

THE CHALLENGES IN ACCESSING FINANCE BY THE SMALL AND MEDIUM
ENTERPRISES (SMEs) AT BOKAMOSO ENTREPRENEURIAL CENTRE,
WINDHOEK

A RESEARCH THESIS SUBMITTED IN
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ABSTRACT

Small and Medium Enterprises (SMEs) in developing countries, face significant barriers to finance. SMEs are constrained by gaps in the legal and financial systems, lack of skilled human capital and social fragmentation. The fact that SMEs have not made the desired impact on the Namibian economy in spite of all the efforts and support from government, civil society and private sector underscores the extent to which SMEs are challenged. Therefore, this research investigates the challenges in accessing finance by SMEs in Namibia, focusing on the SMEs operating in the Bokamoso Entrepreneurial Centre in Windhoek.

The study used an exploratory and descriptive research design, which involved the use of a structured questionnaire survey of 38 SMEs operating at the Bokamoso Entrepreneurial Centre. The study found that the factors that affecting access to finance in Namibian SMEs are related to human, social and financial capital, where technical and management skills determine the amount of social and financial capital generated for the SMEs. The study also that the challenges of access to finance faced by SMEs in Bokamoso Entrepreneurial Centre are related to the years in operation, major constraints, the information requested by the bank and the reasons for refusal. The study concludes that these financial challenges, affect the overall performance of the SMEs in the Bokamoso Entrepreneurial Centre in Windhoek. Lastly, the study recommends that government intervention in SME's access to finance should take consideration of the importance of affordable microfinance, as well as the social capital of family and friends.

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ABBREVIATIONS AND ACRONYMS

BEC	Bokamoso Entrepreneurial Centre
CC	Closed Corporation
CoW	City of Windhoek
DBN	Development Bank of Namibia
FNB	First National Bank
FSS	Financial Sector Strategy
GDP	Gross Domestic Product
IUM	International University of Management
MITSD	Ministry of Industrialisation, Trade and SME Development
MSME	Micro, Small and Medium Enterprises
MTEF	Medium Term Expenditure Framework
MTI	Ministry of Trade and Industry
NAD	Namibian Dollar
NDC	Namibian Development Corporation
NEPRU	Namibia Economic Policy Research Unit
NGO	Non-Government Organizations
NPC	National Planning Commission
NUST	Namibia University of Science and Technology
POT	Pecking Order Theory
SME	Small and Medium Enterprises
UNAM	University of Namibia

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DEDICATION

I dedicate this book to my beloved family and friends. A special feeling of gratitude to my lovely mother Mrs. Emilia Ndinela Shilyomunhu for the wonderful and valuable encouragement she instilled in me, and also to my one and only lovely daughter Joyeuse Mireille for her patience and believing in me when I could not avail myself to her at all times during my studies.

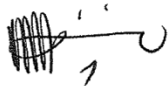
I also dedicate this Thesis to my boys Leon and Sean and also to all my family and friends who have supported me throughout the process. I will always appreciate all they have done towards this project.

DECLARATION

I Secilia Indileni Shiwoshetu Shilyomunhu, hereby declare that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher learning.

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Secilia Indileni Shiwoshetu Shilyomunhu

08 September 2017

Date

CHAPTER 1

ORIENTATION AND BACKGROUND TO THE STUDY

1.1. Background

Access to finance is necessary to create an economic environment that enables firms to grow and prosper (Klapper, 2011). Small and Medium Enterprises (SMEs) in developing countries, face significant barriers to finance. Financial constraints are higher in developing countries in general, but SMEs are constrained by gaps in the financial system as such high administrative cost, high collateral requirements and lack of experience in financial mediation (Ogbokor & Ngeendepi, 2011). Increased access to finance for SMEs can improve economic conditions in developing countries by fostering innovation and Gross Domestic Product (GDP) growth (Omare, 2015). In Namibia, SMEs play a major role within the economy and produce exceptional products and services, which in turn create employment and contribute to the economic growth of a country (Mupaine, 2016). However, access to finance and capital is one of the biggest constraints to the stability and growth of SMEs in Namibia (Omare, 2015).

The government of Namibia takes extreme interests in SME development and has introduced several policies guided by Vision 2030, geared at supporting the SME sector. These SME development policies are seen as instruments for poverty alleviation, reducing inequalities, empowering previously disadvantaged groups and diversifying the

economy away from the export of raw materials (Rosendahl, 2010). For instance, the Sites and Premises Programme, one of the five SME support programmes of SME Policy of 1997 is aimed at providing affordable industrial estates to the enterprises in the form of incubation centers and SME Parks (Rosendahl, 2010). These business incubators centers nurture young companies, helping them to survive and grow, as well as facilitate increased access to finance for the SMEs (Rosendahl, 2010). This study therefore focuses on the challenges in accessing finance by the SMEs at Bokamoso Entrepreneurial Centre (BEC).

Bokamoso Entrepreneurial Centre (BEC) is an Incubation Centre for the SMEs under the City of Windhoek and is located in Katutura, Windhoek in Khomas Region. The incubation center has forty-three stalls, which are currently occupied by thirty-eight SMEs. An independent body that has its own Board of Trustees and is chaired by Ms. Utete Karimbue Mupaine governs Bokamoso Entrepreneurial Centre (BEC). According to Mupaine (2016) the Trust has its support from the City of Windhoek (CoW) and other partners that provide support services for SMEs at the Centre. These include the provision of mentorship and training towards sustainable business management. Additionally, CoW as the local Authority is responsible for the provision of basic services to the residents and this includes the development of the Small and Medium Enterprises (SME) sectors. In this regard, CoW is largely responsible for mobilizing the necessary financial resources required by SMEs in starting and expanding their businesses in conjunction with other stakeholders such as SME Bank, Development

Bank of Namibia (DBN), National Planning Commission (NPC), National Development Corporation (NDC) as well as Commercial Banks in Namibia and any other stakeholders. Non-Government Organizations (NGO's) also play a substantial role in implementing programs that help SMEs overcome the challenges (Omare, 2015).

The City of Windhoek is a leading center in social, political, economic and technical support which includes providing a networking platform and extends to the development of SMEs towards economic growth and sustainable development (Ogbokor & Ngeendepi, 2011). In spite of the innumerable support offered at the Bokamoso Entrepreneurial Centre, SMEs are still challenged in accessing finance that can enable them be sustainable. Hansohm & Mastaert (2013) posit that this is due to obstacles and challenges that they experience in developing their businesses, and thus need further support to achieve their economic goals. As such, there is a greater need for CoW, commercial banks and other stakeholders to provide more targeted support to the SMEs by addressing and meeting specific needs of SMEs, which will help them in overcoming these constraints. According to Omare (2015) access to formal credit is one of the major factors constraining SME stability and growth in Namibia, mainly due to their lack of collateral and difficulties in dealing with banking procedures and regulations. Subsequently, the main sources for business financing in the informal business sector in Namibia remains family and friends.

1.2. Statement of the Problem

There is a major problem faced by existing and newly formed SMEs in Namibia is getting their businesses financed. Lack of finance is the most crucial to SMEs development (Vasanti, 2016), although SMEs often start with small sources of funding which they may either get from friends or relatives. They also require formal funding as they expand and access to such funding is a major obstacle to SMEs growth and development. The main challenge that SMEs experience is lack of collateral as well as difficulties in dealing with banking procedures and regulations for them to be financially assisted (Klapper, 2011).

According to the Ministry of Industry, Trade & SME Development (MITSD (2015), SME financing is unattractive to traditional financial institutions as they are perceived to be high risk investments that do not yield commensurate returns. As a result, 97% of Namibian SMEs are considered non-bankable. This is supported by a World Bank Enterprise Survey, which reported that 40.9% of small and 28.6% of medium enterprises identify access to finance as a major constraint, whereas only 1% of large enterprises see access to finance as a challenge for their development (MITSD, 2015).

Berger & Udell, (2004) highlighted that the nature of banking transaction lending technologies are primarily based on “hard” quantitative data that may be observed and verified at about the time of the credit origination. This hard information may include financial ratios calculated from certified audited financial statements or credit scores assembled from data on the payments histories of the SME and its owner provided by

credit bureaus. However, SME borrowers who are willing to pay prevailing credit interest rates, but do not have this hard information about them or lack of collateralisable assets, cannot access the funds at those rates because lenders are unwilling to lend to them. As such, it is crucial to address the challenges in access to finance, particularly with issues like the lack of collateral and information asymmetry. Therefore, this research investigates the challenges in accessing finance by SMEs in Namibia, focusing on the SMEs operating in the Bokamoso Entrepreneurial Centre in Windhoek.

1.3. Aim of the Study

The aim of the study is to investigate the challenges in accessing finance by SMES in Namibia, focusing on the SMEs operating in the Bokamoso Entrepreneurial Centre in Windhoek.

1.4. Objectives of the Study

The specific objectives are:

- To determine factors that affecting access to finance in Namibian SMEs.
- To explore the challenges of access to finance faced by SMEs in Bokamoso Entrepreneurial Centre
- To assess how these financial challenges, affect the overall performance of the SMEs in the Bokamoso Entrepreneurial Centre in Windhoek.

1.5. Research Questions

The following research questions were formulated in line with objectives of the study:

1. What are the factors affecting access to finance in Namibian SMEs?
2. What challenges are encountered by the Bokamoso Entrepreneurial Centre SMEs in accessing finance for their businesses?
3. What are the implications of access to finance challenges on the performance of the SMEs in Bokamoso Entrepreneurial Centre?

1.6. Significance of the Study

This study contributes to the field of management, SME development, business financing research and practice regarding the efficiency and success of SMEs in Namibia. The study is important to organizations that support SMEs in Namibia, by providing technical knowledge and skills which may be used to help SMEs to overcome challenges that they face in their operations. There have been no previous studies conducted on the challenges in accessing finance by the SMEs at Bokamoso Entrepreneurial Centre, Windhoek. This research intends to fill the gap in knowledge in terms of what can be done to help SMEs secure funding for their businesses. As such this research is of great importance to the Government of Namibia, as it commits to industrialization and growth at home strategy. The study is significant to the policy makers in the government, CoW, private sector, NGOs and donor agencies, by providing the necessary tools and knowledge that will aid the review of existing programmes, which is necessary to ensure sustainable SMEs development and their subsequent progression to larger organizations.

1.7. Limitation of the Study

The study is limited to SMEs operating from Bokamoso Entrepreneurial Centre in Windhoek only. The study is limited and is purely focus on evaluating SMEs accessing finance and the challenges they experience in obtaining loans and grants from commercial banks as well as from any other micro financing providers. The study focused on the factors and challenges that affect the success of SMEs in Bokamoso Entrepreneurial Centre. The study assumed that respondents will answer the research questions honestly and provide relevant and reliable information.

1.8. Thesis Outline

The study is divided into five main chapters.

Chapter One: Introduction – this chapter includes the background to the research and the research problem. It further presents the research aims, objectives, research questions and the significance of the research.

Chapter Two: Literature Review – this chapter presents the literature review process and is a summary of all the literature sources examined. Issues that are pertinent to the research are further discussed in detail.

Chapter Three: Research Methodology –this chapter discusses research methods available to researches and also gives a summary of research methodology theory and concepts. It further explains the research methodology used in this study and the reasons the researcher chose the methodology.

Chapter Four: Results, Discussion and Interpretation of Findings – in this chapter the data analysis and interpretation is presented in this chapter. All the findings are summarized and analyzed in this chapter.

Chapter Five: Conclusions and Recommendations – this chapter presents the conclusions of the research and identifies the positive issue and makes recommendations to the organization for the negative issues. Opportunity for further research is discussed.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature relevant to this research in order to draw on the findings of other researchers. There is much research based on factors that hinder the growth of small businesses in Namibia as well as globally. The chapter discusses the theoretical basis of the challenges SMEs face in accessing finance, specifically, Schumpeterian theory, the refugee effect, the theory of social capital and capital structure theories such the pecking order theory and credit rationing theory. This is followed by empirical review of literature related to challenges of SMEs in accessing finance.

2.2 Overview of SME Development in Namibia

According to Nakusera, Kadhikwa, & Mushendami (2008) SMEs are the backbone of most economies and are a key source of economic growth, dynamism and flexibility. SMEs in Namibia have contributed approximately 12% to the Gross Domestic Product (GDP) and have employed about 20% of the work force during 2004 (Nakusera et al., 2008). The Government of Namibia, created a number of institutions including City of Windhoek, in an effort to increase the access of SMEs to financial services, as well as responding to the difficulties of the poor. Most SMEs do not have the collateral, which is required by banking institutions to secure a loan. High transactions costs in supplying

loans to micro-enterprises as challenges for microfinance institutions, since it is more costly to process many small loans than a smaller number of large loans (Marrakkatu, 2012).

Economic growth of any country can be achieved through appropriate policies, programs and strategies that will concentrate on business activities, promote high potential for integration into the main stream of the economy, and promote employment creation as well as sustainable development (Hansohm & Mastaert, 2013). Stakeholders and local Governments are then responsible for scrutinizing the gaps and formulating possible intervention to better address challenges faced by SMEs. In contrast, entrepreneurs start the business in order to achieve personal objectives and satisfy needs, rather than maximize profit and growth. However, SMEs are affected by a lack of finance to sustain their business activities. The fundamental reason for starting a business is generally accepted as a key distinguishing factor between entrepreneur and lifestyle firm owner (Piperopoluos, 2012).

The promotion of SME development ranks high on the agenda of the Namibian Government and is seen as an instrument for promoting economic growth and employment, poverty alleviation, reducing inequalities and empowering previously disadvantaged groups (Rosendahl, 2010). The Small and Medium Enterprise (SME) sector through its labour intensive contribution to Namibia's economic development was declared by the government, as a subject of national importance and has been designated

a priority sector in terms of policy formulation, direct support from government resources, as well as the donor community. Thriving and growing SME's are therefore a key success factor in achieving national development goals and this role was recognized by the Namibian Government in adopting a National Small and Medium Enterprises (SME) Policy and Programme in 1997 as a framework to create an enabling regulatory environment in which SME's can be developed and promoted by the public and the private sectors (MITSD, 2015). The SME Policy of 1997 was aimed at addressing challenges facing the SME's in the areas of finance, marketing, technology, infrastructure, skills development and institutional support (MITSD, 2015).

Following the SME policy of 1997, the then Ministry of Trade and Industry (MTI) introduced the first official definition of small enterprises in Namibia. The Namibian Government through the SME Policy classified SME's as those businesses that fall into the certain categories as defined by the number of employees, Annual Turnover and Capital Employed, and this criteria is used to issue the SME certificate. For this study, SMEs refers to those which have registered and have an SME Certificate from the Ministry of Trade and Industry (now the Ministry of Industrialization, Trade and SME Development). In Namibia, SME definitions is used as eligibility for special support and the SME Certificate guarantees eligibility for support from a variety of areas which include government preferential procurement schemes, financial support, capacity building, mentorship and other institutional support for SMEs (Jauch, 2010).

The SME Certification intake process from the Ministry of Industrialization, Trade and SME Development requires that SMEs should have a Certificate of incorporation, Social Security Commission Good Standing Certificate not older than 3 months, a VAT Good Standing Certificate not older than 3 months and Certified Copies of identity documents of all members/owners of the SME. These requirements have seen most SMEs formalize their operations and resulted in the phenomenal growth in the number of small and medium enterprises with more than 40,000 SMEs registered with the Ministry of Industrialization, Trade and SME Development (MITSD) (Ogbokor & Ngeendepi, 2011).

Not all of the registered SMEs are actually operational as most of these registered SMEs have become briefcase companies targeting SME favored businesses and in some circles these types of SMEs are referred to as Tender-preneurs. These briefcase SMEs exist to target government tenders and move from project to project. Furthermore, they do not operate in any specialized sector and often do not have business premises and solely survive from tenders and therefore poses a challenge to SME support structures in Namibia (Grossmann, Mwatotele, Stork, & Tobias, 2010).

Since its inception and introduction in 1997, the SME policy has not been reviewed, despite a number of changes that have taken place in various aspects of SME development in Namibia. This has prompted the government through the MITSD to review the SME Policy of 1997 taking into consideration the needs of micro enterprises,

as well as the coordination, implementation, monitoring and evaluation of SME development programmes (MITSD, 2015). This has prompted the government to reviewing the SME Policy and Programme taking into account the structural changes and needs of micro enterprises. This has seen the launch of the Zero Draft Policy document on the National Policy on Micro, Small and Medium Enterprises (MSMEs Policy Zero Draft) in July 2015, which is aligned to the national objectives as expressed in Vision 2030, the National Development Plans as well as the Industrial Policy and its recent adopted implementation framework and strategy (Growth at Home) (MITSD, 2015).

2.2.1 National Policy on Micro, Small and Medium Enterprises in Namibia

The MSMEs Policy Zero Draft proposes an updated definition for MSMEs in Namibia, addresses the challenges faced by MSMEs and offers responses aligned to the new paradigms with respect to MSME financing and business advisory support services (MITSD, 2015). According to MITSD (2015), the revised Policy emphasises stronger implementation guidelines, defines the appropriate national institutional framework at the meso level and advances suggestions for a comprehensive monitoring and evaluation system. The revised Policy aims to address shortcomings in SME Policy of 1997, which did not provide a viable treatment of an appropriate institutional framework for the attainment of its stated objectives. This resulted in many government institutions as well as organisations from the private sector or the civil society offer a wide range of development support programmes in a fragmented and non-coordinated way (MITSD,

2015). This hampered the efficient support to SMEs in Namibia, as there was duplication of efforts and a sub-optimal allocation resources.

The overall objective of the new MSME Policy is to create an enabling business environment for the MSMEs, allowing businesses to foster sustainable employment creation and income generation through training, improved access to finance, technology and markets, enhanced capacity to innovate and improved entrepreneurial skills (MITSD, 2015). In its endeavor to provide the requisite policy and implementation frameworks to ensure the development of competitive, dynamic and innovative Namibian MSMEs, the Policy is guided by the following national policies:

- Vision 2030;
- National Development Plans (NDP 4 and beyond);
- Local Economic Development White Paper of 2011;
- National Industrial Policy of 2012;
- Growth at Home Execution Strategy;
- National Rural Development Strategy of 2012; and
- Namibia Financial Sector Strategy of 2012 (MITSD, 2015).

According to (MITSD, 2015) the 1997 SME definition did not include the micro enterprises and only differentiated between MSMEs engaged in manufacturing activities and all other businesses. The definition did not make provisions for timely modifications of the definition as and when local, regional and global dynamics would dictate. As result,

the revised MSME Policy proposes a revised version of the Namibian MSME definition, which is in line with internationally acknowledged standards where MSMEs are defined according to the number of employees and annual turnover (MITSD, 2015). The definition is presented in Table 2.1.

Table 2.1: Definition of MSME

Category	No of Employees	Annual Turnover (NAD)
Micro	Up to 10	Up to N\$300,000
Small	11-30	Up to N\$3,000,000
Medium	31-100	Up to N\$10,000,000

Source: Namibia: MSMEs Policy Zero Draft, 2016

Ogbokor & Ngeendepi (2011) noted that definitions of SMEs are open to a number of flaws and in realising of these weaknesses, the MSME Policy has adopted a flexibility principle that gives a one year time frame to allow stakeholders from the Namibian public and private sectors to align their MSME definition with the national definition as outlined in the Policy. The definition in Table 2.1 is therefore construed as a guideline only. In the event of an enterprise falls under two categories, the final categorisation is of the appreciation of the appraiser, and additional information might be required to determine the category of the given enterprise (MITSD, 2015).

In addition the Informal and survivalist enterprises were not included in the new definition of MSME, as these enterprises are tackled in another, dedicated policy (Humavindu, 2016). The Deputy Permanent Secretary in the MITSD, Dr. Michael Humavindu in his interview with the Windhoek Observer in January 2016 noted that the final draft policy document has already been submitted to the minister for presentation and further consultations and ultimately Cabinet approval (Humavindu, 2016).

2.2.2 Government support for SMEs in Namibia

The Namibia government is set to invest N\$500 million in the Small and Medium Enterprise (SME) Bank over the Medium Term Expenditure Framework as part of its efforts to develop and promote SMEs in line with the revised MSME Policy (Schlettwein, 2016). According to the Finance Minister, Calle Schlettwein (2016) the investment is one of the government's interventions to strengthen Namibia's first SME Bank. He further stated that a decision been taken for the Development Bank of Namibia (DBN), not to continue with its SME lending programme to allow the SME Bank to focus exclusively on this sector. This is expected to improve SMEs' access to finance, in consideration of the view that they are regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality (MITSD, 2015). The government believes that SMEs access to financial services can boost job creation, raise income, reduce vulnerability and increase investments in human capital. It further allows SMEs to undertake productive

investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole (MITSD, 2015).

MITSD (2015) estimates that an average of 1,260 MSMEs have benefited from existing funds, compared to an estimated total population of between 15,000 and 33,700 MSMEs in Namibia. Consequently, if access to finance constraints are adequately addressed then more MSMEs in Namibia would be able to get access to funding (MITSD, 2015). The government is currently advocating for the development of second-tier banking regulation, which will make it easier for SME banks to set up business in the country. As sufficient and timely access to finance for the SMEs is expected to stimulate and reinforce the economic growth, job creation, labour productivity and social cohesion which are vital for the prosperity of the country (Schlettwein, 2016).

According to Schlettwein (2016) the Ministry of Finance is currently drafting a Banking Institutions Bill, which is expected to make provision for microfinance banking institutions to be set up and regulated accordingly, the aim being to make it easier for SMEs to access finances. He noted that one of the main policy guidelines in the 2016/17 budget is that the composition of economic growth should mainstream a large number of people in the growth process, focusing on the poor, the youth and women. The target of these guidelines are to draw local businesses, especially SMEs into the value-addition and supply chains that will optimize local economic development, wealth generation and job creation (Schlettwein, 2016).

According to Humavindu (2016), the MITSD with the coordinated support of public and private stakeholders are set to implement the MSME Policy in a way that will achieve the following:

- “Improve access to commercial bank finance for MSMEs through awareness raising and capacity building on alternative credit appraisal methodologies, thus introducing advanced lending practices and innovative financial products.
- Strengthen the SME Bank.
- Stimulate the development of financial leasing and factoring for MSMEs by commercial banks and specialist leasing companies.
- Stimulate simplification of administrative procedures of financial institutions in Namibia in order to establish a clear and transparent legal framework, in endeavor to limit the regulatory complexity which is often an obstacle for beneficiaries, especially MSMEs, when applying for funds, for example by creating a one-stop agency for applicants, shortening the authorization procedures for obtaining finance and paying out subsidies more promptly.
- Explore possibilities to attract a micro-financing institution to the country.
- Promote innovative financial products for MSMEs such as hire purchase scheme, leasing, factoring, inventory financing, venture capital MSMEs and Saving and Credit Guarantee Schemes, this bridging the financial gaps of growing MSMEs.

- Improve availability of information about MSMEs' financial status in order to ensure that all providers and potential providers of finance have sufficient knowledge to assess the risk of MSME applications for finance.
- Ensure that the control over information on MSME exposures is not utilized by dominant players (and banks in particular) to inhibit competition for the provision of finance to MSMEs, or to inhibit the entry of new providers of finance.
- Educate MSMEs on financial management in cooperation with the Financial Literacy Initiative hosted by the Ministry of Finance” (MITSD, 2015, p. 22).

2.3 Theoretical Framework

This section looks at the theoretical framework underpinning the challenges facing SMEs in accessing finance in Namibia, in order to determine factors that affect the success of SMEs in Namibia and understand how access to finance challenges affect the performance of the SMEs. According to MITSD (2015), SME financing is unattractive to traditional financial institutions, as they are perceived to be high-risk investments that do not yield commensurate returns. As a result, 97% of Namibian MSMEs are considered non-bankable. According to the World Bank Enterprise Survey, 40.9% of small and 28.6% of medium enterprises identify access to finance as a major constraint, whereas only 1% of large enterprises see access to finance as a challenge for their development (MITSD, 2015). As a result, the study aims to understand the theoretical framework for explaining why innovative SMEs that may offer promising, commercially viable

investment opportunities, often not backed by adequate collateral are failing to access finance.

2.3.1 Refugee Effect

Dziri (2013) argues that the growth of SMEs in developing countries, especially those with high unemployment rates is often due to what he described as the refugee effect, which pushes people towards self-employment resulting in high level of the entrepreneurial activity. Oscarsson (2007) supports this view in saying that SMEs are Africa's way out of poverty, with a focus on necessity-driven entrepreneurship as a means to become self sufficient. Necessity-driven SMEs are the dominant form of business ventures in developing economies, especially on the African continent due to the high unemployment rates, which push people toward informal and formal small business for them to sustain their livelihood. Oscarsson (2007) further argues that these necessity driven SMEs to be successful, the owners need to collaborate and cooperate with each and build social capital.

In exploring the challenges of access to finance faced by SMEs in Namibia, understanding the reasons for start up the business provides an indication of whether the business is necessity driven or opportunity driven. As this influences their access to finance, as necessity driven business focus on self-sufficiency. Welman (2014) argues that the predominance of refugee effect SMEs in Africa explains Africa's bleak economic growth record since the 1950s and 1960s. Welman (2014) highlights the

structural and institutional features in Africa that differentiates the SME sector from that in other developing regions such as Asia and Latin America. These include:

- Africa's legal & financial systems,
- skilled human capital,
- market size and
- Social fragmentation.

Oscarsson (2007) agrees that these features result in a heavily distorted distribution of mostly repetitive SMEs that invest inadequately, thus depressing growth, export capacity and re-enforces the smallness of the African firms. On the other hand, SMEs in East Asia and Latin America are more efficient due to extensive networking and cultural homogeneity of their populations characterized by common customs and habits (Oscarsson, 2007). According to these authors, the access to finance challenges faced by African SME is due to the structural and institution deficiencies in the African countries.

2.3.2 Theory of Social Capital

The theory of social capital by Putman (1995) refers to the ability of the actors to gain benefits from their social network, personal relationships and the quality of association. The theory contends that individuals and organizations will always engage in social networks in order to generate profits. The theory is based on assumptions that;

- The more the networking, the greater the social capital.
- The greater the social capital, the higher the priority of the norm of equality.

- The greater the social capital, the easier to mobilize support for problem solutions (Turyahikayo, 2015).

Turyahikayo (2015) notes that social networks provided by extended family, community-based or organizational relationships are theorized to supplement the effects of education, experience, and financial capital through reciprocity. As such, SMEs that develop and maintain strong social networks are likely to raise finance to finance their operations and the reverse is true for SMEs, which do not have social network programs (Oscarsson, 2007). However, in Namibia, like most African countries the power of social capital has mostly been used to achieve goals that are negative. Nepotism, tribalism, political patronage and criminal networks are some of the clearest examples of this sort of consequence. SMEs that rely on exclusionary social networks have managed to get lucrative government tenders, but have failed to turn this social capital into sustainable financial capital. The phenomenal growth of the more than 40,000 registered SMEs in Namibia can be attributed to this, and not all of the registered SMEs are actually operational, as most of these registered SMEs have become briefcase companies targeting SME favored businesses.

These briefcase SMEs or Tenderpreneurs exist to target government tenders and move from project to project. Furthermore, they do not operate in any specialized sector and often do not have business premises and solely survive from tenders and therefore poses a challenge to SME support structures in Namibia (Grossmann, et al., 2010). As SMEs in this category makes it difficult for other SMEs to compete or raises equity for expansion

purposes. As such, the interconnection between the theory of social capital and challenges faced by SMEs in raising finance cannot be under-estimated. As such, an interconnection is revealed as inherently embedded in every challenge that SMEs encounter either consciously or unconsciously (Turyahikayo, 2015).

2.3.3 Capital Structure Theories

The SMEs access to finance is determined by whether they are efficient enough to pay back the money in their operations. However, most SMEs in Africa, as highlighted by the refugee effect are necessity-driven and exhibit high levels of inefficiencies in their operations. Oscarsson, (2007) argues that this low efficiency of SME's in Africa is due to lower levels of social capital or social structure in African countries.

According to Mazanai & Fatoki (2011) described Capital structure as the mix of debt and equity that a firm uses to finance its operations. They posited that the theoretical principles underlying capital structure can generally be described in terms of the static trade-off theory by Modigliani and Miller (1958, 1963), the agency theory by Jensen & Meckling (1976) and extended by Stiglitz and Weiss (1981) and the pecking order theory by Myers (1984) (Mazanai & Fatoki, 2011). The static trade-off theory claims that a firm's optimal debt ratio is determined by a trade-off between the losses and gains of borrowing, holding the firm's assets and investment plans constant (Shoopala, 2014).

The Credit Rationing Theory by Stiglitz & Weiss (1981) is an extension of the agency theory by Jensen & Meckling (1976). In their formulation, Stiglitz and Weiss (1981) argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance (Gichuki, Njeru, & Tiramba, 2014). The premise of their argument was that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk (Mazanai & Fatoki, 2011).

The Stiglitz and Weiss's theory therefore supports the calls for government intervention in SME's access to finance on the grounds of an explicit account of market failure. This implies that if credit rationing significantly affects SMEs credit markets, a rationale exists for supporting small enterprises through government programs aimed at improving their access to credit (Gichuki et al., 2014).

Lastly, Myers (1984) Pecking Order Theory (POT) is based on the premise of asymmetric information between firms and investors. According to Gichuki et al. (2014) the theory suggests that these information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt.

Thus proposing a pecking order that starts with using internal funds, then debt financing when internal equity is exhausted, resulting to external equity (Gichuki et al., 2014).

The POT is relevant for the SME sector due to the relatively greater information asymmetries and the higher cost of external equity for SMEs. Furthermore, SME owners often want to retain control of the firm and maintain managerial independence. Therefore, the theory suggests that SME owners source their capital from a pecking order of first, their own money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and least preferred of all from the introduction of new equity investors, which represents the maximum intrusion (Gichuki et al., 2014). In designing SME support structures, the government should create pecking order levels of support, which if combined with social capital will enhance the access of finance for entrepreneurs, as they seek finance first from their own resources, and then friends and families, and then from other sources such as banks (Gichuki et al., 2014).

2.4 Challenges of SMEs in Accessing Finance

Access to finance is necessary to create an economic environment that enables firms to grow and prosper (Klapper, 2011). SMEs in developing countries, face significant barriers to finance. Financial constraints are higher in developing countries in general, but SMEs are constrained by gaps in the financial system as such high administrative cost, high collateral requirements and lack of experience within financial mediator (Ogbokor & Ngeendepi, 2011). Increased access to finance for SMEs can improve

economic conditions in developing countries by fostering innovation and GDP growth (Omare, 2015). Several studies highlight access to finance as one of the driving factors of an enabling economic environment (Dziri, 2013; Klapper, 2011; Ogbokor & Ngeendepi, 2011; Omare, 2015; Piperopoluos, 2012).

Mazanai & Fatoki (2011) pointed out that credit guarantee and other government intervention schemes are a failure and there is no sufficient reason for government intervention by means of publicly-funded schemes and question the cost-effectiveness of such schemes. Mazanai & Fatoki (2011) further cite Green's (2003) assertion that, the main argument advanced by government officials in favour of government intervention is the assertion that small businesses are faced with a systematic lack of finance and that the economy in general would benefit from increased small-firm access to credit. However, they still agreed that there is no clear justification of the underlying reasons for the need for government intervention than to address the problem of asymmetric information and the high transaction costs related to the uncertainty surrounding repeat lending (Mazanai & Fatoki, 2011).

Mazanai & Fatoki (2011) argues that credit bureau and microfinance institutions provides a more effective interventions than the government. This is supported by Hitchens (2002), who argued that government intervention has often been ineffective as it did not address the underlying market failures. Government intervention often ignores market signals in trying to achieve objectives and underestimates the information needed

for effective interventions. Therefore, government intervention in SME's access to finance should take consideration of its limited capacities, competencies and capabilities, for their interventions to be effective and appropriate (Mazanai & Fatoki, 2011).

2.4.1 Capital Structure Issues

The fact that SMEs have not made the desired impact on the Namibian economy in spite of all the efforts and support from government, civil society and private sector underscores the extent to which SMEs are challenged. Lack of adequate financial resources places significant constraints on SME development (Hansohm & Mastaert, 2013). Klapper (2011) notes that SME development is mostly constrained by the limited availability of financial resources to meet a variety of operational and investment needs. For instance, in South Africa constrained access to finance for start-up SMEs is a cause of concern, with only about two out of every ten applications for credit by start-up SMEs are approved (Mazanai & Fatoki, 2011). There appears to be failures in the financial sector to provide impressive access to finance for SMEs, which calls for government intervention to assist SMEs, on the basis of SME credit market imperfections. Market imperfections provide strong justification for the need to provide government support to the SME sector, as leaving the SME sector without government or donor support can increasingly jeopardize their growth and survival (Mazanai & Fatoki, 2011).

Much of the SME financing is provided primarily by banks with loans being backed by credit guarantees or collaterals (Klapper, 2011). The theory of social capital puts

emphasis on social networks and reciprocity arising from such networks (Mazanai & Fatoki, 2011). In the absence of social networks, SMEs continue to struggle with scarcity of collateral to secure bank loans. According to Turyahikayo (2015) banks consider lack of collateral as high credit risk because of the transaction costs associated with availing credit to such SME companies. Turyahikayo (2015) argues that limited social networks impede the ability of SMEs to secure non-collateral securities. This is not to imply that SMEs do not secure loans from banks.

Mazanai & Fatoki (2011) explains that when SMEs do get loans from financial institutions, they are often charged a commission for assuming risk and apply tougher screening measures, which drives up costs for SMEs. In addition to collateral, SMEs are required to demonstrate that they have sufficient equity to contribute to their businesses, which many of them lack (Gichuki et al., 2014). The cost of accessing the finance includes processing fees, negotiation fees, interest rates, personal insurance, legal fees and travelling expenses that the entrepreneurs meet in the process of acquiring credit (Hansohm & Mastaert, 2013).

The cost of borrowing restricts access to external finance for some borrower groups, due to transaction costs which are restrictive and have often resulted in financial exclusion of some borrower groups and even more constraining for small and micro enterprises (Gichuki et al., 2014). Unlike other credit categories, such as consumer credit or mortgage lending have seen improved financial inclusion. According to the 2011 edition

of FinScope Consumer Survey for Namibia, were the proportion of the financially excluded population fell from 51% in 2007 to 31% in 2011 (Brouwers, Chongo, Millinga, & Fraser, 2014). SME lending is still considered a high-cost lending product due to the diverse SME characteristics and their relative opaqueness, which increases assessment and monitoring costs, unlike other lending products that can be reduced to simple transactions. Turyahikayo (2015) points out that irrespective of risk profile considerations, the handling of SME financing is an expensive business. Many bankers perceive that small business require much more advisory support-hand than large corporate client does. All these involve cost.

Financial illiteracy and complexities is a major problem throughout the world and has been identified as one of the key reasons why SMEs are unable to access loans (Gichuki et al., 2014). Given the negative impact that financial exclusion can have on the economy, Namibia strives to reduce the financial exclusion rate through its Financial Sector Strategy (FSS) 2011-2021 (Republic of Namibia, 2011). As such, the document defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections (i.e. micro- and small enterprises) and low income groups, at an affordable cost (Republic of Namibia, 2011).

It has been observed that a key factor that makes the SMEs unable to access financial assistance is financial illiteracy and a lack of understanding in the operations

of banks and vice versa. Most SMEs, which are not able to properly comprehend the fine print of the terms and conditions, are often ignorant of the interpretation of the percentage charged on the loans and become alarmed when the repayment periods tend to be longer than expected (Brouwers et al., 2014). The FSS encourages lender to raise awareness on the information they require from SMEs before they can lend to them, things like audited financial information, convincing business plan, and bankable proposal (Republic of Namibia, 2011).

It is thought that microfinance institutions are doing a good job by providing loan facilities for SMEs, but they sometimes do not tell the truth (Brouwers et al., 2014). Some of these institutions take advantage of their educational weakness, and for one reason or the other, refuse to give details and explain the interest rates and its implications on the loans lend to small business (Gichuki et al., 2014).

Turyahikayo (2015) posits that in addressing the capital structure challenges, there is need for interventions that links social capital, human capital and financial capital. His proposition stated that if SMEs develop social networks, then they will be able to realize social capital which will leads to an increase human capital and financial capital as already discussed under the theory of social capital. In addition, there is a need to review and establish opportunities that will help expand financial instruments and improve access to business finance as articulated in FSS. Specifically, opportunities such as equity financing and other non-bank loan financing, as outlined in the revised MSME Policy

Zero draft. Knowledge of long term financing and business and financial literacy are synonymous, therefore it is prudent to contend that long term financing requires long term planning embedded in the comprehensive national skills development framework (Turyahikayo, 2015).

2.4.2 Operational and Performance Issues

According to the World Bank Enterprises Survey (2015) access to finance improves firm performance, facilitates market entry and risk reduction for SMEs not only, and also promotes innovation in business activities. The World Bank Enterprises Survey (2015) reveals that in low-income countries, on average 43% of businesses with 20 to 99 employees' rate access to finance as a major constraint to current operations while in high-income countries, only 11% of businesses of the same size rate access to finance as a constraint. World Bank (2014) noted that credit facilities might be needed for SMEs to make the jump of their business activities and they will provide a stronger boost in economic growth and development.

SMEs can be reliable borrowers if they are given the chance to start or improve viable business and to become economically active (Hansohm & Mastaert, 2013). In addition to that, the real challenges of any micro credit scheme are to reach the needy entrepreneurs who have no access to formal credit and have a potential of becoming economic sustainable (Marrakkatu, 2012). To ensure the sustainability of SMEs, financial institutions and other stakeholders can introduce innovative strategies to meet

financial needs of SMEs, since the success of any SMEs depend on the financial sustainability and its impact on economic growth and development (Grossmann et al., 2010).

There is a strong interdependence between human capital, social capital and financial capital. Technical and management skills will determine the amount of social and financial capital generated for the SMEs (Mazanai & Fatoki, 2011). SME owners often want to retain control of the firm and maintain managerial independence, therefore do not hire SME qualified people as suggested by the pecking order theory, they are least likely to trust anyone with their own money (personal savings and retained earnings). In designing SME support structures, the government should create pecking order levels of support. For instance, they need to design cluster based incubation centers that ensures the SMEs complement each other in a collaborative manner by capitalizing on the technical and management skills of the SME owners. This will encourage innovation, as opposed to repetitive SMEs (Gichuki et al., 2014). As such, SMEs which lack good quality human capital will be able to benefit from an SME in the center that specializes on marketing or financial planning and drafting good business plans. Inadequate human capital hinders the ability of SMEs to strengthen their capacity to receive financing (Grossmann et al., 2010). In addition, due to their small size, a simple management mistake is likely to lead to collapse of SMEs hence no opportunity to learn from its past mistakes (Oscarsson, 2007).

Many SMEs stay small and informal and use simple technology (Kauffmann, 2005). Ethics in business is an important element for the survival of enterprises regardless of size. The theory of social capital underscores the importance of trust in social networks at both individual and organizational level (Turyahikayo, 2015). Small business owners are not transparent and do not give the true information about their assets, liabilities, profits and others to tax collectors, their employees and outsiders (Klapper, 2011). This poses the information asymmetry issues discussed in theory, with access to external finance depending on an open trade of information between the SME and the financiers. More transparency and better dialogue between SMEs and financial institutions can help to solve some of the challenges SMEs face in accessing loans (Mazanai & Fatoki, 2011). The refusal of small business owners to give right information about their business to outsiders make it difficult to assess creditworthiness and also difficult to lend (Hansohm & Mastaert, 2013).

Turyahikayo (2015) suggests two ways in which SMEs can neutralize the challenge of informational asymmetry. Firstly, they can explore relationship lending which is enhanced by social networks because it relies primarily on soft information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community in which they operate (Turyahikayo, 2015). Secondly, by adopting clear accounting standards, setting up independent, competent and reputable accounting firms and creating more credit bureau supplying data on the

solvency of firms, banks can able to obtain relevant information from SMEs without having first to hustle with them (Turyahikayo, 2015).

In South Africa, Banks like FNB have partnered with SMEs with Pastel Accounting software to manage all their accounting and management using internet banking. However, this has opened this SMEs to electronic frauds but it has proved to be an effective way to earn the banks' trust. This has resulted in the SMEs on these programs getting loan from the banks due to the transparency of the program. Using the accounting software makes it easier for the SMEs to present financial statements and also pay their VAT and tax returns effectively. Given the reduced information risk arising from audited financial statements, potential lending institutions may offer low interest rates as well. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders (Mazanai & Fatoki, 2011).

2.5 Summary

The chapter looked at the theories that underpin the study. The theories are the finance, specifically, Schumpeterian theory, the refugee effect, the theory of social capital and capital structure theories such the pecking order theory and credit rationing theory. The reasons that make banks reluctant to loan money to SMEs, as well as the challenges SMEs face in access finance were discussed.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology used in this study and the reasons the researcher chose the methodology. The chapter discusses the research methodology, including sampling strategy, research instrument, data collection and processing procedures, reliability and validity, as well as ethical considerations.

3.2 Research Design

The research design provides a framework or plan of action for the research and may also be classified in terms of their purpose. Saunders, Lewis & Thornhill (2009) notes that research design can be categorized into three broad categories such as qualitative, quantitative and mixed research designs. This study used a quantitative research approach, which is informed by a positivist perspective (Welman, Kruger & Mitchell, 2014).

The study used a quantitative descriptive correlational design, in an attempt to describe the challenges in accessing finance by SMES in Namibia. Creswell, (2014) explained that in the non-experimental quantitative descriptive correlational designs, researchers use correlational statistics to describe and measure the degree of associations between

two or more variables. Furthermore, in descriptive studies questionnaires are used to obtain data about practices and to make judgements about practice or situations. The quantitative descriptive correlational method use larger samples and results are generalized to the larger population from which the sample was selected. However, for this study, a case study sample was selected, with aim of generalizing the findings to SMEs that receive site support services within SMEs Incubation Centres in Namibia.

3.3 Population

The target population for this research is the various SMEs receiving site and premises support in SME Incubation centres in Namibia. However, there was no documented data on the total number of SMEs in these centres. Therefore, the Bokamoso Entrepreneurial Centre's total number of SMEs will be sample representative of registered and certified SMEs benefiting from government programs and initiatives intended at improving the access to finance for the SMEs in Namibia.

3.4 Sample and Sampling Methods

The sample size for the study is 38, which is the number of all SMEs operating in the Bokamoso Entrepreneurial Centre. This is because there was no documented data on the total number of SMEs in the SME Incubation Centers around Namibia, therefore the Bokamoso Entrepreneurial Centre's total number of SMEs was a sample representative of all the Incubator SMEs in Namibia. This sampling method is referred to as a convenient quota non-probability sampling, which was considered appropriate due to the varied

nature of the types and profiles of SMEs in Namibia and also the Bokamoso Entrepreneurial Centre (Saunders et al., 2009).

3.5 Research Instrument

Survey questionnaires (Appendix A) and interviews were used in this research, to evaluate and analyze challenges encountered by SMEs in development of their businesses including accessing finance. However, the researcher first piloted the questionnaire on at least ten SMEs operating from anywhere else besides the target Centre to give an indication as to whether the answers would be relevant and consistent. Both qualitative and quantitative data sources were used. Therefore, nominal scale was used to collect and establish the test from the variables data (Welman, Kruger, & Mitchell, 2014).

3.6 Data Collection Procedures

The data collection method employed for the study involved the use of questionnaires through a self-administered questionnaire survey. Saunders et al. (2009) posits that the survey strategy is a popular and common strategy in business and management research and is most frequently used to answer who, what, where, how much and how many questions. As such, the data was collected through a semi-structured questionnaire that combined open ended and closed-ended questions. Before distributing the questionnaires to the participants, the researcher first discussed the cover letters with participants and informed consent and then show them how the questionnaire should be answered without

leading participants in the answers required. For those with English language challenges the researcher translated the questions to the participants. After the respondents finish filling in the questionnaires, the questionnaires were collected for analysis (Kumar, 2014).

3.7 Data Analysis

Data analysis commenced immediately following data entry, cleaning, and checking of the data. The data from questionnaires were transferred directly from the completed questionnaires to the prepared SPSS version 22 computer database matching the format used for the questionnaires. Each questionnaire was checked systematically, meaning each questionnaire was handled one at a time. Data entry was combined with validation whereby range, structure, and consistency checks pre-programmed in SPSS, this allowed the detection and immediate correction of errors. At this stage, questionnaires with gross errors that cannot be resolved were rejected. All respondents' questionnaires were given computer-derived codes that are specific for each respondent (Wegner, 2010). To achieve the objectives of the study, both descriptive and non-parametric analysis were employed in the study. The descriptive tools used included univariate analysis using the central measures of tendency and presented in tables and charts.

3.8 Reliability and Validity

According to Rugg and Petre (2010) validity refers to the extent to which an empirical measure accurately reflects the concept it is intended to measure. In terms of qualitative

research, validity can be achieved through depth, honesty, richness of data obtained, and the extent of triangulation, disinterest of the researcher or objectivity of the researcher. Research validity was established through the research instrument. The validity of research instruments is therefore established through catering for all of the needs of the research problem or topic. Thus, this research will only prove reliable if other researchers derive on the same findings and conclusion. In establishing face validity, the research instrument was submitted to supervisor for assessment and ensured that the questions assessed the test characteristics identified by the researcher. In establishing content validity, the research was aligned to research objectives and each question on the questionnaire will have corresponding literature in chapter 2 (Saunders et al., 2009).

According to Saunders (2014) reliability can be defined as the extent to which independent administration of the same instrument (or similar instrument) consistently yields the same results under comparable conditions. Additionally, Rugg and Petre (2010) states that reliability deals with how closely the answers agree with each other, as opposed to how closely they agree with reality, which is what is meant by validity, also known as external reliability. In this study, reliability was tested through familiarity with the environment in which the study was conducted. In addition, the research instrument was subjected to a test – retest technique, based on the assumption that the phenomenon to be measured remains unchanged at two times of testing and that any change is the result of random error (Wegner, 2010)

3.9 Research Ethics

This research was conducted in a manner that best suit all the participants in this research. The researcher respected the respondent's interests, however both parties were expected to value each other interest in this regard. The researcher made prior arrangements and appointments before the commencement of the research. The researcher also respected the respondent's privacy as well as treating the provident information confidentiality where it is necessary (Saunders, 2014). The collected data was kept safe in a lockable safe with only the researcher having access to it; the collected data would be then destroyed after the period of five years. Both parties should form a good relationship among each other, since this study was for the benefit of not only the researcher and SMEs under the City of Windhoek, but also for the growth economy and development of the country. Hence, the responded were expected to provide reliable and accurate information as recommendations will be made to the City of Windhoek to overcome the challenges experienced by SMEs in Namibia especially access in financing their business activities.

3.10 Summary

The chapter looked at the research design and methodology used in this research. The chapter also discussed population, sampling strategy, research instrument, data collection and processing procedures, reliability and validity, as well as research ethics. The next chapter presents and analysis the findings.

CHAPTER 4

RESULTS, DISCUSSION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents results of the study, the discussion and interpretation of the findings. The collected data was analyzed following data entry, cleaning, and checking. The data from questionnaires is transferred directly from the completed questionnaires to the prepared SPSS version 22 computer database matching the format used for the questionnaires. Each questionnaire is checked systematically, meaning each questionnaire is handled one at a time.

Data entry is combined with validation whereby range, structure, and consistency checks using the codebook function in SPSS to allow for the detection and immediate correction of errors in data entry. At this stage questionnaires with gross errors that cannot be resolved are rejected. All respondents' questionnaires are then given computer-derived codes that are specific for each respondent to maintain anonymity (Wegner, 2010). To achieve the objectives of the study, both univariate descriptive analysis was used and inference statistics are then used to interpret the finding of the study and answer the research questions.

4.2 Business Profile of the SMEs Respondents

The Bokamoso Entrepreneurial Centre consists of 43 stalls which are currently occupied by 38 small business entrepreneurs and offers a one stop shop of variety of products and services to the general public. The researcher administered a total of 38 questionnaires, one for each stall and the researcher had challenges getting the questionnaires back. It seems the Bokamoso Entrepreneurial Centre is very popular with researchers due to its proximity to the main campuses of the three main universities in Namibia. The respondents had three more research questionnaires from fellow researchers from UNAM, NUST and IUM. They noted that they were too busy to be answering every questionnaire they were given.

Adhering to the principle of informed consent, the researcher asked the respondents if it was okay to fill in their responses to the questionnaire as they worked, however some of them were did not give consent and were omitted, resulting in only 24 out 40 respondents answering. This represents a response rate of 63.16%, which was adequate for the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study. The aims to investigate the challenges in accessing finance by SMES in Namibia, focusing on the SMEs operating in the Bokamoso Entrepreneurial Centre in Windhoek.

Using the Questionnaire (Appendix A) the study sought to know the distribution of the respondents by legal status, sector, years in operation, average monthly turnover and the number of employees. Table 4.1 presents the findings.

Table 4.1 Business Profile of SME Respondents (N=24)

Item	Description	Frequency	Percent
Legal status	Closed Corporation	23	95.80%
	Sole proprietor	1	4.20%
Operation sector	Retail trading	3	12.50%
	Manufacturing	15	62.50%
	Services	6	25.00%
Years of operation	Less than 1 year	7	29.20%
	Between 1 and 5 years	10	41.70%
	Between 6 and 10 years	7	29.20%
Number of employees	2 Employees	1	4.20%
	3 Employees	12	50.00%
	4 Employees	8	33.30%
	5 Employees	3	12.50%
Average monthly turnover	N\$5 000-N\$10 000	3	12.50%
	N\$10 001-N\$15 000	4	16.70%
	N\$15 001-N\$20 000	4	16.70%
	N\$20 001-N\$25 000	8	33.30%
	More than N\$25 000	5	20.80%

Table 4.1 shows that 95.8% of the SMEs are legally registered with the MTISD, as Closed Corporation (CC), with only one sole proprietor. The Namibian Government through the SME Policy uses a criteria defined by the number of employees, annual turnover and capital employed to issue the SME certificate (Jauch, 2010). SME definition is used for eligibility for special support and the SME Certificate guarantees eligibility for support from a variety of areas, which include government preferential procurement schemes, financial support, capacity building, mentorship and other institutional support for SMEs (Jauch, 2010).

Table 4.1 indicates that the SMEs are predominantly in manufacturing (62.5%), services (25%) and retail trading (12.5%). According to MITSD (2015) the 1997 SME definition did not include the micro enterprises and only differentiated between MSMEs engaged in manufacturing activities and all other businesses. As result, the revised MSME Policy proposes a revised version of the Namibian MSME definition, which is in line with internationally acknowledged standards where MSMEs are defined according to the number of employees and annual turnover (MITSD, 2015).

The Bokamoso businesses had a minimum 2 employees (4.2%) and a maximum of 5 employees (12.5%). The majority of the businesses had 3 employees (50%) followed by those with 4 employees (33.3%). This makes them micro enterprises and their average monthly revenues confirm this that largely less than N\$25,000, since monthly revenue of N\$25 000 will give an annual turnover of N\$300,000 as defined in the MSME Policy

(MITSD, 2015). However, Table 4.1 shows that 20.8% of the businesses having an average monthly income above N\$25,000. While, 33.3% range between N\$20, 000 and N\$25, 000. This implies that the Bokamoso businesses are operating at the upper limits of micro enterprises and are struggling to grow to the next level considering that 29.2% of these business have been operation for six to ten years (Table 4.1). The results also indicate that 41.7% of the businesses have been in operation for one to 5 years, while 29.2% have been in operation for less than year.

Lastly, there is a strong positive correlation between average monthly turnover with years of operation ($r = 0.624$, $p = 0.017$) and the number of employees ($r = 0.694$) in the business. This implies that businesses that have a higher monthly turnover are more likely to survive in operation for longer and is more likely to hire more employees. This is consistent with the World Bank's Enterprises Survey (2015), which noted that access to finance improves firm performance, facilitates market entry and risk reduction for SMEs not only, and also promotes innovation in business activities. Therefore, credit facilities are needed for SMEs to make the jump of their business activities and increase the monthly turnover and provide a stronger boost in economic growth and development through employment creation (World Bank, 2014).

4.3 Factors Influencing the Decision to Startup the Business

According Piperopoluos, (2012) entrepreneurs start businesses in order to achieve personal objectives and satisfy needs, rather than maximize profit and growth. However, SMEs are affected by a lack of finance to sustain their business activities. The fundamental reason for starting a business is generally accepted as a key distinguishing factor between entrepreneur and lifestyle firm owner. The SME respondents were asked an open ended question on what influenced their decision to startup the business. The responses were analysed and key themes emerged from the assessment, these were then categorized into the five reasons. Table 4.2 presents the results.

Table 4.2 Decision for Startup and Business Profile Crosstab

Decision for Startup	Make a living (N=6)	Employment Creation (N=10)	Exploit a business opportunity (N=8)	Total (N=24)
Descriptives	Mean (S.D)	Mean (S.D)	Mean (S.D)	Mean (S.D)
Years of operation	1.83 (0.41)	1.70 (0.82)	2.50 (0.76)	2.00 (0.78)
Operation Sector	2.67 (1.37)	3.10 (0.88)	3.13 (0.35)	3.00 (0.88)
Number employed	3.17 (0.75)	3.60 (0.84)	3.75 (0.71)	3.54 (0.78)
Average month turnover	3.83 (1.17)	4.20 (1.40)	4.88 (1.36)	4.33 (1.34)

Table 4.2 indicates the three main reasons that led to the startup of the Bokamoso Centre SMEs. The results show that the business which were started for the reason of *Making a*

living have the least values for *years in operation* (M = 1.83, S.D = 0.41), *number of employees* (M = 3.17, S.D = 0.75) and *average monthly turnover* (M = 3.83, S.D = 1.17). While, those who decided to *create employment* for themselves and others had comparable values for *years in operation* (M = 1.70, S.D = 0.82), *number of employees* (M = 3.60, S.D = 0.84) and *average monthly turnover* (M = 4.20, S.D = 1.40).

Table 4.2 also shows responses from SMEs who start the business to *exploit a business opportunity* show values on the higher side for *years in operation* (M = 2.50, S.D = 0.76), *number of employees* (M = 3.75, S.D = 0.71) and *average monthly turnover* (M = 4.88, S.D = 1.36). These businesses are more sustainable and have higher monthly turnovers from exploiting the business or market opportunity, which allows them to hire more people. However, they are often restricted by lack of expansion capital and general access to credit which stunts their growth. In exploring the challenges of access to finance faced by SMEs in Namibia, understanding the reasons for start up the business provides an indication of whether the business was necessity driven or opportunity driven. The findings imply that the decision to startup the business has a bearing on the growth and success of that business.

This is in line with Dziri's (2013) assertion on the growth of SMEs in developing countries. He argues situations of high unemployment rates results in high level of the entrepreneurial activity through what he termed the refugee effect, which pushes people towards self-employment. Dziri's (2013) posits that reasons that led to the startup leads

to two distinct startup SMEs that are either necessity driven or opportunity driven. This study shows that the businesses that were started based on the *making a living* (25% of the SMEs) and the *employment creation* (42.7%) decisions are the necessity-driven SMEs. While, those that were started to *exploit a business opportunity* (33.3%) are the opportunity-driven SMEs (Dziri, 2013).

Oscarsson (2007) supports the view that necessity-driven SMEs are Africa's way out of poverty. Welman (2014) asserts that the predominance of refugee effect on SMEs in Africa is a result of poor legal and financial systems, lack of skilled human capital and social fragmentation. Therefore, SME owners need collaborate and cooperate with each, instead of setting up repetitive necessity-drive SMEs. Through cooperation and collaboration the SMEs can build enough social capital to become self-sufficient (Oscar, 2007).

4.4 Challenges of Access to Finance faced by SMEs in Bokamoso Entrepreneurial Centre

This section presents the findings from questions relating to the financing issues of the SMEs are facing, these include the challenges in accessing finance, available options and the future of the business.

4.4.1 Major Constraints on Access to Finance

In order to understand the major constraints affecting the SMEs with regards to access to finance, the respondents were asked about the major constraints to the growth of their businesses. Table 4.1 presents the findings.

Table 4.1 Major Constraints on Access to Finance

Variables	Description	Count	Percent
Major constraints	Lack of finance	6	25.0%
	Failure to get government grants for SMEs	4	16.7%
	Lack of machinery to meet demand on time	5	20.8%
	Lack of market access and customer awareness	5	20.8%
	Too much competition	4	16.7%

Table 4.1 indicates that lack of finance (25%) was the major constraint, followed by lack of machinery (20.8%) and lack of market access (20.8%) which also require finances. This implies that by challenges in accessing finance impacts on the SME's performance, as the fail to meet customer demand on time as the lack the machinery needed for expansion and efficiency. Furthermore, they fail to raise customer awareness to their products and services, which in turn affects their market access and monthly turnover. SMEs are constrained mainly by the gaps in the financial system as such high

administrative cost, high collateral requirements and lack of experience within financial mediator (Ogbokor & Ngeendepi, 2011).

Table 4.1 also shows that 16.7% of respondents highlighting the failure to get government grants for SMEs as a major constraint. Since, the government concedes that the existing SME funds can only cater for an average of 1,260 out of the 40,000 registered MSMEs in Namibia (MITSD, 2015). The government believes that SMEs access to financial services can boost job creation, raise income, reduce vulnerability and increase investments in human capital (MITSD, 2015). The Stiglitz and Weiss's theory supports the Namibian government's intervention in SME's access to finance on the grounds of an explicit account of market failure. The assumption is that credit rationing significantly affects SMEs credit markets, and supporting small enterprises through government programs would be effective in improving their access to credit (Gichuki et al., 2014).

However, Mazanai & Fatoki (2011) argued that credit guarantee and other government intervention schemes were a failure. As there is no sufficient reason for government intervention, through these publicly funded schemes, which are not always cost-effective. This is supported by the fact that SMEs have not made the desired impact on the Namibian economy, despite all the efforts and support from government, civil society and private sector.

Hitchins (2002) agrees that government intervention has often been ineffective, as it did not address the underlying market failures. Government intervention often ignores market signals in trying to achieve objectives and underestimates the information needed for effective interventions. Therefore, government intervention in SME's access to finance should take consideration of the importance of affordable microfinance, as well as the social capital of family and friends (Mazanai & Fatoki, 2011).

The power of social capital can be both positive and negative achieve goals that are negative. Government programmes for SMEs might end up not reaching the intended groups due to nepotism, tribalism, political patronage and criminal networks, which are some of the clearest examples of negative impact of social capital. On the other hand, social capital can be used positively, in cases where family and friends can collectively provide the needed collateral for the loan (Turyahikayo, 2015). In consideration of limited and often ineffective government funds for SMEs, there is a need for systematic intervention programmes towards uplifting and weaning off SMEs in government supported premises, like BEC. One way to achieve this would be to ensure that SMEs become reliable borrowers that have access to available funding.

4.4.2 Sources of Funding

In order to understand the extent of access to available SME funding, the respondents were asked about their sources of funding. This included questions on funding at startup and whether they borrowed any funds from banks. Table 4.2 presents the results.

Table 4.2 indicates that 91.7% of the respondents started their businesses with Personal Savings, with 8.3% sourcing funds from family and friends. The results also show how respondents views on their sources of funding, 45.8% rely on family and friends for funds and 29.5% rely on their personal savings. Donor funds (12.5%) and government grants (8.3%) are other key sources of funding for SMEs in Namibia. Cash Loans (4.2%) were also regarded as sources of funding.

Table 4.2 Sources of Funding

Variable	Description	Count	Percent
Finance for start-up	Personal Savings	22	91.7%
	Bank Credit	0	0.0%
	Friends & Relations	2	8.3%
Source of funding	Bank Loan	0	0.0%
	Personal Savings	7	29.2%
	Government Grants	2	8.3%
	Donor Funds	3	12.5%
	Cash Loan	1	4.2%
	Family/Friends	11	45.8%
Ever applied for bank loan	Yes	4	16.7%
	No	20	83.3%
If no why not	Do Not Like Bank Loan	2	8.3%
	Interest Rate Too High	4	16.7%
	No Collateral To Pledge	14	58.3%

Table 4.2 also shows that 83.3% of the respondents have never applied for a bank loan and the reasons forwarded include having no collateral to pledge (58.3%), very high the interest rate (16.7%) and 8.3% reported that they do not like loans. The lack of collateral to pledge (58.3%), poses a great challenge for SMEs' access to finance, which forces them to rely on personal savings (29.2%) and their social networks (45.8%). Therefore, SMEs that manage to develop and maintain strong social networks more likely to have improved access to finance for funding their operations.

In support, Turyahikayo (2015) argued for social network based sources of funding provided by extended family, community-based or organizational relationships. These social networks are theorized to supplement the effects of education, experience, and financial capital through reciprocity. This is due to the theory of social capital, which posits that individuals and organizations will always engage in social networks in order to generate profits (Turyahikayo, 2015). These results also shows the respondents not willing to deal with formal banking institutions, due to the interest rates and the collateral requirements. As such, there is a crucial need for the establishment of microfinance institutions, which will bridge this gap and improve SMEs' access to finance. Mazanai & Fatoki (2011) supports these assertions by arguing that credit bureau and microfinance institutions could provide more effective interventions than government support programmes.

Furthermore, Banks intent on designing SME support programmes, could employ a pecking order support strategy that would start with overdrafts, then bridging finance or trade finance and ends with long terms loans. This approach would greatly improve the relationships between the banks and the SMEs, which would lead to improved SMEs' access to finance (Gichuki et al., 2014). A good example is the FNB South Africa's SME support programme, where they have partnered with SMEs that use Pastel Accounting software to manage all their accounting and management through internet banking. This service allows the bank to understand the operations and the cash flows of the business, which makes it easier to build trust between the bank and its SME clients. This has resulted in the SMEs on these programs getting loan from the banks due to the transparency of the program. Using the accounting software makes it easier for the SMEs to pay their VAT and tax returns effectively, as well as, the presentation of accurate and credible financial statements. Additionally, audited financial statements would improve borrower's credibility and given the reduced information risk arising from audited financial statements, potential lending institutions may offer low interest rates as well (Mazanai & Fatoki, 2011).

4.4.3 Access to Credit from Financial Institutions

The respondents were asked if they had access to credit facilities from financial institutions. Those who answered in the affirmative would then be requested to give more information on the type of institutions that granted them access to credit. Out of the 26 respondents only 4 (16.7%) reported that they had access to credit facilities and they were

all granted access by microfinance institutions. They were then asked how long it took their credit to be granted after application, as well as the duration of payback of the credit. Table 4.3 presents the results.

Table 4.3 Access to Credit facilities and Loan Duration Cross Tabulation

Loan Duration		Access credit from microfinance Count (%)
Duration for loan application	within a month	2 (50%)
	1-3 months	2 (50%)
Duration for loan repayment	within 3 months	4 (100%)

Table 4.3 indicates that 50% of the respondents had their loan application was granted within a month, while it took between one to three months for the other 50%. However, loan repayment time was within three months for everyone. The findings show that 83.3% of the MSMEs in Bokamoso are financially excluded and do not have access to finance institutions. While, those having access being limited to second tier microfinance institution, which take too long to approve the loan and have a very short time for loan repayment. In addition, these micro lenders charge very high interest rates of between 15 to 30% per month, which is not sustainable for SMEs to access credit this way. Namibia strives to reduce this financial exclusion through the Financial Sector Strategy (FSS) 2011-2021 (Republic of Namibia, 2011). As part of this strategy the Ministry of Finance is currently drafting a Banking Institutions Bill, which is expected to make provision for

microfinance banking institutions to be set up and regulated accordingly, the aim being to make it easier for SMEs to access finances (Schlettwein, 2016).

4.4.4 Loan information requirements from Banking Institutions

The respondents were asked questions pertaining to loan information requirements like the highest amount your company ever borrowed from a Bank, the purpose of the loan, the information the bank asked for and problems associate with repaying a bank loan.

Table 4.4 presents the findings.

Table 4.4 Loan Information Requirements

Variable	Description	Count	Percent
Highest amount ever borrowed	Less than N\$25 000	4	16.7%
Purpose of loan	Start-up capital	0	0.0%
	Working capital	0	0.0%
	Expansion of business	4	16.7%
Information asked by bank	Collateral	4	16.7%
	Cash flow statement	0	0.0%
	Total assets	0	0.0%
	Audited financial statement/account	0	0.0%
	Business plan	1	4.2%
Ever had loan payback problem	Yes	1	4.2%
	No	23	95.8%
If yes what created problem	Short duration	0	0.0%
	High monthly repayment amount	1	4.2%
	High interest rate	0	0.0%
	Low turnover	0	0.0%

Table 4.4 shows that the highest amount the respondents ever borrowed from a Bank, was less than N\$25,000 (16.7%). The loans were for the expansion of the business (16.7%). The information the bank asked included collateral (16.7%) and business plans (4.6%). The results show that out of the 16.7% who borrowed only 4.2% had problems repaying a bank loan due to high monthly payments. Small business owners are not transparent and do not give the true information about their assets, liabilities, profits and others to tax collectors, their employees and outsiders (Klapper, 2011).

This poses the information asymmetry issues, which results in the SMEs having problems repaying the loan, access to external finance depends on an open trade of information between the SME and the financiers. More transparency and better dialogue between SMEs and financial institutions can help to solve some of the challenges SMEs face in accessing loans (Mazanai & Fatoki, 2011). Turyahikayo (2015) suggests two ways in which SMEs can neutralize the challenge of informational asymmetry. Firstly, they can explore relationship lending which social networks enhance because it relies primarily on soft information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community in which they operate. Secondly, by adopting clear accounting standards, setting up independent, competent and reputable accounting firms and creating more credit bureau supplying data on the solvency of firms, banks can be able to obtain relevant information from SMEs without having first to hustle with them (Turyahikayo, 2015).

4.4.5 SME Relationships with Banking Institutions

In order to understand the relationship between the SMEs with the banks, the respondents were asked how they rate their relationship with bankers and whether banks have ever been refused or denied credit to them. The respondents were further asked the main reason the Bankers did not grant the credit. Table 4.5 presents the findings.

Table 4.5 Relationship with Banking Institutions

Variable	Description	Count	Percent
Rate your relationship with bankers	Excellent	0	0.0%
	Good	5	20.8%
	Average	5	20.8%
	Poor	14	58.3%
Ever refused credit from bank	Yes	5	20.8%
	No	19	79.2%
Reason for loan refusal	Default on Previous Loan	0	0.0%
	No Security to Pledge	1	4.2%
	Too Small Equity Base	0	0.0%
	Lack of Experienced Management	4	16.7%

Table 4.5 indicates that the respondents had a poor relationship with the bankers (58.3%), with the 41.7% of the respondents equally rating the relationship as average (20.8%) and good (20.8%). Consistent, with the poor relationship with banks only 20.8% of the

respondents reported being refused credit from bank. In addition, 5 businesses or 4.2% of the respondents were refused the loan because they did not meet the banks funding criteria such as having a security to pledge.

4.4.6 Challenges facing Bokamoso Entrepreneurial Centre’s SMEs Access to Finance

For a more in-depth analysis, the study focused on the findings from the five businesses that had dealt with financial institutions and failed to meet the banks funding criteria. In line, with ethical considerations, the study assigned random numbers between 1 and 38, in order to maintaining the respondents’ anonymity. Therefore, five businesses are discussed using research appointed number such as operator 3 or operator 24. Table 4.6 presents the results.

Table 4.6 Challenges facing Bokamoso SMEs’ Access to Finance

Operator Number	24	10	9	8	3
Average monthly turnover	Less than N\$25 000				
Years of operation	Less than 1 year		Between 1 and 5 years		
Operation sector	Manufacturing		Retail trading	Manufacturing	Services
No employed	3		4	5	3
Major constraints	Lack of finance	High interest on bank loans	Lack of finance	Lack of finance	High interest on bank loans
Information asked by bank	Collateral	Business plan	Collateral	Collateral	Collateral
Reason for loan refusal	Lack of experienced management	Lack of experienced management	Lack of experienced management	Lack of experienced management	No security to pledge

4.5 Summary

The chapter presented the results of the study, discussion and interpretation of the findings. The chapter started with the business profile information of the SMEs, and then looked at the factors influencing the decision to start-up the business. The challenges of access to finance were presented and discussed under access to credit facilities, sources of funding, relationships with banks and loan information requirements. The chapter closes with findings on challenges facing Bokamoso Entrepreneurial Centre's SMEs access to finance . The next chapter summary, conclusions and recommendations.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of major findings and conclusions of the study. The researcher then presents the recommendations for both the research and for the policy change and practice. The chapter will answer the following research questions research questions by using the findings and analysis given in chapter 4:

- What are the factors affecting the success of SMEs in Namibia?
- How are the SMEs in Bokamoso Entrepreneurial Centre challenged in terms of access to finance?
- What are the implications of access to finance challenges on the performance of the SMEs in Bokamoso Entrepreneurial Centre?
- How can the SMEs deal with such challenges in order to perform well and be sustainable?

5.2 Summary of Findings

The aim of the study was to investigate the challenges in accessing finance by SMEs in Namibia, focusing on the SMEs operating in the Bokamoso Entrepreneurial Centre in Windhoek. The study used a number of theories related to the financing issues and challenges in accessing finance by SMEs, these include the Schumpeterian theory, the

refugee effect, the theory of social capital and capital structure theories such the pecking order theory, as well as the credit rationing theory. A total of 38 questionnaires were administered and the study managed to obtain 24 completed questionnaires representing 63.16% response rate. The questionnaires contained questions that addressed the research questions.

5.2.1 Factors affecting the success of SMEs in Namibia

The study established that SMEs currently operating at Bokamoso Entrepreneurial Centre employed between 2 – 5 employees with average monthly revenues that are largely less than N\$25,000. This implies that the majority of the business are micro enterprises as per the MSME Policy (MITSD, 2015). The study found that these micro enterprises are struggling to grow to the next level even those that have been in operation for six to ten years.

The study also established that a third (33.3%) of the businesses were started in order to exploit a business or market opportunity. These opportunity-driven businesses are more sustainable with higher monthly turnovers and hiring more people. However, they are restricted by lack of expansion capital and general access to credit which stunts their growth. The study found that the necessity-driven SMEs provide way out of poverty for most African entrepreneurs. Through cooperation and collaboration the necessity-driven SMEs can build enough social capital to become self-sufficient (Oscar, 2007). The study found that the strong interdependence between human capital, social capital and financial

capital is the key to successful SMEs in Namibia, where technical and management skills determine the amount of social and financial capital generated for the SMEs (Mazanai & Fatoki, 2011). In addition, social and financial capital generated are needed for SMEs to jump start their business activities and increase the monthly turnover and provide a stronger boost in economic growth and development through employment creation (World Bank, 2014).

5.2.2 Challenges and Implications of Access to Finance on Performance of SMEs in Bokamoso Entrepreneurial Centre

The fact that SMEs have not made the desired impact on the Namibian economy in spite of all the efforts and support from government, civil society and private sector underscores the extent to which SMEs are challenged. World Bank (2015) observed that access to finance improves firm's performance, facilitates market entry and risk reduction for SMEs and also promotes innovation in business activities.

Major Constraints on Performance of the SMEs

The study found out that the major constraints hindering micro and small enterprises from accessing credit facilities to be lack of finance (25%), lack of machinery (20.8%) and lack of market access (20.8%). The study established that the challenges in accessing finance impacts on the SME's performance. The lack of finance leads to a failure in meeting customer demand on time, as they lack the machinery needed for expansion and efficiency. Furthermore, the SMEs would fail to raise customer awareness of their

products and services, which in turn affects their market access and monthly turnover. SMEs are constrained mainly by the gaps in the financial system as such high administrative cost, high collateral requirements and lack of experience within financial mediator (Ogbokor & Ngeendepi, 2011).

Sources of funding

The study found that of the startup funding was mainly from Personal Savings (91.7 %,) and from family and friends (8.3%). The study also revealed that the sources of funding for the business owners includes family and friends (45.8%), rely on their personal savings and retained earnings (29.5%), donor funds (12.5%), government grants (8.3%) and Cash Loans (4.2%) . The study also found that that 83.3% of the respondents had never applied for a bank loan because of no collateral to pledge (58.3%), very high the interest rate (16.7%) and not comfortable taking any loans (8.3%).

Access to Credit Facilities

The study revealed that 83.3% of the SMEs in Bokamoso are financially excluded and do not have access to credit facilities. While, those having access being limited to second tier micro finance repay institutions that take one month to approve the loan and require that the loan within three months. They also charge very high interest rates of between 15 to 30% per month, which is not sustainable for SMEs as it affects the cash flows of the business often leaving the SME in a bigger cash flow problem than before.

Loan information requirements

The study reveals that the SMEs only borrowed amount less than N\$25,000 (16.7%), with the loans meant for the expansion of their business (16.7%). The loan information requirements from the banks were collateral (16.7%) and business plans (4.6%). Additionally, 4.2% of the SMEs had problems repaying a bank loan due to the high monthly payments. Small business owners are not transparent and usually do not give the true information about their assets, liabilities, profits and others to tax collectors, their employees and outsiders (Klapper, 2011). The study established that the banks tend to impute a high risk to small enterprises and are reluctant to extend credit to them especially due to small size, severe competition and inherent vulnerability to market fluctuations.

SMEs' Relationships with Banking Institutions

The study found that of the SMEs relationship with the bankers varied from poor (58.3%), to average (20.8%) and good (20.8%). The study revealed that banks had refused credit to 20.8% of the SMEs because they lacked experienced management (16.7%) or did not have security to pledge (4.2%). The study supports Mazanai & Fatoki (2011) assertions that constrained access to finance for start-up SMEs is a cause for concern and that only about two out of every ten applications for credit by start-up SMEs are likely to be approved (Mazanai & Fatoki, 2011).

5.3 Conclusions

The study sought to investigate the challenges in accessing finance by SMEs in Namibia, focusing on the SMEs operating in the Bokamoso Entrepreneurial Centre in Windhoek. From the study findings, this study concludes that the factors that affecting access to finance in Namibian SMEs are related to human, social and financial capital, where technical and management skills determine the amount of social and financial capital generated for the SMEs. In addition, the social and financial capital generated are needed to jump-start SME business expansion activities and increase their monthly turnover beyond the N\$25,000 limit.

The study concludes that the challenges of access to finance faced by SMEs in Bokamoso Entrepreneurial Centre are related to the years in operation, major constraints, the information requested by the bank and the reasons for refusal. As such, the study concludes that most of the Bokamoso SMEs have been in operation for less than 5 years. In addition, the major constraints facing Bokamoso SMEs were the lack of experienced management that can give the banks confidence and assurance that their loans will be paid back. This results in prohibitively high interest rates and general lack of accessible finance from banks. As the banks view SMEs as high risk and thus require that they pledge a security in the form of collateral before the can be financed.

The study concludes that these financial challenges, affect the overall performance of the SMEs in the Bokamoso Entrepreneurial Centre in Windhoek. As the lack of finance leads

to a failure in meeting customer demand on time, as they lack the machinery needed for expansion and efficiency. Furthermore, the SMEs would fail to raise customer awareness of their products and services, which in turn affects their market access and monthly turnover.

5.4 Recommendations

The study findings yielded the following recommendations in view of the challenges and implications of access to finance on performance of SMEs in Bokamoso Entrepreneurial Centre.

The study recommends that SMEs keep up to date records of business transactions to enable the business to keep track of its operations. SMEs will be at advantage if they keep good business records and maintains a bank account with any of the financial institutions will help the SMEs to have easy access to credit facilities. Having a considerable amount in a bank account with a financial institution means the institution will have an idea of how much of capital the SME operates with, thus serving as a guarantee that SME will be able to pay the credit back in time.

The study recommends that Namibian banks adopt an SME accounting and bookkeeping program. The program should involve partnering with SMEs with Pastel Accounting software to manage all their accounting and management using internet banking. Using the accounting software makes it easier for the SMEs to present financial statements and also pay their VAT and tax returns effectively. Given the reduced information risk arising

from audited financial statements, potential lending institutions may offer low interest rates as well. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders.

Hitchins (2002) agrees that government intervention has often been ineffective as it did not address the underlying market failures. Government intervention often ignores market signals in trying to achieve objectives and underestimates the information needed for effective interventions. Therefore, government intervention in SME's access to finance should take consideration of the importance of affordable microfinance, as well as the social capital of family and friends.

In designing SME support structures, the government should create pecking order levels of support. For instance, they need to design cluster based incubation centers that ensures the SMEs complement each other in a collaborative manner by capitalizing on the technical and management skills of the SME owners. This will encourage innovation, as opposed to repetitive SMEs. As such, SMEs which lack good quality human capital will be able to benefit from an SME in the center that specializes on marketing or financial planning and drafting good business plans. Inadequate human capital hinders the ability of SMEs to strengthen their capacity to receive financing. In addition, due to their small size, a simple management mistake is likely to lead to collapse of SMEs hence no opportunity to learn from its past mistakes. Therefore, government intervention in SME's

access to finance should take consideration of its limited capacities, competencies and capabilities, for their interventions to be effective and appropriate.

5.5 Areas for Further Research

The study recommends further research on the same topic covering all the business incubators in Namibia. The study recommends future research in e-commerce and crowdfunding can be used to revolutionize the Namibian SME sector.

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APPENDIX A: QUESTIONNAIRE

QUESTIONNAIRE FOR SMALL AND MEDIUM ENTERPRISES

Dear Sir/Madam,

I, Ms. Secilia Indileni Shiwoshetu Shilyomunhu, a Postgraduate student pursuing Master of Business Administration (Finance) at the University of Namibia, is currently conducting a research as part of my academic project on **investigating the Challenges in Accessing Finance by the SMEs at Bokamoso Entrepreneurial Centre, Windhoek.**

Therefore, I wish to assure you that the research is purely academic and all information given and views expressed shall be treated with maximum confidentiality. However, it is hoped that the results will be used to influence policy makers to initiate appropriate interventions to facilitate SME access to finance and mentorship programmes.

I kindly request your cooperation in completing this questionnaire.

1. Please, indicate the Legal Status of your business. (Please, place a tick ✓ as appropriate)

Pty Limited Closed Corporation Partnership

Sole Proprietor Family Owned Business

Others (please specify).....

2. Which of the following best describes the operation sector of your business?

(please tick as appropriate)

Retail trading Export Manufacturing

Services Real Estate Farming

Other (specify)

3. For how long has your company been in operation (please tick as appropriate)

Less than one (1) year Between 1 and 5 year Between 6 and 10

years Between 11 and 15 years Over 15 years

4. How many people are employed by your company

5. What is the average monthly turnover of your business?

Less than N\$5,000 N\$ 5,001 – N\$10,000

N\$10,001 –N\$15,000 N\$15,001 –N\$20,000

N\$20,001 –N\$25,000 more than N\$25,000

6. What influenced your decision startup the company?

Section B.

The following questions relate to the financing issues of your company: the challenges in accessing finance, options your company is resulting to and future of your business.

7. Do you access credit facilities from financial institutions?

Yes no

8. If yes, which type of institutions do you access credit from?

Banks microfinance savings & loans others

9. How long does it take for your credit to be granted after application?

Within a month 1-3 months more than 3 months

10. What is the duration of payback for your credits?

Within 3 months 4-8 months 9-12 months more than a year

11. How did you finance the startup of the business?

Personal Savings Bank credit Friends & Relations

Others (Specify).....

12. What are your sources of funding for the business? (Tick all that apply)

- Bank loan Personal savings Retained profits
Private institutions Trade credit Cash Loan
Family/friends Other (specify).....

13. Has your company ever applied for credit from a Bank? Yes / No

11. If No, why not? (i) Do not like Bank Loan
(ii) Interest Rate too high (iii) No collateral to pledge
(iv) Others (specify)

14. How do you rate your relationship with your bankers?

- Excellent Good Average Poor

15. Have you ever been refused or denied credit from a bank? Yes / No

16. What was the main reason your Bankers refused offering you loan?

- (i) Default on previous loan (ii) No Security to pledge
(iii) Too small equity base (iv) Lack of experienced Management
(v) Others (Please specify)

17. What was the highest amount your company ever borrowed from a Bank:

- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Less than N\$25,000 | <input type="checkbox"/> | N\$25, 000 to N\$250,000 | <input type="checkbox"/> |
| N\$250,001 to N\$475,000 | <input type="checkbox"/> | N\$475,001 to N\$700,000 | <input type="checkbox"/> |
| N\$700,001 to N\$925,000 | <input type="checkbox"/> | Above N\$925,000 | <input type="checkbox"/> |

18. What was the purpose of the loan?

- Startup capital Working capital
- Expansion of business Other (specify).....

19. What information did your bank asked for? (Tick all that apply)

- Collateral Cash flow statement Total Assets
- Audited financial statement/account Business plan
- Other (specify).....

20. Have you ever had problem repaying a bank loan? Yes / no

21. If yes, what created the problem?

- Short duration High monthly repayment amount
- High interest rate Low turnover
- Others (specify)

22. In your opinion, what are the major constraints to the growth of your company?

(Tick All that apply)

Lack of finance Competition High interest on bank loans

Taxes Other

(specify).....

Thank You.