what was required from financial institutions and 8 percent had never tries. This shows majority are yet to have access enough for their SMEs to prosper and his shows more trust is needed between financial institutions and SMEs for not only SMEs development, but to improve the liver hood of community at Lilongwe based on the growth of SMEs.

4.2.1 Attitude towards the Amount of Loan Interest

The researcher investigated on the amount of the interest rates which respondents were paying. Data indicated that the Sellers and distributors of agricultural input were facing a critical challenge of paying the high interest rates. About 39% of the respondents were paying the interest of 11% to 15% per annum, while 7% were paying from 6% to 7%. The extremely high interest rate charged was above 21%. Approximately 31% of the respondents did not take the loans from the bank. This percentage of the SMEs traders who do not take loans from the bank is largely attributed to the high interest rates charged by the banks and also lack of collateral. The high interest rates charged by financial institutions make the business unprofitable. The profits made are so negatively affected by huge financial costs.

4.2.2 Major Challenges in the Growth of SMEs

Among all the problems faced by SMEs in their operation, the participants in this study viewed lack of credit facilities as the major limitation. In Table 4.6 shows the various challenges faced by SMEs in Lilongwe City. The challenges/ constraints for the SMEs according to the ranks from first rank to the problem (constraint) where majority lack access to finance and the common was focused on credit facility across Lilongwe City SMEs Sellers and distributors. Majority showed that high interest rate was not the major factor but, contributes to the major challenges on securing credit facility from financial institutions. Therefore SMEs don't fear high interest rate, but lack of finances for capital building.



4.3 Strategies used by SMEs to Access Financial Credit

The third specific objective of this study sought to identify the strategies used by Small and Medium Enterprises (SMEs) in accessing financial credit from financial institutions in Lilongwe City. In figure 4:8 shows that the potential strategies attained to access financial credits to maximize profit by 34%, while personnel 19%. Furthermore, 17 % were business plan and 13% were balance sheet, 11% reliable source of income and 6% cost cutting.

Data indicated that most of the SMEs depend on retail profits, personal savings and private institutions. Other results shows that 41% out of the total respondents ranked their major sources of funding from retained profits while 29% getting from personal savings. The word “retained profits” here means the kind of profit which the SMEs traders re-circle in the business. Stated otherwise, it is the net profit they re-invest in the second round, the third, and so on after having realized the net profit after a business transaction period. Twenty five percent of SMEs stated that they obtained loan from the banks, while 5% obtain loans from private institutions.

4.4.1 Sources of Funds for Startup Business

The data show the distribution of SMEs sources of funding in establishing their businesses. From the figure, it is evident that 62% and 24% of the funds are generated from personal savings and bank credit, respectively. Eight percent get their funds from other sources which are SACCOS, donor, trade credit, retained profits and private institutions. In addition to that 6% of the SMEs get their start up finance from friends and relatives. Therefore, sources of funds for starting up businesses among sellers and distributors in Lilongwe City are the personal savings and credit from the bank.

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