Are Interest Rates a Deterrent to SMEs Growth in Mozambique?

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Abstract
All over the world, limited financial support is genuinely cited as a major hindrance to SMEs sustainability and growth. One of the main factors linked to the problem of financial support is high interest rates that are associated with the provision of loans by financial institutions. The prevailing legend is that high interest rates on loans are the major factor restraining the creation of start-up SMEs and sustainability of ongoing SMEs. The objective of this paper is to show that although high interest rates make loans to SMEs more expensive, nevertheless high interest rates on their own are not the major impediment factor affecting SMEs growth. The study involved 485 sampled SMEs from a population of SMEs in Maputo city representing Mozambique as a whole. Maputo, the capital of Mozambique was chosen as the nucleus of the study, because Maputo is the main centre of economic activities of the country. The sample was chosen using simple random sampling strategy. A face to face interview was conducted using structured, questionnaires to collect the primary data. The study found that most of the SMEs that benefited from financial support did not find high interest rates as a major stumbling block; rather the insistence on collateral and the entire support structure system existing in the country was to blame for the slow development of SMEs and their sustainability. It was recommended that more support from different sectors of the economy be channeled to SMEs in a well-organized and proactive manner.
Keywords: Financial institutions, Government organizations, Interest rates, Small and Medium Enterprises (SMEs)

1. Introduction

Governments within the free market systems manipulate interest rates through the banking system as an instrument of monetary policy, often raising interest rates when intending to control inflation or calming an overheating economy. High interest rates discourage additional investments as the cost of borrowings gets higher (Rahman et al. 2016). When interest rates are high, it compensates entrepreneurs to retain their funds in financial institutions rather than invest, especially when the marginal efficiency of capital is lower than the interest rates (Beck et al. 2008). Investors within SMEs would not be indifferent to this phenomenon. When interest rates are high, fewer entrepreneurs would venture into start-up SMEs, because the cost of borrowing is high. For established SMEs it would result in limited growth as SMEs would fail to procure additional goods and services for their shops or invest in new machinery and tools, impacting on SMEs ability to add to further employment.

Analysis on SMEs start-ups and sustainability has brought scepticism as to whether higher interest rates per se, are the major factor obstructing SMEs demand for financing in Mozambique. Several studies in Mozambique including (Kaufmann & Parlmeyer, 2006; Osano & Languitone, 2016) have mentioned the problem of financing as an impediment to SMEs start-up and growth. The authors stated that high interest rates charged on loans in Mozambique, which were higher than average African banks' rates, were the main hindrance to SMEs start-up and development. The authors may be right in suggesting that high interest rates negatively affected SMEs financing, however, they stopped short of interlinking the scourge of high interest rates to other detrimental factors such as disorganized SMEs support; unhealthy business climate, bureaucracy, corruption, inadequate infrastructure and lack of proper information to SMEs as greater threats to SMEs sustainability and growth in Mozambique. The objective of this paper is therefore to show that although high interest rates may be a factor in slowing SMEs start-ups and sustainability, but there are other overwhelming factors more critical than mere high interest rates. A study was carried out in Maputo city, representing the country as a whole, in order to find out if SMEs in Maputo city were held back from growth, by the over 30 percent interest rates practised by local financial institutions.

2. Review of the related literature

The following sections will review the literature concerning interest rates and SMEs in Mozambique. The literature will cover their definitions, roles and ramifications in the Mozambican economy.

2.1 Definitions and characterization of interest rates

In contrast to other concepts in economics, there are a few competing definitions of the term interest rate. The interest rate is the annual fee charged by a lender to a borrower in order for the borrower to acquire a loan

(Kamunge et al. 2014; Rahman et al. 2016). The asset borrowed could include cash, or merchandised goods; other assets include houses or cars. So interest rates are the rental charged to the borrower by the lender for the use of the asset. It may also be termed as an opportunity cost to lenders for the loss of use of the asset they borrow out (Beck et al. 2008). If the asset was cash money, the lender could have used the money for own investment or for savings. The magnitude of interest would depend on the perceived risk of the borrower. The interest rates would be low if the borrower is thought to be of low risk, and if the borrower is seen as belonging to the high risk category the interest rates will be higher (Rahman et al. 2016).

Although the concept interest rates may be universally known, few people or businesses are aware of how financial institutions and lenders determine interest rates and what impact they do have on the borrower businesses and in the economy. Interest rates are not universally identical. Camba-Mendez et al. (2016) reveal that interest rates differ in accordance to the time-span of the loan. In addition, interest rates can be distinguished between nominal and real interest rates. Nominal interest rate is rates that are conceived without taking inflation into account (Tondl, 2016). These are interest rates referred to when quoting bond values and loans in general. Real interest rates on the other hand are interest rates that have had inflation adjusted; as such they represent the real value an investor, saver or lender gets back in return after taking into account and offsetting inflation (Beck et al. 2008). Real interest rates or also called natural interest rates are related with different patterns of growth rates (Smithin, 2003). Interest rates may be applied either as simple interest or compound interest rates (Berger et al. 2006). Simple interest rates usually apply on loans for non-expensive articles or on short term loans. With simple interest, only the original principal gains interest and the realized interest are placed separately from the capital. Compound interest rates refer to the earned interest combined with the principal in this way the interest gained keep adding up over a period of time (Smithin, 2003). As such, for a prearranged base interest rate, compounding will result in a higher interest rate earning than with simple interest rates.

2.2 The role of Interest rates in the economy

Of all economic variables that influence economies in the world, interest rates are amongst the most important concept to be considered. Interest rates are normally manipulated in the financial sector through the control of the ultimate authority: the central banks (Onakoya et al. 2013). The central banks would directly influence the refinancing terms of other financial institutions in the economy, namely commercial banks and micro-finance institutions and give instructions on the interest costs to be paid by the lenders (Kamunge et al. 2014). Open market operations are frequently used by central banks to guide short-term money market interest rates, which in turn influence an assortment of mercantile rates, including commercial bank lending and deposit rates. When the central bank adjusts interest upwards, commercial banks, micro-finance organizations and building societies likewise increase their charging rates on loans, and also the interest they charge on savings. Central banks do determine the real interest rate, merely by regulating nominal rates to compensate for changes in anticipated inflation. High real interest rates replicate positive shocks to investment demand (such as expansion in the predictable turnover of investment) or negative shocks to desired saving (including temporary reduction in firms income; Camba-Mendez et al. 2006). This phenomenon is called interest rate conduit of monetary policy (Smithin, 2003). The application of interest rates as an instrument of monetary policy and as a regulatory tool in the economy is a subject of dispute amongst scholars. Interest rates have been used for manipulating and curbing exchange rates speculation in India (Kar & Sarkar, 2006) and a restraint devise to conciliate the shocks of budget deficit in Pakistan (Mukhtar et al. 2007).

2.3 Interest rates influencing SMEs financing

No matter how well a business performs, it depends on the economic environment of the country to be sustainable and prosperous. Economic variables such as interest rates can determine a company's success or failure. When interest rates go up, banks charge more for business finances. Businesses dissipate more of their earnings in servicing loans, contrived through financial institutions as a result of the increased interest rates. This decreases their disposable income (Berger et al. 2006). Owner-managers would not launch new project or invest in expansion when interest rates are high. Camba-Mendez et al. (2006) revel that the opposite is true; in that when interest rates are low firms would borrow more voluntarily, invest in new ventures and make more returns. Some smaller banks would permit relationship lending to small firms by devising lending schemes that offer advantages to the small firms (Rahman et al. 2016). Conversely, larger banks argue that due to their size they offer additional advantages to small firms through the availability of specialized financial instruments such as factoring that allows small firms to avoid financial risks. Foreign banks on the other hand claim to bring in more competitive and innovative ways of lending techniques that benefit small firms (Beck et al. 2011). The culmination and competition of these banks is intended to help curb the negative effect of high interest rates facing small firms.

While the conventional belief is that smaller banks allow relationship lending and are more available for lending to small firms, nonetheless, small firms still face the crunch on prohibitive high interest rates (Rahman et al. 2016). Due to the risk factor associated with small firms, financial institutions do impose 'safe' interest rates (which are always higher than normal lending rates) to cover themselves in case of default. In many African countries although SMEs form the largest number of banks' clients, but banks prefer to work with large multinational conglomerates and governments which offer less risk and higher returns, crowding out most of the private sector from the financial system (Gbandi & Amissah, 2014).

Prohibitively high rates of interest would force some SMEs into opting for financing outside the formal financial institutions (Cálice et al. 2012). In Kenya, the so called Pyramid schemes stepped in with the promises of financial rescuing of small firms though soft borrowing free from collateral exigencies, and reduced interest rates (Kamunge et al. 2014). In Mozambique similar scenario is evidential with SMEs opting for the so called Xitique financing schemes that offer interest free loans to their members (Cunha, 2014). High interest rates have made it difficult for start-up SMEs to be launched by potential entrepreneurs. A study in Kenya by Ong'olo and Awino (2013) revealed that nearly three quarters of new start-up SMEs obtained their initial capital from personal fund, with a bit of over ten percent depending on family help. Merely less than 2 percent of start-up SMEs got assistance from banks, partially due to high interest rates and insistence on collateral. A secondary effect of high interest rates affects the general population, being that high interest rates have negative effect on the disposable income that is available to clients. Kamunge et al. (2014) admit that if clients have limited funds to spend there would be little demand for goods and services from SMEs. In the long run, high interest rates can limit company sales, as money that could have been paid for SMEs goods and services is diverted to interest payments or savings.

2.4 SMEs their definition, role and development

The following section analyses the subject matter of SMEs, their definition, role and performance in the economy.

2.4.1 SMEs their definition

Each country has a different way of definition when it comes to the SMEs notion. There are classifications which are based on the number of employees, turnover or the industrial branch of the company (Robu, 2013). Other than these, there are some more indicators of smaller importance, like social capital or accessed credit (Robu, 2013). SMEs are an outcome of entrepreneurship, and have the possibility to generate direct and indirect employment especially for young people. Entrepreneurship refers to an individual's ability to turn ideas into actions (Ong'olo & Awino 2013). The concept takes into consideration the power of initiative, innovation, creativity and risk-taking, including the ability to plan and manage different undertakings to attain success (Nagler & Naudé, 2014). The weakness of home-grown entrepreneurship is mentioned among the main causes of the developmental crisis in Mozambique (Valá 2007).

There is still controversy on the official definition of SMEs in Mozambique in general, but for the purpose of this study, it was decided to work with SMEs of the following classification, as shown in Table 1.

Table 1: Classification of SMEs in Mozambique

Type of Enterprises	**Number of Workers**	**Estimated Annual Turnover** USD ('000)	Meticais ('000)
Small	4 to 49	40 to 490	12,000 to 14,700
Medium	50 to 100	490 to 1,000	14,700 to 30,000

Source: Zimba (2013)

Like in any other part of the world, the type of industry will determine the finer point of SMEs definition. From Table 1, small firms had less that fifty employees and medium firm were those with less than a hundred employees. The other category of definition is based on annual turnovers. This is usually hard to determine in practise, because many SMEs would not reveal the true values of their annual turnovers, sometimes due to fear of the unfriendly taxation authorities (Bowale, & Ilesanmi, 2014). In this regards emphasis on SMEs definition is mainly based on number of employees. Virtually no country has updated listings of all companies and only a few have all SMEs listings. This is true with Mozambique. Records of the SMEs are not properly registered and limitedly actualized.

2.4.2 Role of SMEs in the economy in Mozambique

SMEs are bestowed with the vision of spawning direct and indirect employment especially for young people in Mozambique (Osano & Languitone, 2016). Micro and SMEs are not only the fastest growing sectors in Mozambique and Africa - they are also taken as outlets for indigenous entrepreneurship (De Vletter, 1996; cited in Kauffmann & Parlmeyer, 2000). Fox and Sohnesen (2013) reveal that a lot of new jobs came about from start-up micro, small and medium enterprises rather than hiring within the existing SMEs. According to Fox and

Sohnesen (2013) out of all registered SMEs in Mozambique, 96 percent are run by a single owner-manager with or without family help, while only 4 percent of SMEs reported hiring any worker outside the family. Yet, there is little available literature on the role of SMEs in employment creation or contribution to national income in Mozambique. Zimba (2015) maintains that although SMEs represented a larger portion of all businesses in Mozambique employing close to 70 percent of all working population, they contributed to a modest 24.1 percent of the National Income.

Carter and Jones-Evans (2012) emphasise that there are five stages of SMEs growth, namely inception, survival, growth, expansion and maturity. All these stages are critical for SMEs development, and have to be considered when any policy that is being envisaged basing on SMEs support. This type of growth model has received criticism from scholars such as Storey (2008), who viewed SMEs growth as not being so clearly defined and isolated. The author considered the stages as being overlapping and complimenting each other, rather than being classified in isolated horizontal sequence. Arzeni (2013) argues that in order to incite the creation of entrepreneurship and formation of SMEs, some external intervention may be necessary. Storey (2008) distinguishes between SMEs policy and entrepreneurship policy. The author does it by arguing that because there are different parameters between start-up SMEs and established enterprises, policies aimed at supporting start-up enterprises should differ to those aimed at already established and ongoing SMEs. Arzeni (2013) explains that governments must establish coherent policy initiatives that make the world more entrepreneurial and invent a business environment in which SMEs can survive and thrive. Government policies to support SMEs growth and survivability in Mozambique would include coherent fiscal and monetary policies that take into consideration this important sector of the economy (Jones & Tarp, 2012). Some of the policy instruments used in monetary strategic management of the economy in Mozambique is interest rates. Interest rates affect SMEs in a variety of ways, with high interest rates causing SMEs to incur difficulties in loans sourcing and debt management.

2.4.3 The challenges of SMEs development in Mozambique

The challenges of SMEs development in Mozambique include among others, lack of finance, lack of markets, tight and rigid government tax systems, inadequate infrastructure, low capacity of research and development in technology, globalization and inadequate managerial knowledge and skills. Others include, barrier from global sourcing, low productivity and poor enforcement of regulatory legislations (Omar et al. 2009; Fox & Sohnesen, 2013). According to Castel-Branco (2003) SMEs composition, role and definitions differ in different countries according to the levels of development; similarly the challenges would differ even within the developing countries including Mozambique. There is little scope for a common set of policies and logical tools to be successfully deployed in addressing the SMEs issue including challenges that directly face this sector (Ong'olo & Awino, 2013).

The challenge of lack of finance in Mozambique is devastating according to Osano and Languitone (2016). The authors mentioned that there is a relationship between awareness of funding and access to finance by SMEs and that there is a relationship between collateral requirements and access to finance by SMEs, including a relationship between small business support and access to finance by SMEs. Access to human capital in Mozambique has been an issue of contention. A research by Rogerson (2008) on SME failures in South Africa revealed that out of a sample of 1000 entrepreneurs surveyed, 90 percent concluded that SME failure was brought about by the lack of managerial skills. This is true and much more endemic in Mozambique although there is no available literature to substantiate the exact magnitude of this fact. One other main challenge facing SMEs in Mozambique is the increase of market uncertainty (Cálice et al. 2012). In addition, SMEs face enormous problems in acquiring technology and adopting new innovative ideas in management and production of goods and services (Cálice et al. 2012). The micro and small enterprises sector in Maputo absorbs about 82 percent of the working population in the city, against a mere 8.5 percent in the medium and 9.5 percent of large and public enterprises (Noticias, 2013). According to Fox and Sohnesen (2013), a large proportion of SMEs in Mozambique do not possess workshops or formal business stands, but operates their businesses from homes, with communal markets being the second most common operating area. Most SMEs offer services or produce low cost items needed by other households such as barber shops or making bricks, furniture, beer and charcoal (Jones & Tarp, 2012; Fox & Sorrenson, 2013).

Similar to many other developing countries, the main challenge to SMEs growth and survivability in Mozambique is listed as lack of financial facilities (Jones & Tarp, 2012; Zimba, 2015). SMEs cannot access finance due to lack of collateral and arguably high lending rates (Jones & Tarp, 2012). This challenge to SMEs start-up and growth in the country awaits serious attention. Inaccessibility to finance and other challenges need to be resolved for SMEs to be sustainable and create more employment and increase national income in Mozambique. This is an important area of SMEs development. The issue of high interest rates impact on SMEs financing has not been sufficiently scrutinized in academic researches in Mozambique. This paper wishes to determine if interest rates, especially high interest rates resulting from current monetary policies aimed at stabilizing the local currency (the Metical) from further devaluations, do impact on SMEs performance and survivability.

3. Methodologies

Empirical literature in many parts of the world suggests that high interest rates cause loans to be less accessible to SMEs, thus adversely affecting SMEs ability to source credit from financial institutions. The purpose of this study is to demonstrate that high interest rates are not the only or main source of impediments to SMEs start-up, and ability to thrive and survive. This research was carried out in Maputo city representing Mozambique as a whole to determine the repercussion of high interest rates on loans charged by commercial banks to start-up and enduring SMEs in Mozambique. The study involved a sample of 485 SMEs chosen from a population of SMEs in Maputo city based on simple random sampling. Data was collected from owner-managers of the SMEs through interviews carried out on the basis of face-to-face approach, using structured, closed ended questionnaires. The research was carried out pegging on four support variables rendered to SMEs being, financial institutions, government agencies, large firms and non-governmental organizations (NGOs). The study employed the quantitative methodology, and data was analyzed through the SPSS software employing descriptive statistics that generated frequencies and percentages results.

4. Results and Discussions

The following subsections discuss the results of the implication of the four variables of SMEs support to determine the responses of SMEs owner-managers on the challenges they faced in running their enterprises, thus linking the impact of high interest rates charged on loans to the observations revealed by the sampled SMEs. Prior to embarking on the inquiry regarding the impact of the support factors to SMEs growth and development, the sampled SMEs were asked to ranks a selected paradigm of eight developmental constraints in accordance to their severity in SMEs sustainability.

4.1 Ranking of challenges impeding SMEs start-up and sustainability

The first procedure was to give the respondents a list of eight major impediments factors cited as constraints to SMEs start-up and development, and invite them to rank them in the order beginning with the least excruciating to the most pressing hindrance. The results are shown in Table 2.

Table 2: Problems stifling SMEs growth in Mozambique

No.	Problems mentioned as stifling SMEs growth in Mozambique	**Not viewed as a problem**	**Viewed as a problem**	
		Frequency	Frequency	Percentage
1	High Interest rates	396	89	18.4
2	Lack of sufficient information	392	93	19.2
3	Lack of infrastructure	367	118	24.3
4	Existence of corruption	322	163	33.6
5	Existence of bureaucracy	319	166	34.2
6	Bad business climate	304	181	37.3
7	Lack of collateral	277	208	42.9
8	General lack of support to SMEs	255	230	47.4

Note: The frequencies have been taken from 485 interviews

The results showed that only 18.4 percent of all respondents cited high interest rates charges on loans as a major constraint stifling the path to SMEs sustainability and growth. Owner-managers of SMEs declared that the problem that precluded them from accessing loans was not the high interests rates charged by banks, but rather the unavailability of collateral to secure the loans in the first place. Nearly 42.9 percent of all respondents mentioned that they had problems in providing collateral in order to qualify for bank financing. Financial institutions in Mozambique are unreasonably insistent and uncaring when demanding for collateral on financing, and limited measures have been put in place to alleviate SMEs especially at start-up, from this overwhelming burden (Osano and Languitone, 2016). The most highly cited impediment to SMEs sustainability mentioned by 47.4 percent of SMEs was the general lack of support to SMEs emanating from all sectors of the economy. The following sections analyze the impact of support available to SMEs in the country, derived from the examination of the 485 SMEs in the study of Maputo city.

4.2. Support received from the four selected variables in Maputo city

There are several institutions that offer support to SMEs in Mozambique. This study took into consideration four major sectors of the economy (financial institutions, government agencies, large firms and NGOs) that render support to SMEs and through quantitative investigative analysis attempted to determine which of the 485 respondents had received support from the four authorities. More than fifty percent of all respondents revealed that they had not received any support either at start-up or during growth, from the four establishments. The only substantial support rendered to the SMEs was from financial institutions, which SMEs scored with a mere 46.5 percent and to a lesser extent government support, at a dismal score of 36.4 percent. Support rendered by large firms and NGOs was negligible, not even worth mentioning. This is elaborated in Table 3 below.

Table 3: The percentage of support received by SMEs from the four institutions

No.	Type of support rendered to SMEs	**Did not receive support**		**Received support**	
		Frequency	Percentage	Frequency	Percentage
1	Financial support	260	53.5	220	46.5
2	Government support	306	63.6	178	36.4
3	Large firm's support	435	90.1	49	9.9
4	NGOs support	446	92.1	36	7.9

Support in general is vital for SMEs from start-up and towards the phase of growth. In an effort of curbing the pervasive problem of unemployment, the Mozambican state has called the youth to be job creators instead of waiting to be employed by government institutions or the private sector. In contrast to the prevailing misconception concerning the lack of youth entrepreneurship in Mozambique, it is believed that there is sufficient level of entrepreneurship in Mozambique (Sawaya & Bhero, 2017). Many young people are prepared to take the challenge of forming their own businesses. However, most potential entrepreneurs in Mozambique are people with no cash to start any business. The youth do not have rich families from where they can depend on assistance. Going to the banks to ask for loans is a nightmare because the youth lack collateral, and banks would not entrust inexperienced young people with their money. Government organizations are not organized enough to assist upcoming youths who intend to form their businesses. On the other hand very few large businesses (if any) are prepared to open their factories as centres for apprenticeship for young people to learn skills of production and factory management. Worse of all, NGOs have enclosed themselves in spheres of isolationisms, channelling their assistance only to a few public institutions in order to please the government. NGOs virtually lack proactive programs aimed at supporting upcoming entrepreneurial youths. In short the general lack of support to SMEs in Maputo, seemed to have been the major impeding factor, superseding the effect of high interest rates charged on loans by commercial banks.

4.3 Additional factors proving high interest rates was not a major problem

The research on the SMEs in Maputo was extended to SMEs that benefited from financial support to find out the source of the support. A surprising sum of 26.4 percent of all surveyed SMEs said they sourced finance from financial institutions. This is elaborated in Table 4.

Table 4: The source of financial support

Which was the source of Financial support	Financial Support	
	Frequency	Percent
Not received any Financial support	*263*	*54.4*
Financial support from Financial institutions	127	26.4
Financial support from Government	33	6.8
Financial support from Large enterprises	36	7.4
Financial support from NGOs	24	5
Missing responses	2	0
Total	485	100

It is possible to secure financial assistance from other sources, including specialized government institutions established for supporting SMEs, such as the institute of promotion of small and medium enterprises (IPEME; Zimba, 2013). In certain cases large firms do make available special financial packages especially for SMEs that they subcontract. To a limited extent a selection of NGOs have departments that assist SMEs especially on licensing costs. There are two ramifications triggering SMEs into opting for established financial institutions as a source of financial assistance. First, once an SME complies with the entire loan qualification procedures, such as provision of collateral, presentation of audited accounts and business plans; and sometimes after stumbling over bureaucratic huddles, what remains is just to get the loan. Very rarely would a potential SMEs borrower stop to check at the level of interest rates, or abandon that tedious process of securing the loan because of high interest rates. Secondly, even with the stringent requirement from banks and other financial institutions, more financial packages for SMEs are available from financial institutions, than from the government, large firms or NGOs. This analysis therefore served to prove that even those few SMEs who received financial support, their main concern was to go through the full length and strive to secure the loan, rather than being discouraged because of the high lending rates.

In a further examination of the issue of financial support to SMEs, respondents who had a chance of receiving financial support were asked to gauge the efficiency of the process that made them succeed in receiving finance. The results of the study are detailed in Table 5.

Table 5: The efficiency of getting funds from financial institutions

How ease was it to receive Financial support	Financial Support Frequency	Percent
Not received any Financial support	*266*	*54.8*
Process was complicated and expensive	39	8.1
Process was simple and straightforward	108	22.3
The process was bureaucratic	35	7.2
Interest rates were too high	21	4.3
Business Plan was not well elaborated	3	0.6
Missing responses	13	2.7
Total	**485**	**100**

A substantial 22.3 percent of those surveyed and received financial support revealed that the process was simple and straightforward. This means that for the SMEs that had met the banks' lending requirements and approved for the loans, managed to receive the funds in an undemanding and uncomplicated way. Only 4.3 percent of the recipients complained of high interest rates. Financial assistance to SMEs in Mozambique is a vital component for SMEs start-up and growth. SMEs must comply with the lending requirements including proof of collateral, organized financial accounts, viable business plans and declaration of intent and assurance of the ability to pay back the loans in order to receive financial support from commercial banks. A majority of young potential entrepreneurs have no means of meeting these requirements as such they are left out from benefiting financial support. Few SMEs owner-managers would stop and look back at the exorbitantly high interest rates for them to desist taking loans, once they manage to meet the requirement for financial assistance. Therefore high interest rates are not really the primary factor that impedes start-up SMEs, or the growth of this important sector of the economy.

5. Conclusions and Recommendations

The paper looked at the myth prevalent in many countries including Mozambique, when analysing SMEs start-up and sustainability, that high interest rates was the major factor that discourage young entrepreneurs from obtaining loans to launch new small businesses, and an impediment to SMEs sustainability and growth. Through an examination of 485 SMEs in Maputo city, representing Mozambique as a whole, it was found that although Mozambican financial institutions harboured the highest interest rates even in comparison to other peer Africa countries, yet the solitary factor high interest rates, was not mentioned as a prime reason that discouraged entrepreneurs from sourcing finance in order to launch start-up SMEs. Interest rates were not a major stumbling block to the growth and sustainability of existing SMEs. Financial assistance itself was a rare privileged reserved to a few SMEs. SMEs could not source this important variable, not because of high interest rates, but due to stringent conditions including the insistences on collateral, properly organized accounts, well elaborated business plans and proofs of intent. Support in general from all quarters of the economy to potential young entrepreneurs, and ongoing SMEs was seriously lacking. Support could be provided by financial institutions, governments departments, non-governmental organizations (NGOs) and large businesses in order to solve sustenance problems encountered by SMEs in Mozambique and improve their quest for creating positive employment.

It is recommended that financial institutions should create special packages with less stringent requirement for collateral, less insistences on audited accounts and business plans. Only with the availability of funds can entrepreneurs manage to source capital for start-ups and allowing existing SMEs to expand and create more wealth and employment for the country. Governments should support young entrepreneurs by drastically reducing the bureaucratic procedures in new firms' registration and even grant tax-holidays for start-up SMEs and for those in the growth phase thus allowing informally operating SMEs, to register and become formal. Government support should be given to SMEs so that in later years, they may prosper, be self-enriched and evade paying taxes. The government could also restructure the taxation arrangements to large firms that take positive steps in allowing for apprenticeship in their factories and workshops for young entrepreneurs. Large firms should also be encouraged to increase outsourcing from SMEs and even invert programs for technological and innovation transfers. Policies should be directed to NGOs to increase participation in SMEs support through training and knowledge transmissions. NGOs should support organizations nurturing incubators so as to foster entrepreneurship amongst the youth. Support from all sectors of the economy is what is needed for SMEs sustainability, not really the fear of high interest rates, a factor that cannot be easily controlled.

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