

**AN ANALYSIS OF EARLY STAGE FORMAL SME FUNDING CHALLENGES IN
WINDHOEK, NAMIBIA**

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Abstract

The importance of SMEs in the economies of all countries is well documented in literature worldwide. SMEs play an important role in world economies, including that of Namibia. These roles include employment creation, contribution to gross domestic product (GDP) and the generation of income. The purpose of this paper was to analyse early stage formal SME funding challenges in Windhoek, Namibia. This was informed by the high SME failure rate of 75% at early stage. The research objectives sought to identify different forms of challenges faced by SMEs during early stages of development in Windhoek. This would help draw up current sources of SME funding in Namibia, to determine the different forms of government SMEs assistance (funding, training) in Namibia, to determine what the necessary requirements are for SMEs at early stages of business and to recommend ways of overcoming challenges faced by SMEs at this stage. The research assumed that government intervention through the provision of financial assistance, infrastructure, training and favourable taxation policies would reverse the trend. The study adopted a descriptive research design using 120 randomly selected registered operators of SMEs in Windhoek. Data collected was analysed using SPSS. Results from the data analysis indicated that poor funding, different forms of government SME assistance, determine necessary requirements for SMEs at an early stage. The researcher recommended ways of overcoming challenges faced by SMEs at an early stage of development in Windhoek: provision of loans without collateral, training on how to keep records and draw up financial statements, establishment of different forms of government SMEs assistance, establishment of a strong SMEs funding agency, to highlight the requirements for SMEs at an early stage and recommend ways of overcoming challenges faced by SMEs at early stages of development.

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Dedication

I dedicate my thesis work to my parents Immanuel Tjano and Silpa Kazekondjo for encouragement through the hard time. I dedicate this work to God my creator for strength and wisdom throughout the whole project. A grateful thanks to my Guardian parents Melba Makari Tjano and Gabriel Tjano (May his soul rest in peace) for taking care of me and encouraging me to study through my childhood.

Declarations

I, Clemens Tjano, hereby declare that this study is my own work and is a true reflection of my research, and that this work, or any part thereof has not been submitted for a degree at any other institution.

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List of abbreviations

SMEs	Small and Medium Enterprises
INSABA	Integrated Southern Africa Business Advisory
GDP	Gross Domestic Product
MITSMED	Ministry of International Trade, Small and Medium Enterprise Development
LaRRI	Labour Resource and Research Institute
NEPRU	Namibia Economic Policy Research Unit
ILO	International Labour Organisation
IPPR	Institute of Public Policy Research
NSBA	National Small Business Acts
NPC	National Planning Commission
NAFISA	Namibia Financial Institutions Supervisory Authority
MTI	Ministry of Trade and Industry
GTZ	Gesellschaft für Technische Zusammenarbeit
EDIF	Export Development and Investment Fund
GoG	Government of Ghana
DBN	Development Bank of Namibia
SBCGT	Small Business Credit Guarantee Trust
NCCI	Namibia Chamber of Commerce and Industry
SPSS	Statistical Package for the Social Sciences
USD	United States Dollar
SMMEs	Small Medium Micro Enterprises
OECD	Organisation for Economic Cooperation and Development
SBCGS	Small Business Credit Guarantee Scheme
SDF	Special Development Fund
GIPF	Government Institutions Pension Fund

CHAPTER ONE

1. INTRODUCTION

1.1. Introduction

There is growing recognition of the important role Small to Medium Enterprises (SMEs) play in economic development. SME are generally regarded as the engine of growth enabling equitable development both in developing as well as in developed countries (Lalkaka, 1997). In developing countries, the role of SMEs has become more crucial as they have the potential to improve income distribution, create new employment, reduce poverty and facilitate export growth (Ministry of Trade and Industry (MIT), 1997). This study analyses early stage formal SME funding challenges. This chapter discusses the background to the problem, problem statement, and objectives of the study, significance of the study and the limitations of the study.

1.2. Background of the study

The Integrated Southern Africa Business Advisory (INSABA, 2006) highlighted that SME sector in Namibia is small when compared to other African countries. Nevertheless, the Namibian government estimates this sector has great potential for the socio-economic development of the country in terms of economic growth or poverty alleviation. The contribution of the SMEs sector to the Gross Domestic Product (GDP) in 2003 was about 11% and the share of labour force employed full-time in this sector was about 20% in the same time period (INSABA, 2006). Here emphasis is on “full-time” as part-time workers or employees on an occasional basis are not considered. Including those leads to a rough estimate of about 33% of part-time employees (INSABA, 2006). SMEs assist in the accomplishment of the government’s Vision 2030 agenda in employment creation and food supply in the economy. According to the Institute for Public Policy Research Unit (2003), SMEs account for 20% of employment in Namibia, and contribute 11% to

the GDP. In Ghana and South Africa, SMEs represent a substantial portion of businesses. In Ghana, they represent about 92% of businesses and contribute about 70% to Ghana's GDP, accounting for 80% of all jobs in that country's economy. In South Africa, SMEs account for about 91% of the formal business entities, contributing between 52% and 57% of GDP and providing about 61% of employment (Abor and Quartey 2010: P223).

The growth of SMEs is a critical ingredient for the sustainable development of developing economies. However, the economic dominance and competition from South Africa (Knutsen, 2003) coupled with 85% business-failure rate in Namibia, greatly impacts the SMEs' contribution to the national economy. Most of the SMEs in Windhoek operate as family/sole proprietorship businesses and are generally classified into commercial, industrial and agricultural categories depending on their activities though commercial SMEs constitute 90% more than the other sectors.

Politicians, academics and developmental economists are of the view that enhancing small business development and promoting entrepreneurship would be a good strategy to contribute and promote economic development. From the view point of Namibian economic development, small businesses create almost half of the new jobs in the economy, and it is assumed that they are good jobs (Edmiston, 2007).

One of the main characteristics of the informal sector of the economy is its flexibility in production (Sanchez, 2006). Based on "small is smart" small business is better to adapt to changes in the market very fast. Therefore, it is important to create a conducive environment in which small businesses can operate, innovate and create needed jobs as a strategy to better economic development (Edmiston, 2007).

This study analysis the challenges faced by formal SMEs only. In Namibia a formal business is usually regarded as an enterprise, which is officially registered with the Ministry of International Trade Small and Medium Enterprise Development (MITSMED). Research institutes like the Labour Resource and Research Institute (LaRRI, 2002) and the Namibia Economic Policy Research Unit (NEPRU, 2003) adopted the number of employees as the single defining criterion. Integrated Southern Africa Business Advisory (2006) classifies SMEs into four sizes: micro, small, medium and large. However, it seems impossible to attach numbers to those sizes, since the only quantifiable data is perhaps capital employment and turnover, which are not always reliable at best.

A more practical criterion is the classification into formal and informal enterprises. To distinguish enterprises in the formal sector from those in the informal sector, the report of (INSABA, 2006: P6) proposed a general definition which suggests that “any enterprise which is not registered with one authority or another should be considered as an informal sector enterprise, whatever its size”.

There are different stages of enterprise growth, stage one (1) is the birth of the business, stage two (2) is in most cases considered as the early stage when finance is needed or you can source ways of how to obtain the needed capital, stage three (3) is enterprise development that is research & development, venture capital if needed, corporation tax registration. Stage four (4) is exit & reinvestment (Churchill and Lewis; 2013). In most of these stages finance, innovation, skills and education are needed to help establish an SME.

1.3. Statement of the Problem

Ogbokor and Ngeendepi (2012) concluded that formal SMEs in Namibia do contribute to the national economy of Namibia in various ways: employment creation and generation, adding value

to the gross domestic product of the country, and helping towards the realisation of the government's Vision 2030 agenda just to mention a few. The contribution made by SMEs to the Namibian economy was a clear illustration of the potential benefits that these enterprises may provide to the overall development of the country. The SME sector contributed 12 per cent to the annual GDP of Namibia and accounted for 20 per cent employment of the country's workforce in 2004, according to the Institute of Public Policy Research (IPPR, 2005).

SMEs play an increasing role in economic development but it was observed that the majority of SMEs collapse during the first 24 months of their existence, and in most cases before fully taking-off. The Small and Medium Enterprise (SME) sector has received much attention lately, with both the Government and private sector involving themselves in projects meant to benefit SMEs, who have been described as the backbone of developing economies.

After realising the high failure rate of 80% in new businesses, the Government and Bank Windhoek decided to draft national guidelines on the preparation of business plans. Polytechnic of Namibia and Nedbank have come with an initiative to teach SME entrepreneurs the necessary business skills, and after Finance Minister Saara Kuugongelwa-Amadhila called on the Tender Board to empower SMEs by showing preference in the granting of State tenders. It seems that this failure may be minimised through proper research to identify the causes of this problem. Lots of SMEs were not formed for the intended purpose; they were not formed on researched grounds.

Ramsden (2010) outlined the following as challenges experienced by SMEs in developing countries: financial illiteracy, lack of reliable information and lack of adequate financial statements that reduce access to proper finance, and cause SMEs to fail within the first 2 years of their existence.

The understanding of the problems affecting the development and growth of SMEs is essential in developing countries such as Namibia in order to assist in reducing the rate of business discontinuation and increase the rate of business establishment. To be smart and clear, the study is focusing on the stage two (2) which was about accessing finance by SMEs. It was against this background that this study will be undertaken to provide ideas on challenges faced by formal SMEs and causes of failure at early stages of development.

1.4. Objectives of the Study

1.4.1. Main objective

The main objective of the research was to analyse the early-stage formal SME challenges in Windhoek Namibia (4 different incubation centres in Katutura).

1.4.2. The specific objectives were:

- To identify different forms of funding challenges faced by SMEs during early stages of development in Windhoek, Namibia.
- To draw up current sources of SME funding in Namibia.
- To determine the different forms of government SMEs assistants (funding, training) in Namibia
- To determine what are the necessary requirements for SMEs to access funding in their early stage of business.

1.5. Significance of Study

This study was aimed at ascertaining the challenges and propose remedies that will advise decision makers and stakeholders as to the levels of integration of SME management principles in obtaining the needed finance and resources in order to sustain themselves and grow. In return, it may provide knowledge about the level of integration of SME management as it may help in the planning of SME financial training programs in Namibia and, therefore, making it a base line study for policy

interventions by state agencies, development partners and non-governmental organisations with missions to develop the SME sector. The study is also of significant importance to potential investors due to the provision of information.

1.6. Limitations of the Study

The area of research is limited to only four incubation centres based in Katutura, Windhoek. It will also be difficult to get information from the selected SMEs, due to fear that the information given might be used against them, as some do not submit their payments to tax authority, workers union, Social Security Commission and Ministry of Trade and Industry on time. The level of education of the respondents was be a limiting factor as most of the SMEs in Namibia were run by unqualified individual.

1.7 Delimitations of the study

The researcher presented a letter from the learning institutions to proof that he was actually a student collecting data for research. Respondents were not required to indicate their names on the questionnaires. The researcher also endeavoured to lay the foundation from the onset of the project that the researcher was just a student doing research for the purpose of completion of a course and little research had been done on real factors influencing the performance of SMEs in Katutura, Namibia.

1.8 Conclusion

This chapter provided background information to the problem statement, and outlined early stage challenges faced by SMEs during the initial start-up. The significance of the study is outlined in the chapter by indicating the benefit of the study. The objectives of the study are clearly highlighted and also the research limitations are discussed in details. The following chapter provides the theoretical framework of the research. The chapter describes the definitions of SME's, review existing literatures and different sources of funding available to SME's in Namibia.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Introduction

This chapter provides a review of existing literature on the early stage funding challenges faced by SMEs in Namibia. Literature review will be provided under the following headings and sub-headings that provide a comprehensive account of the theoretical issues of the study. The chapter includes: SME definition, definitions from several countries, SME definition in Namibia, the role of SMEs in an economy, financial challenges and barriers to SME development, sources of funding to SMEs in Namibia, the role of government and development partners in complementing and supplying finance to SMEs, ways of overcoming funding challenges, conceptual framework and existing literature on SME financing.

2.2. SME definition

From the existing literature, there is no single universally accepted or recognised definition for an SME applied worldwide. Many economies of different countries and institutions apply their own different definitions to the term SME. Despite the lack of universally recognised definition for SMEs worldwide, the lack of alignment in the criteria, the importance of SMEs definition is inalienable. The definition of Small and Medium Enterprises is important and useful in the preparation of statistics and monitoring of the health of the sector over time, in benchmarking against other economies and between regions within an economy, in providing arbitrary thresholds for imposition of tax or other regulations, in determining eligibility for particular forms of public support (Berisha and Pula, 2015). In this study, in the section which follows, definitions of SMEs from several countries are discussed.

2.2.1. Definitions of Multilateral Institutions

The European Commission promotes the criterion of the number of staff as the main criterion as mandatory, along with fulfilment of one of the other two financial criteria of between either annual turnover or annual balance sheet as chosen by the enterprise.

Table 2. 1: SME definition for European Commission

Enterprise Category	Headcount	Annual Turnover (Million)	Annual Balance Sheet (Million)
Medium-sized	< 250	≤ €50 m	≤ €50 m
Small	< 50	≤ €10 m	≤ €10 m
Micro	< 10	≤ €2 m	≤ €2 m

(Source: European Commission, cited in Berisha and Pula, (2015))

However, as observed in Table 2.2 below, the World Bank uses three quantitative criteria for defining SMEs, namely: the number of employees, total assets in USD and annual sales in USD of which the business should meet the quantitative criteria of number of employees and at least one other financial criterion to be categorised as micro, small or medium business. The World Bank's definition of SMEs uses the number of employees, asset size and annual sales turnover as its definitional parameters, but also has a series of loan size ranges as a proxy definition for the micro, small and medium client segments.

As per above definition, the World Bank includes three categories:

A Micro enterprise is an enterprise that employs less than 10 employees with a assets value or annual sales value of USD 100 000 or less. A small enterprise on the other hand employs between 10 and 50 employees, has a assets value or annual sales of more than USD 100 000, but less than

3 million. Finally, a medium sized enterprise employs more than 50 but less than 300 employees, has an assets value or annual sales of more than 3 million, but less than 15 million.

Table 2. 2: World Bank SME definition

Enterprise Category	Number of Employees	Total Assets	Total Annual Sales
Medium-sized	> 50 but ≤ 300	> USD 3 million ≤ USD 15 million	> USD 3 million ≤ USD 15 million
Small	> 10 but ≤ 50	> USD 100 000 ≤ USD 3 million	> USD 100 000 ≤ USD 3 million
Micro	< 10	≤ USD 100 000	≤ USD 100 000

(Source: Berisha and Pula, (2015))

2.2.2. South Africa

The National Business Act 102 of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 defines the SME definition in South Africa as:

“...a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in column I of the Schedule....”

Additionally, as highlighted in table 3 below, the NSB Act further classifies the small businesses into distinct categories such as survivalist, micro, very small, small and medium enterprises hence small businesses in South Africa are known under the acronym “SMMEs” even though the terms “SMMEs” and “SMEs” are used interchangeably in SA.

Table 2. 3: Definition of SMEs in South Africa

Category	Employees	Annual Turnover	Gross Assets Excluding Fixed Assets
Medium	100 – 200*	R4 – R50 million	R2 - R18 million*
Small	< 50	R2 – R25 million	R2 - R4.5 million*
Very small	10 – 20*	R200 000 - R500 000*	R150 000 - R500 000*
Micro	< 5	< R50 000	< R100 000

**depending on the industry.*

(Source: Kushnir, (2010))

2.2.3. Ghana

Abor and Quartey (2010) indicated that a more recent definition in the Ghanaian context is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. Abor and Quartey (2010) reported that according to the survey report, SMEs are classified firms into the following categories:

- micro enterprise, less than 5 employees;
- small enterprise, 5 - 29 employees; and a
- Medium enterprise, 30 – 99 employees.

2.2.4. The Namibian SME definition

The definition that was used in Namibia was that outlined/defined in the 1997 SMEs policy as observed in table 4 below. This definition had many shortcomings, in that despite various regional and global dynamics, leading to economic changes and the nature of firms undergoing structural changes, this definition remained constant over the years (MITSMED, 2015).

Table 2. 4: The Old Definition of MSMEs in Namibia

Sector	Employees	Annual Turnover	Capital Employed
Manufacturing	< 10	< N\$1 000 000	< N\$500 000
All other businesses	< 5	< N\$250 000	< N\$100 000

(Source: Namibia Economic Public Research Unit, (2002:13))

Moreover, the 1997 definition in table 4 above did not make provision for micro enterprises and for timely modifications of the definition as and when local, regional and global dynamics would dictate. However, it further differentiated between MSMEs engaging in manufacturing activities and all other businesses.

The latest version of the Namibian SMEs definition complies with the internationally acknowledged standards and defines MSMEs according to two criteria, namely number of employees and annual turnover. This definition is seen in Table 5 below.

Table 2. 5: Revised Definition of MSMEs in Namibia

Category	Employees	Annual Turnover
Micro	< 10 employees	< N\$ 300 000
Small	11 – 30 employees	< N\$3 000 000
Medium	31 – 100 employees	< N\$10 000 000

(Source: MITSMED, (2015))

2.3. The role of SMEs in an economy

2.3.1. Supplier of goods

Ramsden (2010) noted that SMEs are recognised universally as a key force in driving forward economic development. He stated that SMEs are active in every sector, as either direct providers of goods and services or as components suppliers within complex supply chains. Ramsden (2010) indicated that a significant percentage of the world's population derives its living from SMEs sector employment. SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and or other enterprises. This encompasses the provision of products and to a lesser extent services to foreign clients, thereby contributing to overall export performance (Abor and Quartey, 2010).

2.3.2. Employment

Ogbokor and Ngeendepi (2012) stated that in Namibia, SMEs are important providers of employment and income, as about 160 000 people, which is about one-third of the total national workforce are employed by SMEs. To this effect, Ramsden (2010) indicated that SMEs create more jobs than large firms, both in developing and developed countries. Khalique, Isa, Shaari and Ageel (2011) stated that SMEs are important role players in the contribution towards economic development, social uplifting, and political stability of every state. Stork (2010) indicated that SMEs are principle providers of economic activity for poor people, either through employment or self-employment. SMEs are therefore important players in helping government in alleviating poverty within the Namibian economy.

Abor and Quartey (2010) in Ghana, SMEs represent a vast majority of businesses as they represent 92% of Ghanaian businesses while they contribute about 70% of Ghana's GDP and over 80% of employment. In South Africa, SMEs accounts for 91% of total businesses contributing between

52% to 57% of GDP and about 61% of employment. Sato (2015) found that SMEs account for about 97%-99.9% of all businesses in Malaysia, which accounts for 53% of employment in Malaysia, while contributing up-to 97% of employment in Indonesia.

In the USA, small businesses, which are those businesses with 500 employees or less, drive the US economy by providing jobs for half of the nation's workforce. Small businesses in the US account for 99.7% of the firms, and they create about half of the private non-farming GDP including 60-80% of the new jobs in the economy (Kongolo, 2010).

Within the Organisation for Economic Cooperation and Development (OECD) countries, small businesses play an important role in all OECD countries, they make up over 95% of all businesses and account for 60-70% of jobs in OECD countries, while in the manufacturing countries SMEs account for 40-80% of employment and in the construction sector SMEs account for 80-90% of all employment. In the case of Namibia, SMEs do contribute to the national economy in various ways including employment creation, income generation, value addition to the country's GDP and helping towards the attainment of the vision 2030 agenda.

SMEs contribute about 12% to the GDP and more than 20% of the country's employment (Ogbokor and Ngeendepi, 2012). Even though these figures date back to 2003-2004 studies, they serve as the final attempt to measure the GDP and employment contributions of SMEs within Namibia. In another study, Kambwale, Chisoro and Karodia (2015) also stressed on the importance of SMEs as major employers who play the role of closing the economic inequalities between the rich and the poor. Additionally, they stated that SMEs serve as nurseries for larger firms of the future because, many large firms started as SMEs before growth and development.

2.3.3. Income generation

As stated by Ogbokor and Ngeendepi (2012); Ramsden (2010) and many other writers from all over the world the importance of SMEs and their contributions towards countries GDP, employment and to civil society has been widely recognised by governments worldwide. Cant and Wiid (2013) emphasized that SMEs plays an important role in almost all economies but particularly I the developing countries with major employment and income distribution challenges, such as South Africa. SMEs play an important role in the transition of agriculture-led economies to industrial ones creating opportunities for processing activities, which generate sustainable source of revenue and enhance the development process (Ogbokor and Ngeendepi, 2012).

Mandah (2012), in his study on Nigeria, indicated that countries with vibrant SME sectors end up succeeding in the significant reduction and its attendant enhancements in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in the GDP among other salutary effects. Sato (2015) reported that Malaysian SMEs accounts for 30% of the country's GDP while in Indonesia SMEs account for 58% of the country's GDP. Khalique *et al.*, (2011) state that in the Malaysian economy, SMEs are considered backbone of the economy. They account for 99.2% of the businesses establishments in Malaysia contributing about 47.3 of the GDP and employing 65.3 of the national workforces.

Ipinge (2010) found that in the Khomas region, especially the capital Windhoek, where there is a huge influx of migration from the rural areas and smaller towns, SMEs allow the majority of these people to become self-sustainable and productive on a local and regional scale. This makes SMEs an important source of income and poverty reduction. Kongolo (2010) in South Africa indicated that SMEs play an important role in the development of a country. SMEs contribute to the economic development in various ways including creating employment for rural-urban migrants,

providing innovation in the economy as a whole. Kongolo, like many of the writers discussed in this report, further highlighted on the importance of small businesses as job creators which really drive the economy. These different contributions made by SMEs to the different economies worldwide will be discussed in the section hereunder.

2.4. Financial challenges and barriers to SME development

2.4.1. Financial Challenges

2.4.1.1. Lack of finance

The growth of SMEs is severely hampered by access to finance, including a lack of starting capital (Keyser, De Kruif and Frese 2000); Lack of access to suitable sources of finance (Hassanein and Adly 2008). According to the MTI (1997: P29), lack of finance is widely regarded as one of the major obstacles to the development of small businesses. The LaRRI-NEPRU (2002) study found that financial support was by far the most needed support by SMEs but a subsequent study by Arnold, Grossmann, Mwatotele, Stock and Tobias in 2004 found that SMEs not only rely on their own financial resources but also do not even want credit as they perceive it as negative". Perhaps even more surprising, the latter study found that the majority of Namibian SMEs did not want to use the existing business support services in future (Arnold *et al.*, 2004: ii).

Lack of adequate financial resources places significant constraints on SME development. Cook and Nixon (2005) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. Erwee (2004) also concluded that lack of capital is also one of the prominent reasons why businesses fail to continue after the first three years of their initial start-up. SME owners in Europe,

when asked about the most important problems they faced, they mention access to finance first, ahead of issues such as “taxation”, lack of skill, lack of collateral, unfair competition, labour law, access to the single market and so forth (European Commission Report, 2008).

2.4.1.2. Lack of collateral

The major reason for this discrepancy between demand for and supply of finance is the nature of lending activities: Financial institutions often cite the difficulties in obtaining information about the qualities and characteristics (a borrower might be chosen who is unable to repay the loan) as well as the actions of the borrower. Therefore, it remains uncertain whether borrowers can repay the loan in the future. Financial institutions normally address this problem by securing lending with collateral. If this is impossible because a borrower does not have sufficient collateral, lending is usually restricted (Daniel Schöneburg-Schultz, Robert Schultz: 2006). The high cost of capital, high collateral requirements (Bukvic and Bartlett 2003) and lack of financial support (Okpara and Wynn 2007: P31). Mateev and Anastasov (2010: P273) found that financial constraints tend to hamper the growth of small and medium-sized enterprises to a lesser extent.

In a study to examine whether the liquidity constraints faced by businesses affect growth in Portugal, Oliveira and Fortunato (2006: P149) found that capital constraints are more likely to affect the growth of small and younger businesses. In many cases, SMEs are not able to access loans from financial institutions because of the conditions attached to the loan. Financial institutions refuse to lend to some small enterprises because they do not have acceptable collateral. Previous researchers have suggested that, bank financing will depend upon whether the lending can be secured by collateral (Storey, 1994; Berger and Udell, 1998).

Collateral in the form of assets is only a way for financial institutions to recover their money in the event of default. Without adequate collateral, banks have limited or no ways to protect the loan assets. Ngozi (2006: P 2) highlighted collateral and guarantee as a financial challenge. In lieu of collateral, institutions require guarantee and financial institutions look more at collateral than to the business viability in the provision of finance in order to mitigate the risk associated with the loans.

2.4.2. Other Barriers to SME development

2.4.2.1. Lack of Skills

Many SMEs fail because the owners of a particular type of business do not integrate accounting and accounting practices to a reasonable level in their businesses. By failing to do so, they lack financial control and consequently cash flow problems may result in the failure of their businesses. Thus, it is crucial for business owners to employ a competent bookkeeper if they have weak accountancy skills, in order to ensure that the accounts are managed regularly (Abor J and Peter Q. 2010). In Ghana, the major problem faced by SMEs is access to credit (Boapeah, 1993).

2.4.2.2. Lack of reliable financial information

SME owners also added that businesses without any financial track record operating in a very competitive field is not ideal. In the study Ricupero (2002) part of the reluctance of banks to lend SMEs is the banks' inability to evaluate risk because of lack of reliable financial information. SMEs are not required by law to produce audited financial records while banks demand things like audited financial information, convincing business plan, and bankable proposal before they lend to small businesses. Most small enterprises do not have technical capacity to do these things. This makes it difficult for them to access loans. This means that many SMEs in developed and developing countries do not produce reliable financial information, which could be used by

creditors or investors (Ricupero, 2002). Bass and Schrooten (2005) concluded that the lack of reliable information leads to comparably high interest rates even if a long-term relationship between the borrower and bank exists.

2.5. Sources of funding to SMEs

To assist financing SMEs, there are different types of microloan schemes that can be used to finance for start-ups or for operational purposes in the Khomas region (MTI, 1997: P29):

2.5.1. Microloan scheme

Loans for working capital from various government aid schemes and subsidies to SMEs to help boost business with working capital loans constitute SME micro loans. This is normally short-term funding. Credit guarantee schemes: serve as securities to banks that wish to advance loans to SMEs, as a means of government to encourage extra funding to viable SMEs, which fail to obtain funding under normal lending procedures. Section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantees to any external financiers who wish to advance funds to any Ghanaian organisation and the terms of such facility requires the provision of a guarantee from the Government.

Guarantee facilities are contingent liabilities of the Government. The onus for repaying the facility lies with the borrower and not the Government. The facility crystallises and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor. Currently, the only government-supported loan guarantee scheme in operation is operated by Exim guarantee Company which is majority-owned by the Bank of Ghana (Mensah, 2004).

2.5.2. Seed capital

Loans to new businesses, is another way of investment where the entrepreneur invests his/her own funds to start the organisation. NEPRU (2005: P28), concluded that most businesses use only a few banking financial services and the majority rely on their own financial contribution (personal savings) and on those from family or friends (borrowing) in the form of an informal loan without interest. This source of finance is the cheapest and comes at no cost to the entrepreneur (Frimpong and Antwi, 2014).

2.5.3. Venture capital

These are funds invested or to be invested in a start-up company. Is a way of investing into the origination in-exchange for equity, or ownership in the business. Venture capitalists usually invest in high risk business and high returns in exchange of owner equity. The definition states that they are investment into start-ups, but it is not the case. Venture capitalists invest large sums of funds and hence the small start-up businesses are too small for them, which forces them to invest in medium firms which are already established (Quaye and Sarbah, 2014).

2.5.4. Bank loans and overdraft

This is also a common source of finance to the small businesses in Ghana (Coffie, 2012). Bank loans are sometimes too expensive for small start-ups since they come with high fixed interests and repayment of principal over a particular time period. Banks also ask collateral in the form of fixed assets that can be liquidated in case of default in payment. Overdrafts are money withdrawn in excess of savings and can be paid back with interest within a particular time period. Overdrafts are short term loans and are more expensive than bank loans. Overdrafts are flexible and they can be obtained easily when the need arises to avoid long loans application processes.

2.5.5. Other funds

Other funds have been established targeting women and the youth. The Ministry of Women's Affairs and Child Welfare provides seed capital to the amount of up to N\$50 000.00 to female entrepreneurs who want to start their own manufacturing and value adding enterprises (National Planning Commission, 2005: P17). In the same report, (NPC, 2005: P17), Namibia Postal Services Savings Bank established the Namibia Financial Institutions Supervisory Authority (NAFISA) Savings and Credit Association as an umbrella organisation to provide credit to SMEs. Another assistance programme to SMEs is the Equipment Aid Fund, which is financially sponsored by the government of Spain as part of its assistance towards the National Poverty Reduction Campaigns (NPC, 2005: P23).

The report (NPC, 2005) also points out, that a large number of micro-financing programmes, credit schemes and equipment aid fund and other financing windows, are all supporting SMEs, although it was noted that the existence of all schemes and programmes and their impact must be assessed and efforts should be made to combine the funds into a smaller number and more focussed programmes in order to address lack of funding and poor repayment rates by SMEs (NPC, 2005: P23).

2.6. SME financing from financial institutions

Banks are also strict when vetting credit applications of small businesses. According to Appenteng (2010), the vice president of the Association of Ghana Industries (AGI, 2010) banks are more stringent when appraising credit applications of SMES hence subjecting them to cumbersome credit procedures. The procedure of vetting loan applications wastes so much time that loans are delayed and issued when intended purposes have expired. At times, loans received are less than

requested and short periods are given for the repayment of the loans. Ricupero (2002) states that commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment and Abereijo and Fayomi (2005) notes that the majority of commercial bank loans offered to SMEs are often limited to a period far too short to pay off any sizeable investment.

Banks lend to businesses, for which they are convinced that they have the ability to repay the loan (Ocansey, 2006). SMEs also fail due to a lack of capital. King (2007: P15) states “lack of capital is often the most critical challenge that a successful SME faces as its very success creates this and it quickly becomes a vicious circle”. Without cash flow, management and/ or raising more capital, including debt, the business is often constrained by capital as it grows. The provision of finance to SMEs by lending institutions can be problematic for a number of reasons (Berger and Udell, 2006; Frank and Goyal, 2003).

2.7. The role of government and development partners in complementing and supplying finance to SMEs

2.7.1. Role of government in complementing funding for SMEs

The MTI (2004: P4) lists the following activities as Namibian government priority areas and core functions as indicated in the government SME Policy:

- Regulation and policy framework;
- Trade facilitation/ information;
- Networking and promotion of broad participation in planning and development;
- Facilitating local access to foreign resources;
- Limited role in marketing and promotion;
- Registration.

Research finding by GTZ (*Gesellschaft für Technische Zusammenarbeit*) and JCC (2008: P21) highlighted a problem that SME owners do not fully understand the role of government. Government's role is to facilitate development by creating a conducive and enabling environment. SMEs expect Government to be directly involved in the development of their businesses and the SME sector as a whole. Such direct interventions will influence the market dynamics, and defeat the purpose of a free market economy. SMEs have a sense of entitlement to Government's interventions and a lack of commitment towards their projects. The above perceptions and attitudes have led to the closure of SBCGS due to the high default risk experienced.

“Some of these people (Chinese) get subsidies from their government, they can afford to sell their products at a very low price we don't have any type of protection. Chinese investors are taking all the business opportunities from the local people. We understand that we have a free market economy, that we have to compete, but what is happening is robbery, it is not free and fair competition... The government is telling the youth that they should go and establish SMEs, but how does the government expect this people to compete against already skilled and experienced business people if they are not given any type of protection?” (Jauch and Sakaria, January 2009) personal communication.

2.7.2. Government institutions and development partners to help SMEs:

Successively Governments after independence have set up institutions to assist SMEs because of the persistent financing gap; Governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions have launched many interventions. The problem is that most SMEs are not aware of the existence of these institutions. Schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs have included the following:

2.7.2.1. Business Assistance Fund

The Business Partners International Namibia SME Fund specializes in investment in local Namibian small and medium enterprises. The fund prefers to invest between \$50,000.00 and \$1 million. It seeks to make secured loan financing, unsecured cash flow financing, and minority equity financing,

2.7.2.2. Investment Fund

In 2002, the Ghana investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies. However, the scheme was never implemented. According to the OECD (2010), countries, and increasingly also in emerging economies, asset-based finance is widely used by SMEs, for their working capital needs, to support domestic and international trade, and partly, for investment purposes. In Europe especially, the prevalence of these instruments for SMEs is on par with conventional bank lending, and the specific financial segment has grown steadily over the last decade, in spite of repercussions of the global financial crisis on the supply side.

The Namibian Procurement Fund (NamPro Fund) is an investment fund established to support SME suppliers who require funding to execute contracts. With the government Institutions Pension Fund (GIPF) as its founding investor, the fund has about N\$600 million under management to support SMEs. NamPro Fund can be used to finance short-term working capital finance, performance guarantees, finance lease, purchase order finance and operating finance leases.

The United Nations Development Program in Namibia launched its first ever “Youth Development Fund”. This initiative was inspired by the recently launched UNDP Youth Strategy titled,

Empowered Youth, and Sustainable Future which was launched in March 2014 in Tunis. The fund is to cater for training programs for youth who do not have proper education and assist with start-up capital after training to commence business.

Old Mutual Namibia offers businesses a range of investments that are ideal places to invest company profits and expose them to the potential for market-related growth.

2.7.2.3. Export Development and Investment Fund (EDIF)

Under this scheme, companies with export programs can borrow up to \$500,000 over a five-year period at a subsidised interest rate of 15%. While the scheme is administered through banks, the EDI board maintains tight control, approving all the credit recommendations of the participating banks in Ghana (Mensah, 2004).

2.7.3. The role of government in providing access to finance

The role of government becomes even more pronounced when it comes to the issue of strengthening the institutional foundations of lending. Strengthening creditors' rights through, among others, establishing quasi-legal institutions for processing legal suits brought by banks against defaulting borrowers, helps improve repayment behavior and enhance banks' willingness to finance SMEs. Similarly, improving the Collateral Classification System incentivises banks to introduce products like leasing, invoice discounting, and factoring, which attempt to circumvent the problems of collateralised lending to SMEs. Research shows that introducing SME Credit Bureaus significantly reduces the cost of lending to SMEs and improves access to finance. Moreover, research shows that governments have continued to use credit guarantee schemes to increase SME lending in order to avoid SME failure.

In Namibia, a lot of effort has been put in place by the government to help SMEs have access to finance and other important services that help SMEs to avoid failure. According to Nakusera, Kadhikwa and Mushendami (2008: P4-6), the Development Bank of Namibia (DBN) and the Small Business Credit Guarantee Trust (SBCGT) are the main development finance institutions providing access to financial services for SMEs. The objective of the DBN is to fill the existing financing gap in the major medium and long-term development projects of both the private and public sectors. The DBN mostly caters for the larger firms and larger projects, yet, through their Special Development Fund (SDF), also focuses on SMEs, thereby supporting key sustainable development projects and programs.

2.8. Ways of overcoming funding challenges

In a situation like this, having audited financial statements plays a major role. Audited financial statements are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. In other words, audited financial statements improve borrower's credibility and therefore reduce risk of lenders Abor and Quartey (2010).

According to Nujoma (2010:P8), research by the Asian Development Bank (2008), the World Bank (2008) and Propaco (2010:P19), provide recent literature on how countries in Asia, Latin America and Africa can approach the issue of access to finance for SMEs. Various countries have instituted directed lending programmes or policy-based lending to assist SMEs with financing. India, for example, has Priority Sector Lending programs that directs the public and private banks to earmark 40% of their net credit to sectors like the SME sector. He also states that the Philippines have a mandatory requirement for banks to set aside 8% and at least 2% of their total portfolios for SME loans.

Other countries like Pakistan and Thailand have established dedicated SME banks. These are efforts driven towards reducing supply side constraints for SME lending, involve the formation of special development funds or banks for SMEs and also cooperation with commercial banks through directed sector lending policies. Governments can also work with commercial banks in an effort to correct capacity constraints in order to better service the SME market. This helps SMEs to avoid failure. In order to improve demand-side constraints, countries like Thailand have established Capacity Building Funds to improve SMEs' internal competitive structures. In this regard, the role of government is important to ensure appropriate training interventions MTI (1997: P10). The Namibian government in overcoming funding challenges establish Development Bank of Namibia (DBN) in 2005 as an act of parliament to accelerate the economy. The DBN as at 31 December 2009 is 100 percent Government funded. Within the mandate of the DBN, SME initiatives are included under the Special Development Fund (SDF).

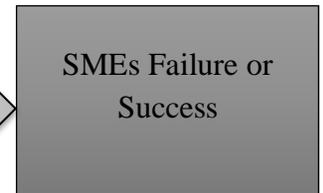
2.9. Conceptual framework

Figure 2. 1 Conceptual framework indicating factors affecting SMEs at an early stage of development.

Non-financial challenges



Financial Challenges



Source: author's data collection based on sample data Dec. 2017

Several studies have been conducted by individuals, institutions and other non-governmental organisations in the field. Financial challenges of SME sector have a hot topic for several researchers in the past decade. The chapter will analyse various researchers conducted by other individuals and institutions which are similar to this study.

The LaRRI-NEPRU study found that financial support was by far the most needed support by SMEs, but Schultz *et al.*, (2006) in their study of small and medium enterprises in Namibia concluded that: lack of finance was widely recognised to be the main obstacle to the development of small business in Namibia. Despite the many NGOs and government ministries and agencies involved, the availability of finance to small business remains poor. This is the major obstacle to the sector's ability to realise its potential social and economic role.

Another research by (Quaye, Abrokwah, Sarbah and Osei 2014) was conducted to find out the financing gap that exist in the between the SME sector and the larger corporations in Ghana. In their research, it was concluded that there exists a financial gap in the country as most small enterprises are denied access to finance by the formal financial institutions in the country.

Ogbokor & Ngeendepi (2012) in their study also found that lack of finance for start-ups, including limited access to low cost finance constitutes a major impediment to the operations of SMEs in Namibia. It was concluded there is a need to identify and develop appropriate financing models for SMEs in Namibia. In this regard, the government needs to establish friendly business loaning systems and this should include low interest rate charges to ensure continuity of the business.

Agwu and Emeti (2014) in their research on issues, challenges and prospects of small and medium scale enterprises (SMEs) in Port-Harcourt city, Nigeria had four major findings, concluding that poor financing was top of the list and constituted a major challenge in the performance of SMEs in Port-Harcourt City. In this study they concluded that government should guarantee long-term

loans to SMEs since they lack the necessary collateral to access the needed funds at a low interest rate with a long-term repayment period.

Access to finance remains a dominant constraint to small scale enterprises in Namibia as per MTI (1997: P29) report. Lack of finance was ranked number one with a percentage of 46 out of 100 when compared to other constraints. It was recommended that government should introduce tax reduction incentive to the banks that involve in providing long term debt to finance to SMEs. The bank of Namibia by their regulations should help banks come out with innovative packages such as an SME department. This department may be responsible for offering education, monitoring and collection of SMEs debts.

There are many other researches (Charles Harvie, 2011), which concluded with similar findings as the above ones and that is why it is of great importance for this study to be conducted to find out why those financing gaps exist and the forces that cause them to exist.

2.10 Conclusion

SME have become the important force of sustained, rapid and healthy development of the Namibian economy. The chapter outlined challenges that need to be overcome in order for SMEs growth. Even with problems it is important for SMEs to be innovative in choosing correct and appropriate financing sources to solve the company's financial challenges. Chapter three outlined the design of the research and the methodology that was followed.

CHAPTER 3

3. RESEARCH METHODS

3.1. Introduction

This chapter highlights the necessary steps taken in order to investigate and gather the information needed for decision-making. This includes providing a definition of the research design for the research, population, sample and sample design. The chapter also provides the sources from which data was collected and the methodology used as well as research instruments used to collect data and the techniques used to analyse the collected data. In this section the researcher further gave the techniques used for data collection and how this data would further be analysed. The researcher describes how the relevant facts, figures and data would be analysed in order to form research findings which would be the basis of the conclusions of the research work.

3.2. Research Design

3.2.1.1. Case study

Robson (2002: P178) defines case study as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence’. Case study also has considerable ability to provide answers to the question ‘why?’ as well as the ‘what?’ and ‘how?’ questions, although ‘what?’ and ‘how?’ questions tend to be more the concern of the survey strategy.

For this research a survey research design on formal SMEs business in Katutura has been used for this research. A survey can be completed in a short time period. A survey was selected as the study

used a questionnaire to collect data, and a questionnaire is a very useful survey tool that allows a large population to be assessed. Due to the perception that the research is easy to conduct, in order to yield a meaningful result. The research is primarily based on quantitative research technic.

3.3. Population

The study was carried out in the area of Single Quarters business area, within Katutura, Windhoek. The area is selected from among many other areas within Windhoek due to the high number of SME businesses operating from the area. Within this study area there are two major incubation centres namely: Libertine Amadhila Stalls and the Single Quarters Industrial Site. The human traffic to this area is high due to the number of enterprise establishments found in the area, which offers among others services tailoring, hair salons, car washes, firewood, shebeens, restaurants, electronics, shoe repairs, TV and radio repairs, butchery and the famous “kapana” braai meat.

Data from the City of Windhoek and the Ministry of Industrialisation, Trade and SME Development could not provide accurate information on the number of businesses operating from within the area. From the pre-investigation by the researcher there could be approximately 152 small and medium scale enterprises operating from within the area of Single Quarters. The choice of Single Quarters enhances focus on one study area, which would enable the results to be compared or differentiated from other studies done in other study areas.

3.4. Sample

3.4.1. Sampling Size

Sample Size Using 95% Interval					
Formula:	$n = N/(1+N(e^2))$				
Where:	N =	Population			
	n =	Sample Size			
	$e = (1-0.95)^2$	(0.05^2)	Margin of error		
Confidence level		95%			
Margin of error		5%			
	N	152			
	E	0.0025			
Sample Size(n)	=	110			

$$n = 110$$

For the purpose of this study, the sample size of 110 small and medium enterprises was drawn from the above population, the sample comprised of 110 randomly selected SME owners/operators. An additional 10 respondents were selected from the Ministry of Industrialisation, Trade and SME Development and 10 respondents from financial institutions.

3.4.2. Sampling Method

There are probability and non-probability sampling methods. This study used probability sampling method in the form of random sampling method. The sample consisted of small and medium enterprises who were selected using random sampling technique. It was random because each business within the area had an equal chance of being selected to partake in the study. Another factor which influenced the choice of sampling technique was the willingness to participate in the research. Each SME was allocated a number that was different from the other, and all numbers were placed in a hat, and taken out one by one. The selected respondents were requested to complete a questionnaire with the assistance of the researcher or questionnaire administrator.

3.5. Research instrument

The data was collected through self-administered questionnaires. The main reason for using questionnaires was that it is a tool that is able to gather a large amount of data from a large number of objects in a short period of time and using a relatively cost-effective way.

The questionnaire comprised of 19 structured and non-structured questions designed in such a way that the respondents would be able to understand them with ease. It would take less than 20 minutes to complete the questionnaire although it varied depending on the educational level of the respondents. Non-structured questions were meant to allow the respondents to freely express their views.

3.6. Research Procedure

In order to enhance the reliability of the data collected, a pilot study was carried out on a few units of the population prior to the implementation of the questionnaire survey. These test subjects were then excluded from the sample. This enabled the researcher to identify and eliminate possible problems regarding the questionnaires, in advance. This helped improve on the success of carrying out this research.

Primary data collection was done through the application of questionnaires, which were hand-delivered to each SME. It was imperative that all questionnaires were returned on time, thus continuous support from SME owners/operators was sought by way of a letter from the owner of each business. Normally subjects of research have no loyalty to the research matter and would want to avoid answering questionnaires, thus the SME owners/operators need to buy into the research from a management perspective and support the outcomes and aims of the research. Secondary data was sourced through research from available literature in terms of textbooks,

manuals, journals and publications by Ministry of Trade and Industry, Bank of Namibia (BoN) and the Namibia Chamber of Commerce and Industry (NCCI) to augment any gaps in the data collected.

3.7. Data Analysis

Once the data was collected from the respondents through questionnaires it was coded and entered into the SPSS for processing and analysis. The SPSS was used due to the benefit of being able to process the data fast into descriptive statistics: frequencies, percentages, tables and graphs with ease. This allowed for inferences to be drawn from the tables through the use of frequencies. Anova is used as a particular type of regression analysis that uses the quantitative predictors to act as categorised predictors. ANOVA is used to determine if the mean dependent variable score obtained in the experimental condition differ significantly. This can be achieved by determining what proportion of variation in the dependent variable can be attributed to the manipulation of the experimental variables (Rutherford, 2001: P5-6).

3.8. Summary

This chapter dealt with the various tools that were used in the research design and data collection. It also looked at the processing of information, checking for the legitimacy of the data, as well as the process followed to analyse the data. The next chapter presents the results and their discussion.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

4.1. Introduction

This chapter reports on the theoretical findings of the research. The different data collected from the selected sample of SMEs, financial institutions and the MITSMED is analysed using charts to make it easy to understand and follow the interpretation of the results.

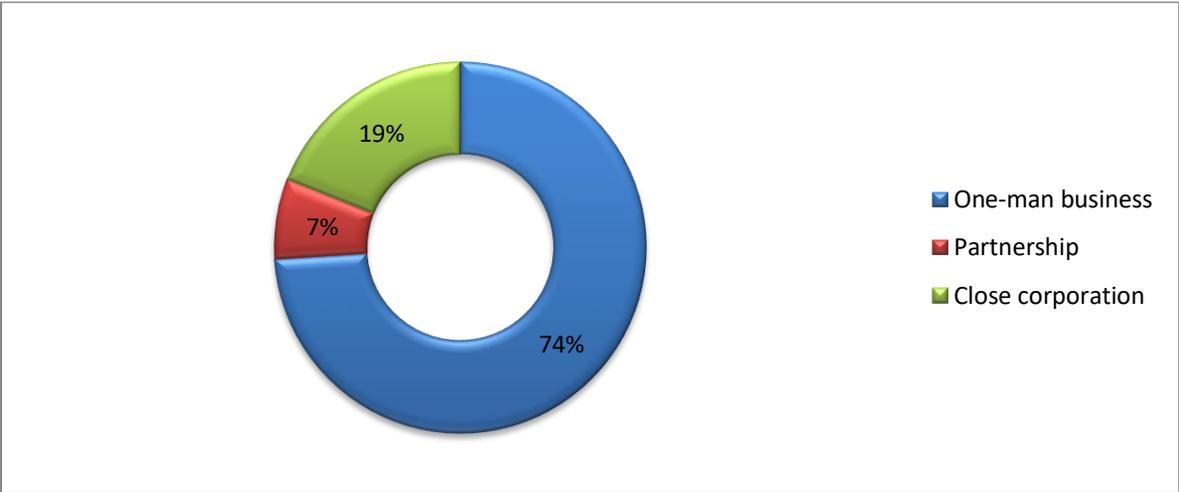
4.1.1. Demographic factors

The first part of this section covers information on the characteristics of SMEs in Windhoek, while the remaining part is financial institutions and MITSMED. The characteristics include business type, age of business, number of employees employed, educational level, nature of business, capital employed, business location, reason for enterprise establishment, enterprise registration status, sources of finance, annual income, loan and interest rates charged by banks.

4.1.2. Type of business ownership

Figure 4.1 indicates that out of thirty-one business owners interviewed as part of this study, 74% were one-man businesses, 19% were close corporations whereas only about 7% were partnerships.

Figure 4. 1: Type of business ownership

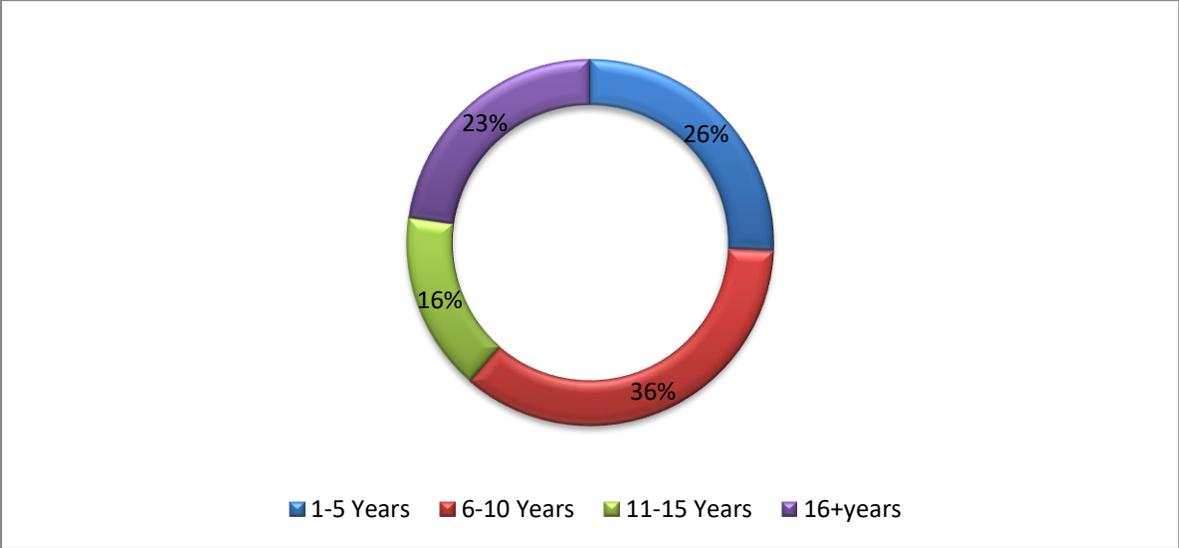


Source: Survey Findings Dec. 2017

4.1.3. Age of enterprise

When asked about their enterprise age the majority of 36% as highlighted in figure 4.2 indicated that they have been operating for 6-10 years, 26% for 1 to 5 years, 23% for more than 16 years while 16% have been in operating for between 11 to 10 years.

Figure 4. 2: Enterprise age

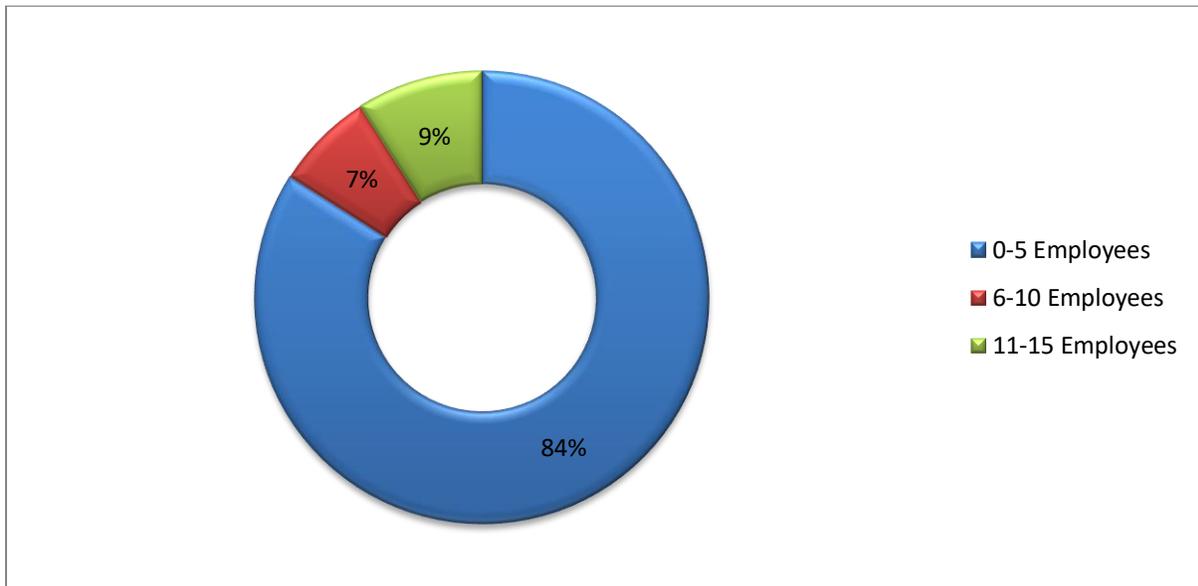


Source: Survey Findings Dec. 2017

4.1.4 Number of employees

When asked to indicate how many persons their businesses employed, the majority (84%) of the small business owners indicated that they employed between 0 to 5 employees, and 7% employed 6 to 10 employees while 9% employed 11 to 15 employees as outlined in figure 4.3 below.

Figure 4. 3: Number of employees



Source: Survey Findings Dec. 2017

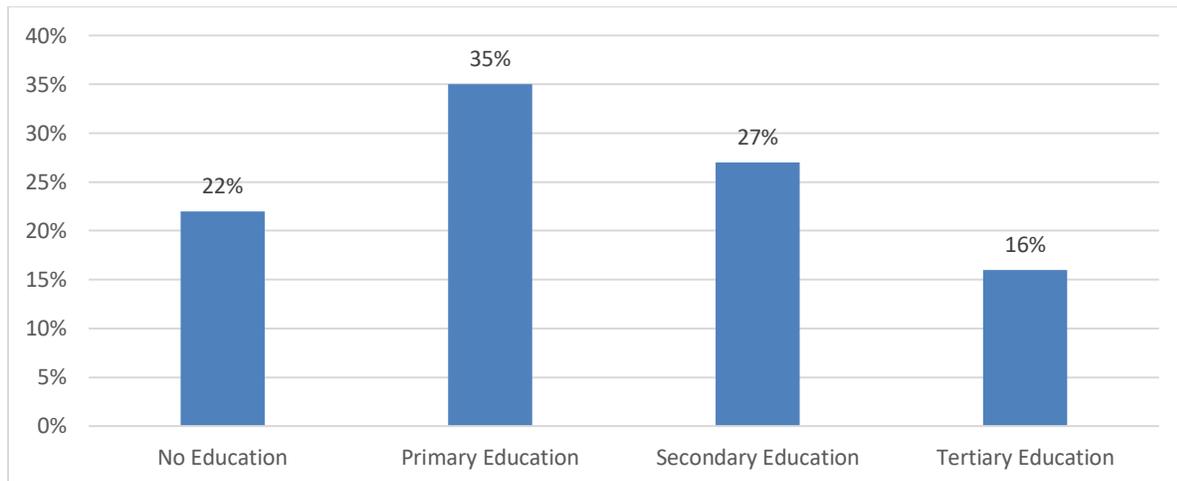
4.1.4. Education Level of SME owners

Figure 4.4 indicates that most SME owners have primary and secondary education, all together representing 62% of the sample. No education is representing 22% while SME owners with tertiary education only contributed 16%.

The study was conducted randomly on selected SMEs in Windhoek, from SMEs in different businesses that include retailers, manufacturing, services and repairs, agriculture, construction and

others that include (hair dressers, tailors and food vendors), to produce a better understanding of the industry at large.

Figure 4. 4: Educational level of SME owners

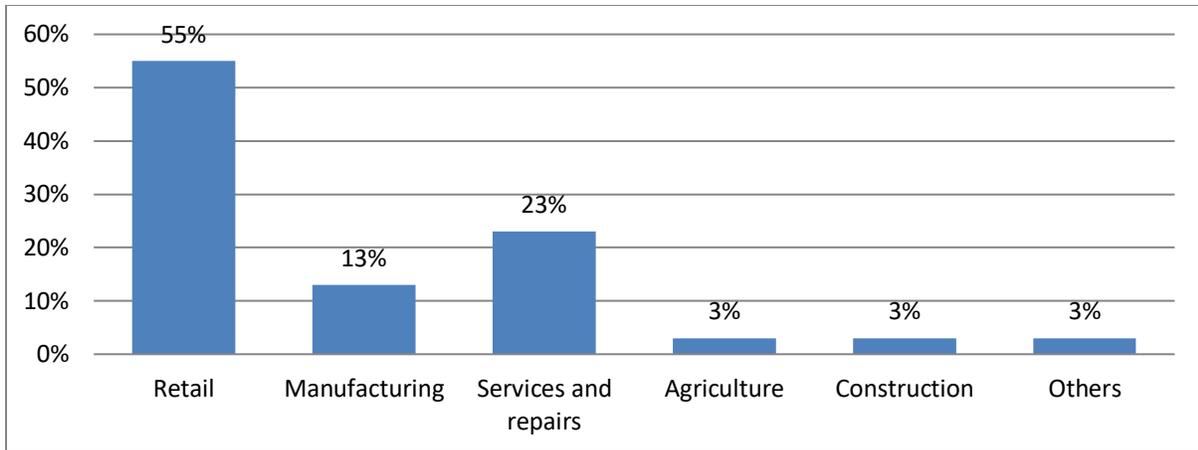


Source: Survey Findings Dec. 2017

4.1.5. Nature of business

Figure 4.5 indicated that fifty-five percent (55%) of the small businesses were involved in retail activities, 23% services and repairs, 13% manufacturing activities while the rest - 9% were in construction, agriculture and other activities.

Figure 4. 5: Nature of business

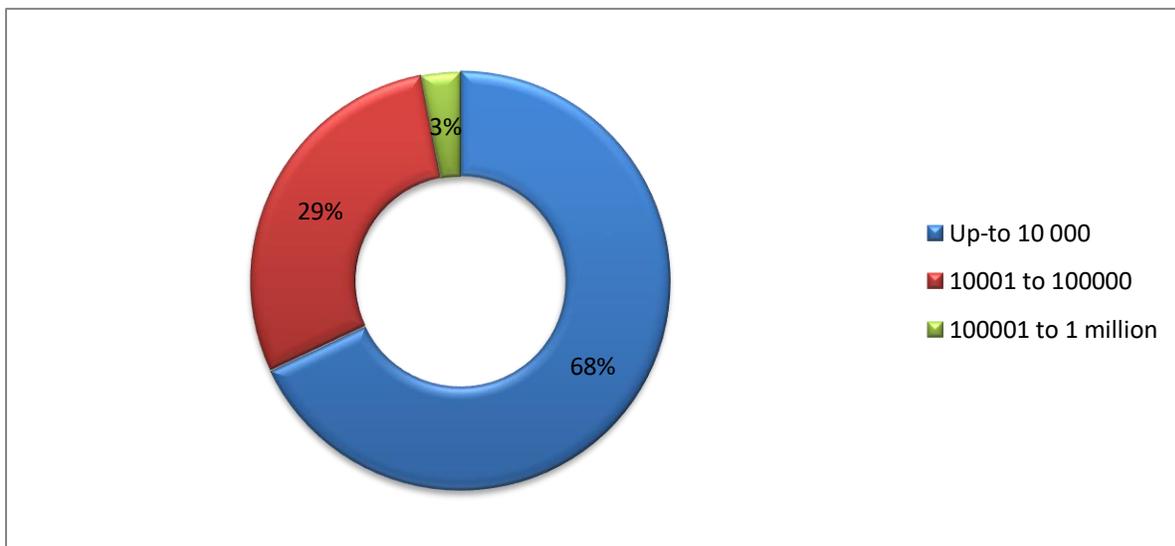


Source: Survey Findings Dec. 2017

4.1.6. Capital employed

Figure 4.6 indicated that the majority (68%) of the small businesses started their business with an amount of N\$ 10 000 or less, 29% with an amount of N\$ 10 001 to 100 000 and only 3% started their business with a capital outlay of more than N\$ 100 000.

Figure 4. 6: Capital Employed

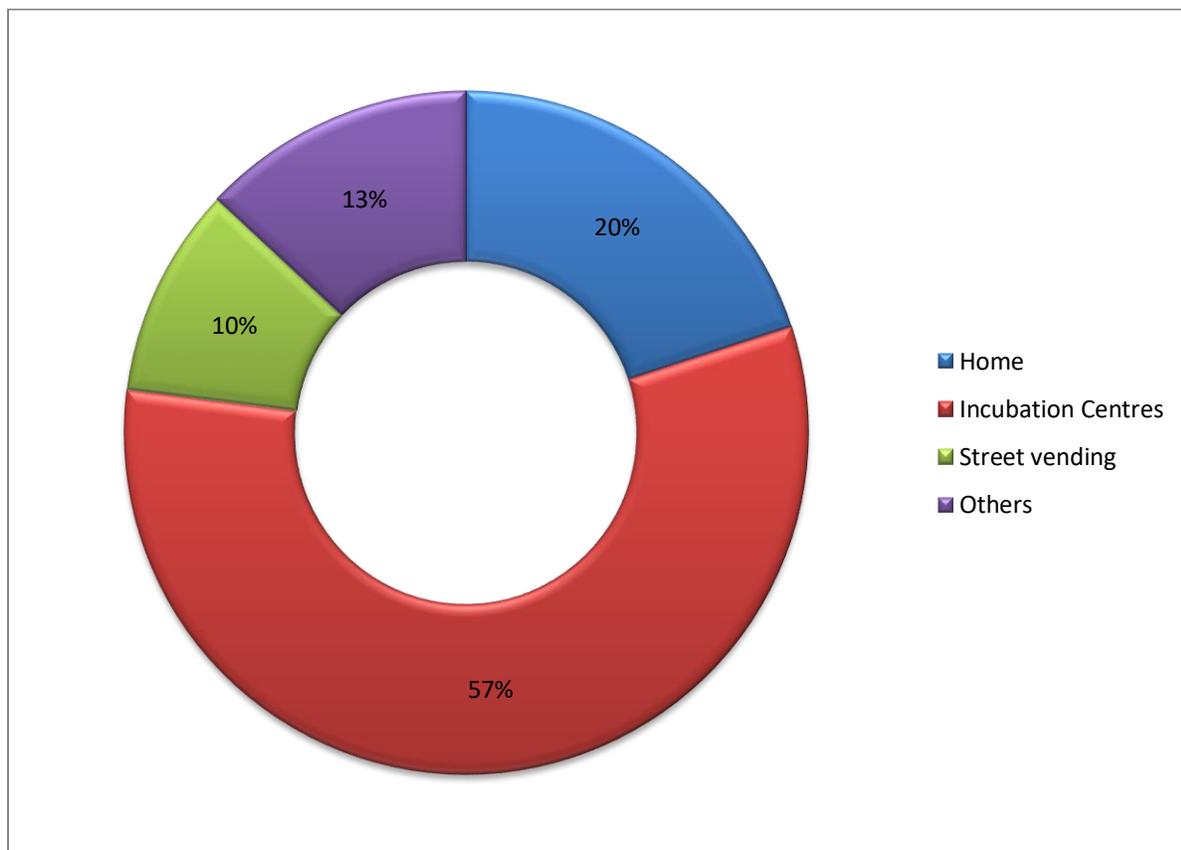


Source: Survey Findings Dec. 2017

4.1.7. Business location

As seen in Figure 4.7 below, more than half (57%) were operating from a municipal incubation centres, 20% from the backyards or pavement of their homes, 10% street vending while 13% indicated that they were operating from other business location including renting and moving from one place to another.

Figure 4. 7: Business location

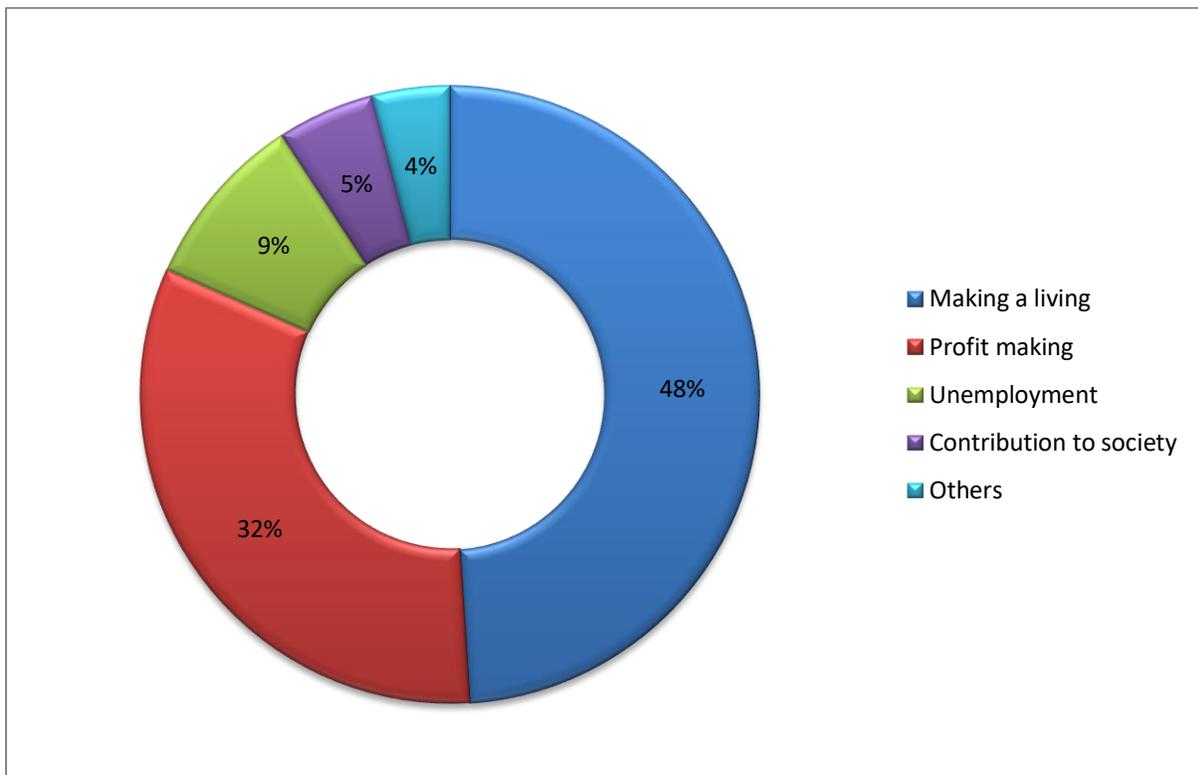


Source: Survey Findings Dec. 2017

4.1.8. Reason for enterprise establishment

Figure 4.8 specified that the majority of the respondents indicated that their principal reason for establishing the enterprise was for making a living (48%), 32% stated that they started their business for profit-making, 9% due to unemployment, 5% wanted to contribute to society and 4% due to other reasons.

Figure 4. 8: Reason for enterprise establishment



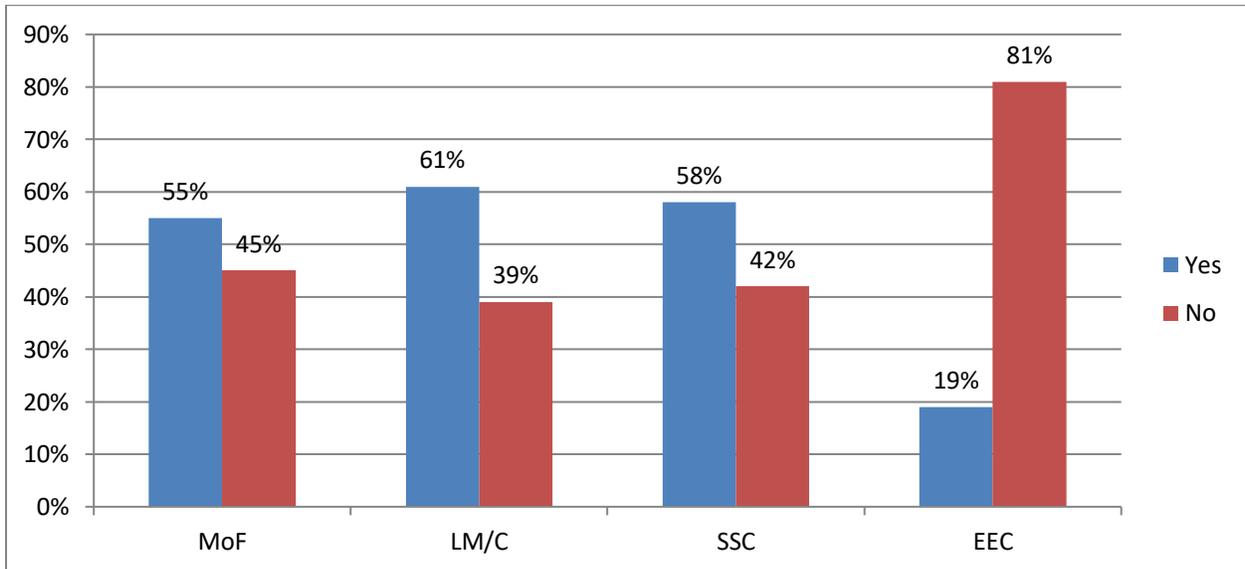
Source: Survey Findings Dec. 2017

4.2. Enterprise registration status

Figure 4.9 indicate that the sampled businesses consisted of formal businesses especially those registered with the MITSED. These businesses were further asked on whether they are registered

with other institutions. With regard to the registration with MoF, 55% indicated that they were registered while 45% were not registered. However, 61% indicated that they were registered with Local Municipality or Council. When it comes to the SSC, 58% were registered while 42% were not registered. Lastly, when it comes to registration with the EEC majority (81%) of the businesses were not registered in comparison to 19% who indicated that their businesses were registered.

Figure 4. 9: Registration status



Source: Survey Findings Dec. 2017

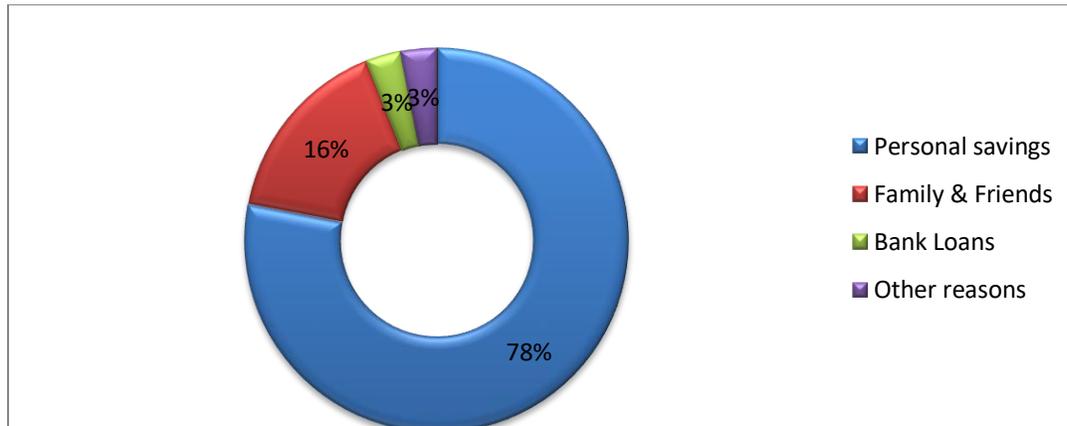
4.3. Finance

4.3.1. Main source of finance

Vast Majority (78%) of the respondents stated that their business was started using own savings, as it is outlined below in figure 4.10. it also indicated that 16% using money borrowed from family

and friends, only 3% indicated they borrowed money from the bank while another 3% used other means of business financing.

Figure 4. 10 Main Source of Finance

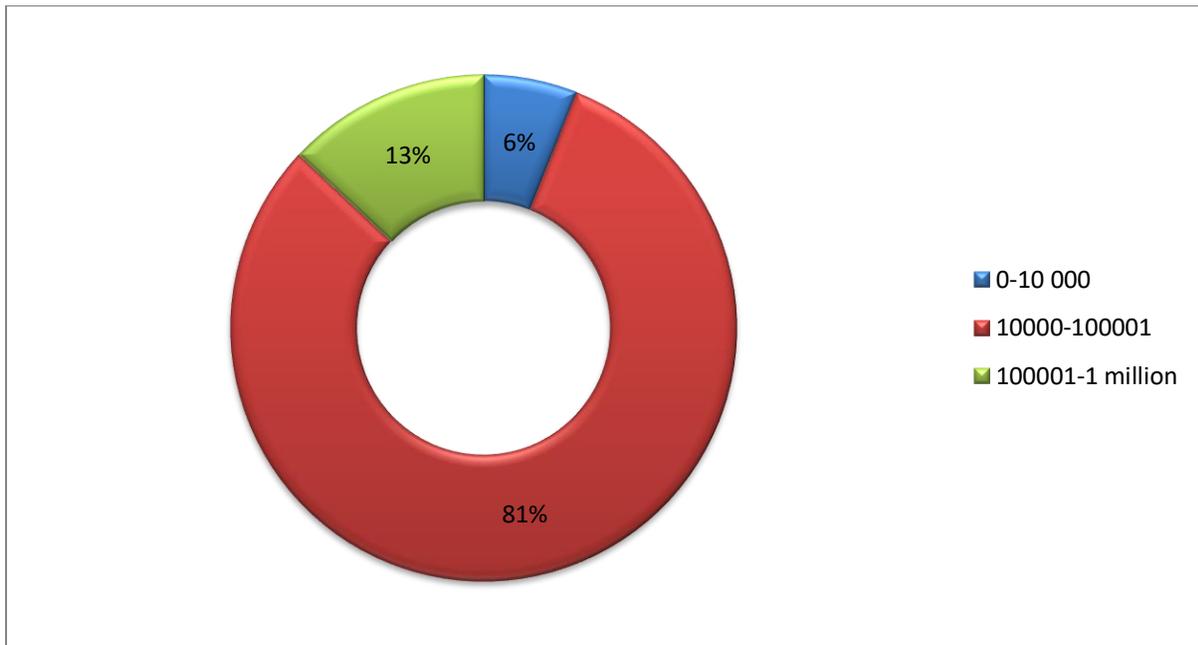


Source: Survey Findings Dec. 2017

4.3.2. Annual income or revenue

The figure 4.11 below indicates that the respondents' annual income or revenue was, 81% of the respondents indicated that their business had profits between N\$ 10 001 and N\$ 100 001 and only 6% had profits of more than N\$ 100 000.

Figure 4. 51 Annual income



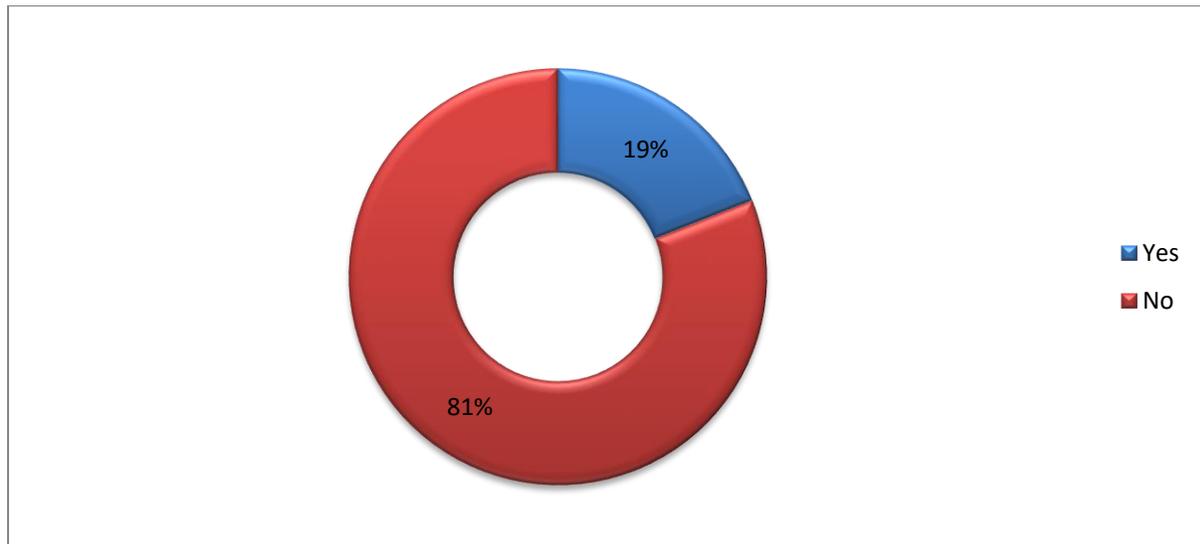
Source: Survey Findings Dec. 2017

4.3.3. Loan application

4.3.3.1. Bank loan application

To see whether enterprises had applied for a bank loan or financing during the last 12 months, a chart below have been used to analyse that. As shown in figure 4.12 below, 81% indicated that they did not apply for a loan while 19% did apply for bank loan.

Figure 4. 62: Bank loan application



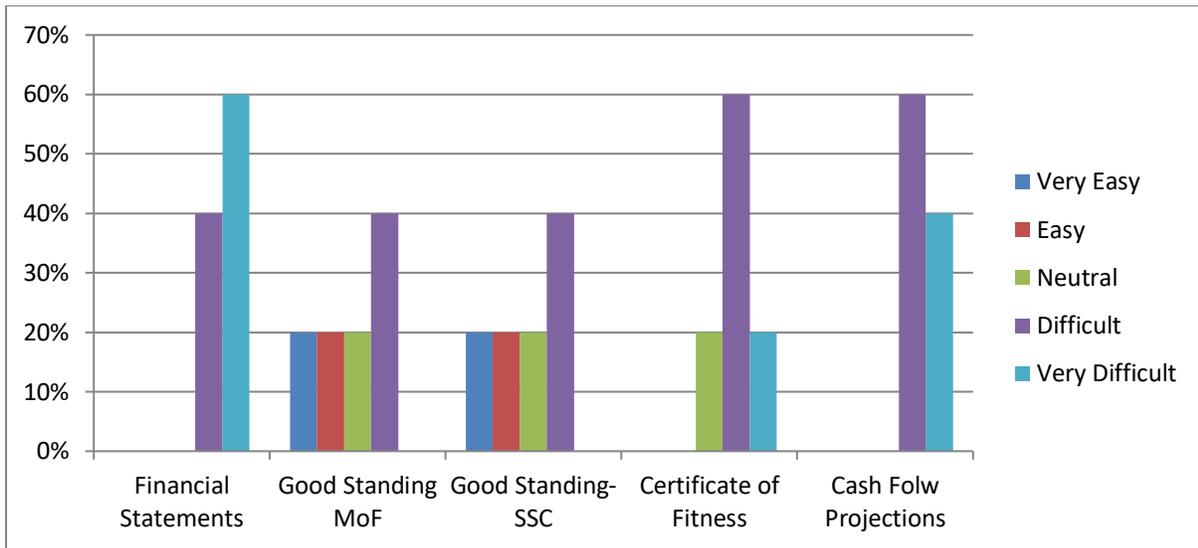
Source: Survey Findings Dec. 2017

4.3.3.2. Hardest banking requirement to comply with

Respondents were asked to indicate if banking requirements were hard to comply with in their opinion. When it comes to financial statements, 40% of the respondents felt that complying with this requirement is difficult while 60% felt it was very difficult as presented in figure 4.13.

Regarding the good standing certificate from the MoF and the SSC, forty percent (40%) felt that meeting this requirement is difficult, 20% felt it was very easy. 20% felt it was easy while 20% of the respondents were neutral. Regarding the certificate of fitness from the municipality, 60% stated of the respondents indicated that this requirement is difficult to comply with, 20% were neutral while 20% indicated that this requirement was very difficult. When it comes to the requirement of cash flow projections, 60% of the respondents indicated that it was difficult while 40% indicated that it was very difficult.

Figure 4. 73: Hardest requirement to comply with



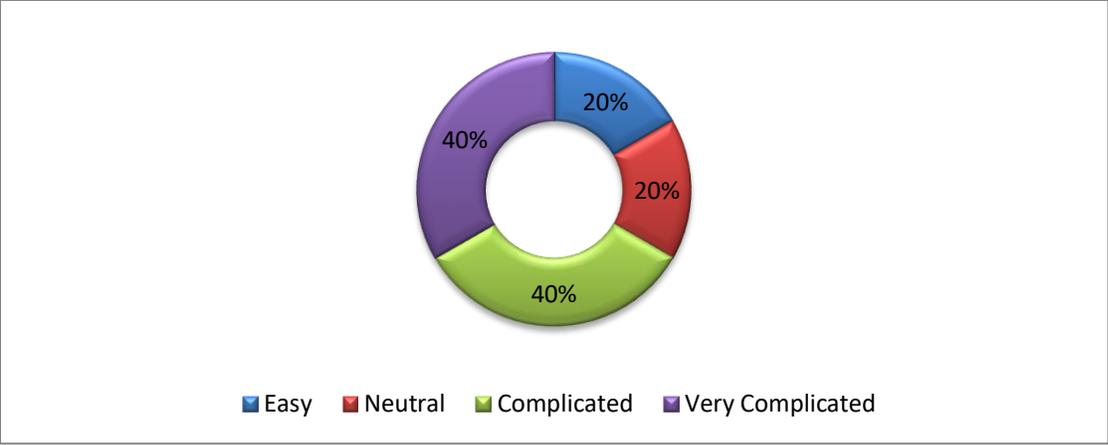
Source: Survey Findings Dec. 2017

COST OF FUNDING

4.3.3.3. Ease or complexity of the loan application procedures

Figure 4.14 below showed that forty percent (40%) of the respondents indicated that the bank’s loan application process is very complicated, another 40% felt that it was complicated, 20% were neutral and a further 20% felt the procedures were easy.

Figure 4. 84: Ease or complexity of the loan application procedures

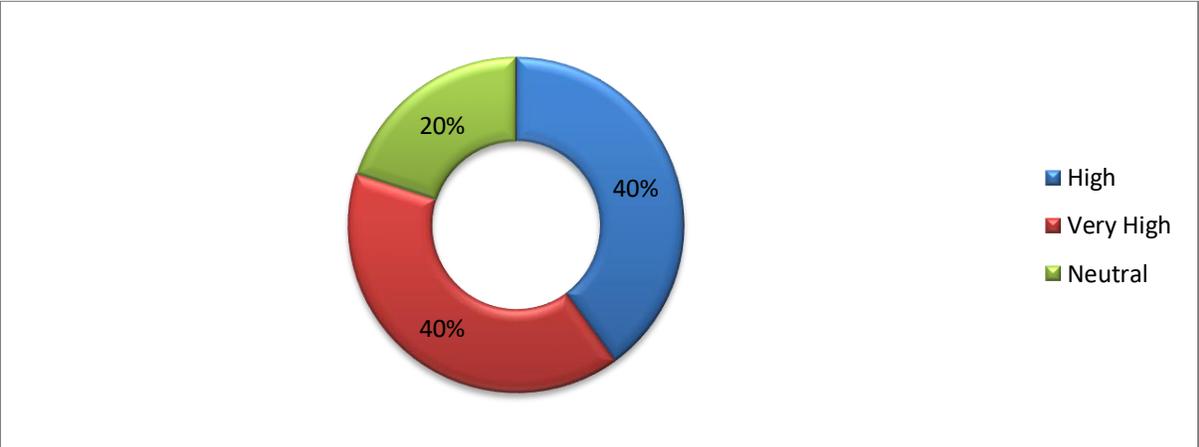


Source: Survey Findings Dec. 2017

4.3.3.4. Interest rates

As observed in Figure 4.15 below, 40% of the respondents indicated that the banks interest rates were very high, 40% indicated that the rates were high while 20% felt that the rates were nor high neither low.

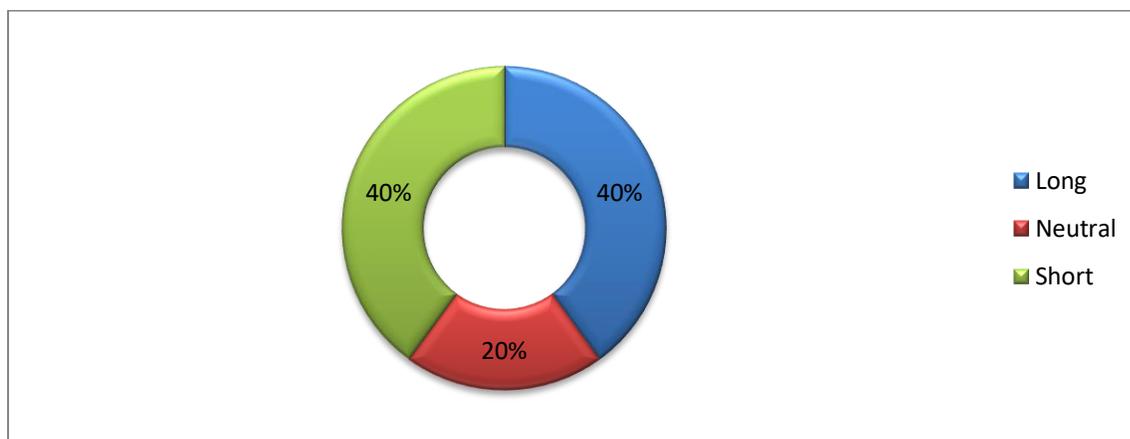
Figure 4. 95: Interest rates



Source: Survey Findings Dec. 2017

Those who applied for a loan were asked to classify the length of loan repayment period. As seen in Figure 4.16, 40% indicated that the period was long, 40% felt that it was short while the remainder of the 20% classified the loan repayment as not long nor short.

Figure 4. 106: Loan repayment period



Source: Survey Findings Dec. 2017

SECTION C: FINANCIAL INSTITUTIONS

4.3.4. Financial Institutions

Questionnaires were distributed to different banks, including Nedbank Namibia Ltd, Standard Bank, First National Bank, Bank Windhoek, Development Bank of Namibia, and the Agricultural Bank of Namibia.

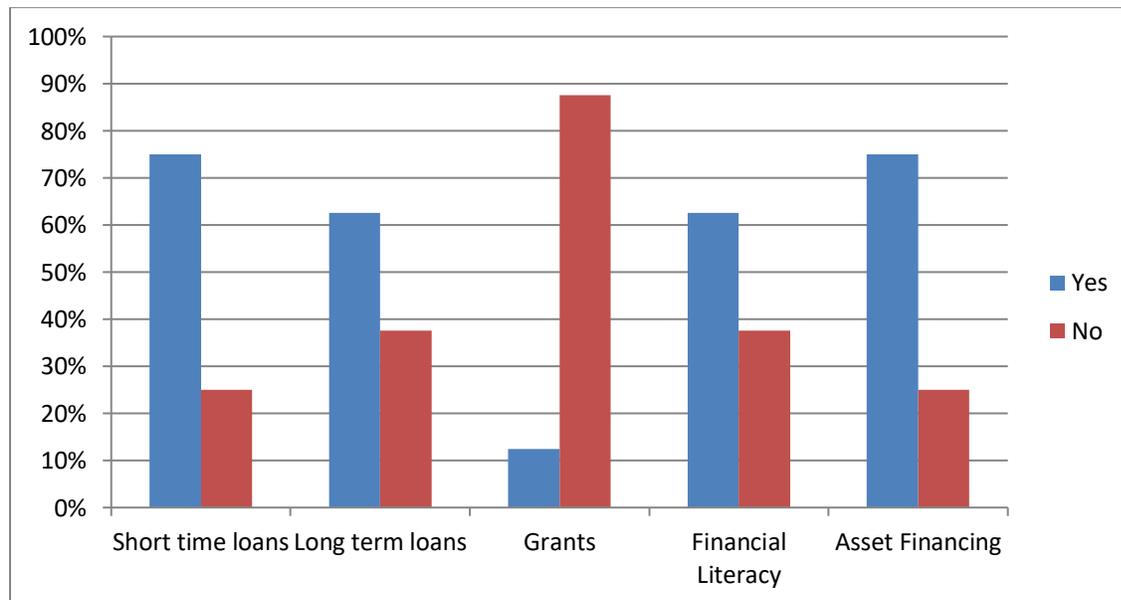
4.3.4.1. Special facility for SMEs

All the respondents from the above institutions indicated that their institution had a special facility for SMEs.

4.3.4.2. Financial Services offered by financial institutions

The respondents from financial institutions were asked to indicate whether the institution offered the short-term loans, long term loans, grants, financial educations and asset financing. On short-term loans, three quarters (75%) of the institutions indicated that the services were offered while 25% indicated that the service is not offered. When it comes long term loans, 62.5% of the respondents indicated that the facility is offered while 37.5% indicated it is not offered by their institution. Regarding grants, 87.5% majority indicated that grants are not offered by their institutions in comparison to 12.5% who indicated that their institution offer grants. However, 62.5% indicated that their institution offers financial literacy while 37.5% indicated that financial literacy is not offered by their institution. Lastly, regarding whether asset financing services are offered by institution, 75% of the institutions indicated that asset financing is offered while 25% indicated that their institution does offer asset financing is not offered by their institution.

Figure 4. 117: Services offered by the institution



Source: Survey Findings Dec. 2017

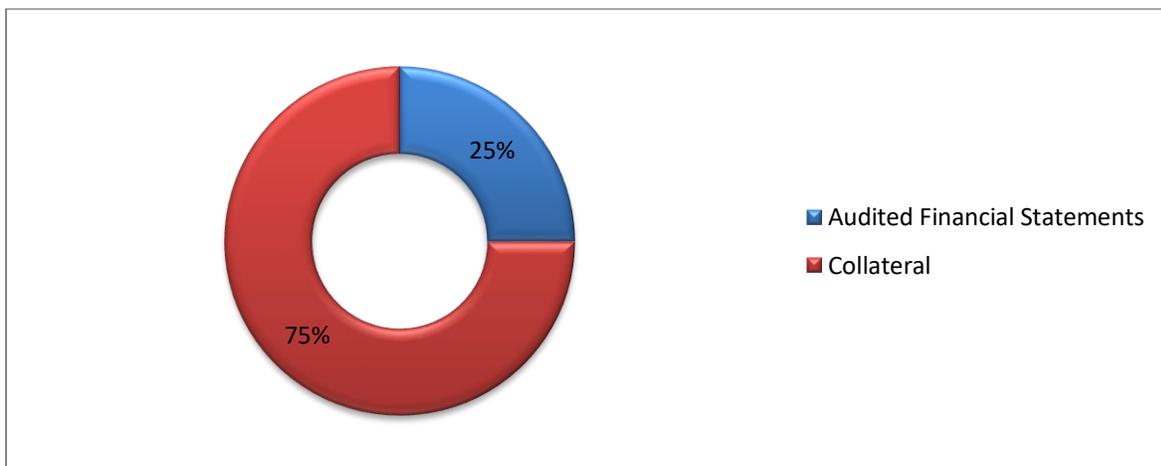
4.3.4.3. Requirements for loan application

Respondents were asked to indicate whether the requirements of Memorandum of understanding, founding statement, audited financial statements, collateral, list of directors, identification documents of directors, and project plan should be met when applying for a loan with their financial institution. All the respondents (100%) indicated that all these above requirements are required when applying for loan application.

4.3.4.4. Hardest banking requirement to comply with

When asked about which requirement was the most difficult to comply with, three-quarters (75%) of the small businesses indicated that they had a problem with complying with collateral requirement while one-quarter (25%) indicated that audited financial statements was the most challenging requirement to comply with.

Figure 4. 128: Hardest banking requirement to comply with

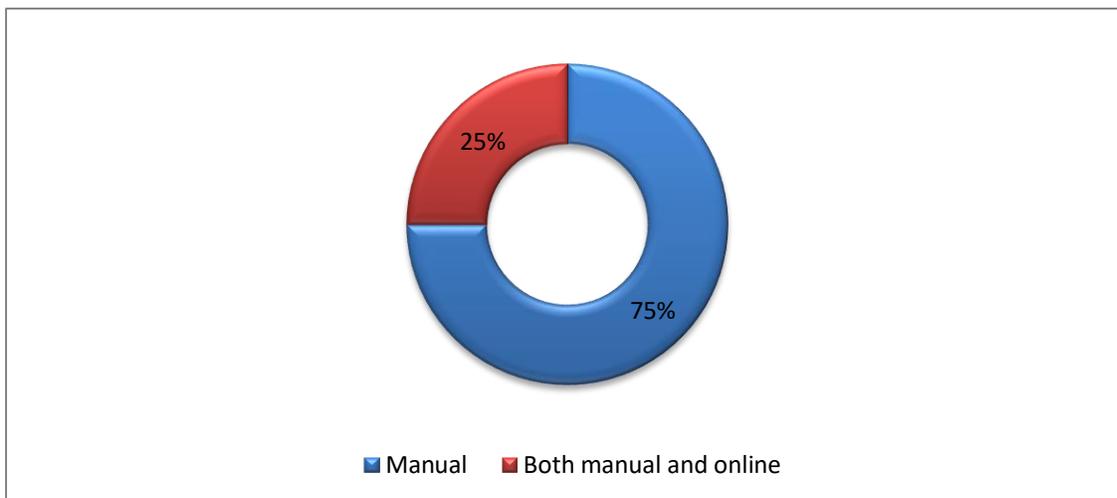


Source: Survey Findings Dec. 2017

4.3.4.5. Application process

Respondents were asked to indicate whether the application process of the institution is online, manual or both manual and on-line. Three quarters (75%) of the banking institutions indicated that their bank their application is done through a manual process whereas one quarter (25%) has provision for both manual and on-line application process.

Figure 4. 1913: Type of application process

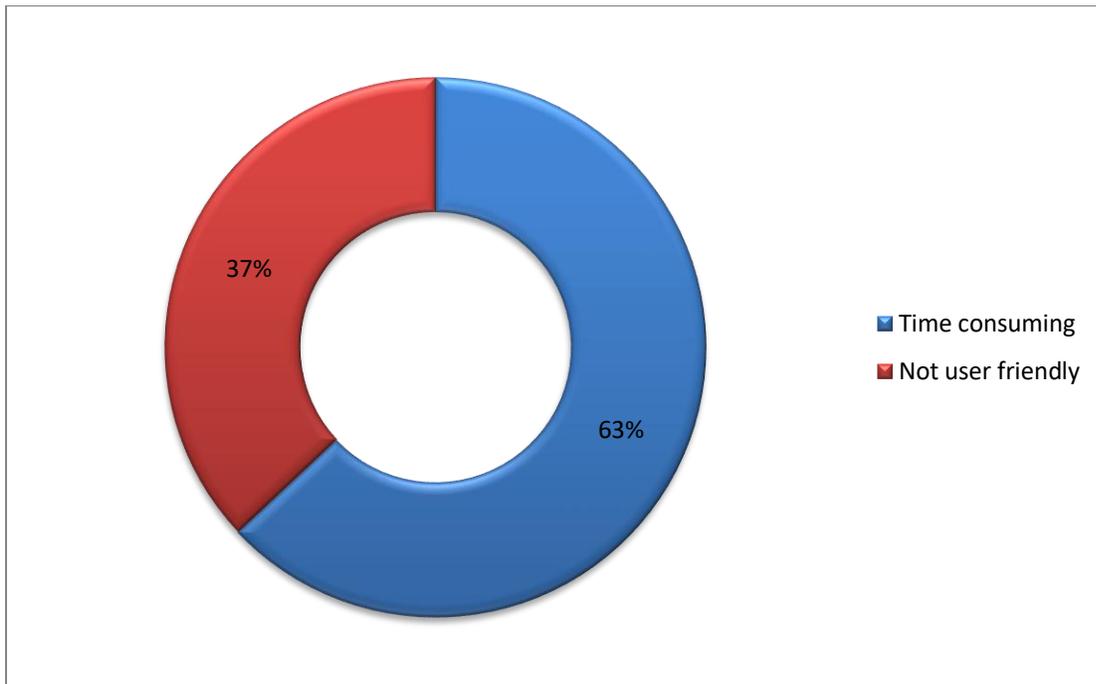


Source: Survey Findings Dec. 2017

4.3.4.6. Challenges with the application process

Financial institutions were further asked to state what they believed was the challenge with the above registration process. Figure 4.20 suggests that 63% of the respondents from the banking institutions felt that the application process was time consuming while 37% felt it was not user friendly.

Figure 4. 140: Challenge with the application process

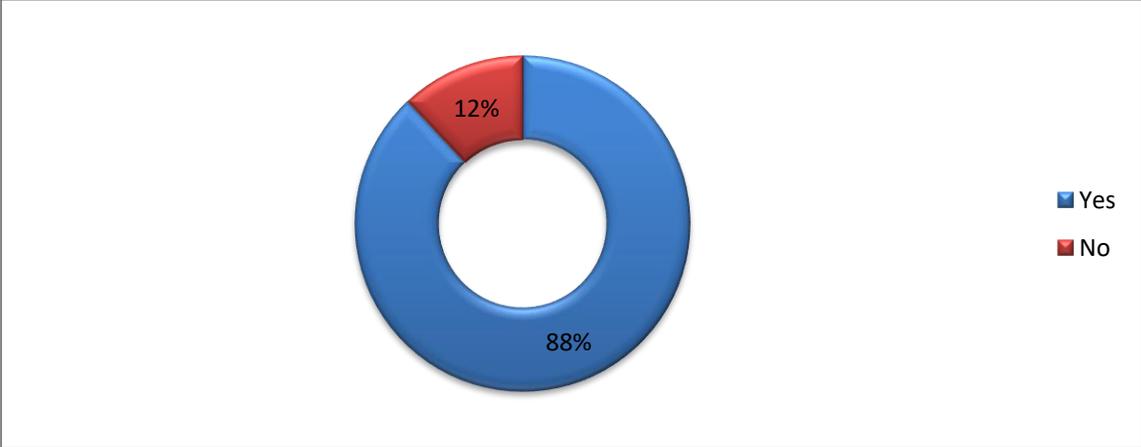


Source: Survey Findings Dec. 2017

4.3.4.7. Does the application process encourage applicants?

Figure 4.21 outlined the application process that encourages applicants to apply for loans 88% felt that the application process does encourage applicants to apply whereas 12% felt that it does not encourage applicants to apply.

Figure 4. 151: Does the application process encourage applicants?

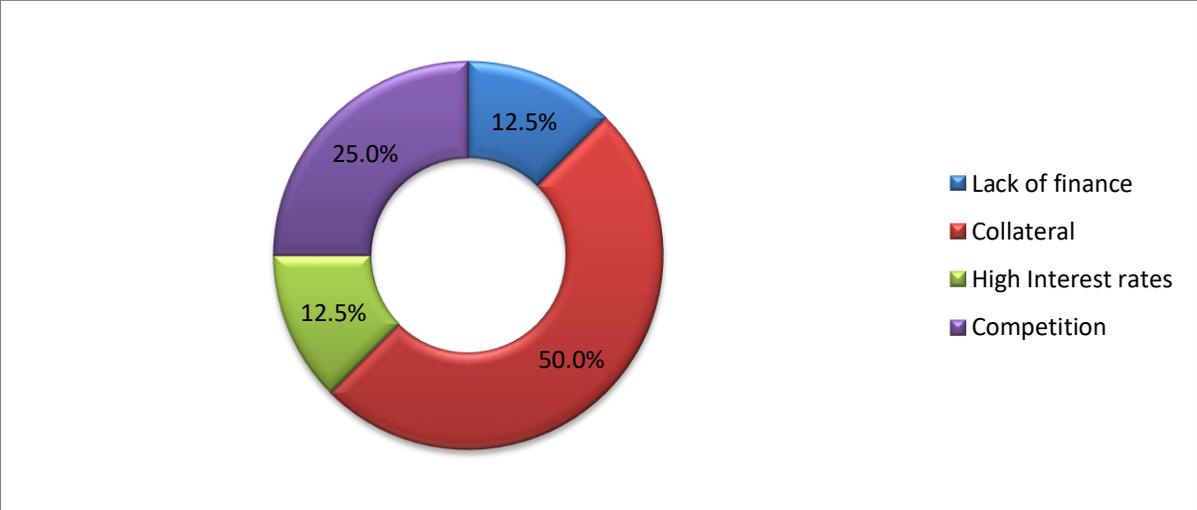


Source: Survey Findings Dec. 2017

4.3.4.8. Greatest early stage challenge

In Figure 4.22, financial institutions were asked to indicate which factor they considered to be their greatest challenge to their institution. The results from the financial institutions suggests that collateral was the topmost early stage challenge to small businesses (50%), competition was indicated to be the second highest challenging as stated 25% of the respondents followed by high interest rates 12.5% and lack of finance 12.5%.

Figure 4. 162: Greatest early stage challenge

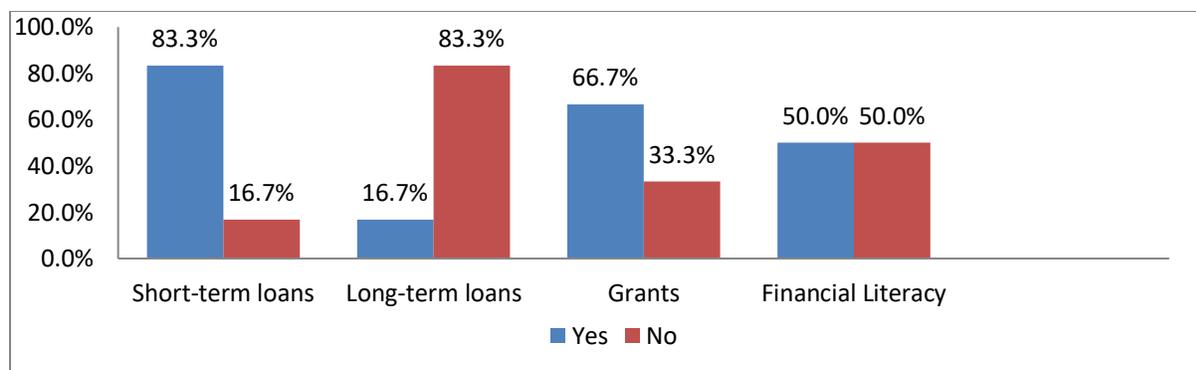


Source: Survey Findings Dec. 2017

4.3.5. Financial assistance by MITSMED

Figure 4.23 also presents results after finding out what role the MITSMED plays in supporting the SMEs, officials from the ministry were asked to answer some questions regarding their role and the support services they offer to SMEs. When asked to indicate whether they offered short-term loans 83.3% of the officials surveyed from the ministry indicated that their institution does offer short-term loans in comparison to the 16.7% who indicated that their institution does not offer short term loans. On whether they offered long-term loans, 83.3% indicated that the ministry did not offer long term loans while the 16.7% in this case indicated that their institution offers the service. On grants, two-thirds (66.7%) indicated that their institution does offer grants while 33.3% does now offer grants. On financial literacy, 50% stated that the ministry does offer financial literacy services while 50% stated that the ministry does not offer such services.

Figure 4. 173: Whether MITSMED offer financial assistance



Source: Survey Findings Dec. 2017

4.3.5.1. Frequency level of SMEs application of the different financing options

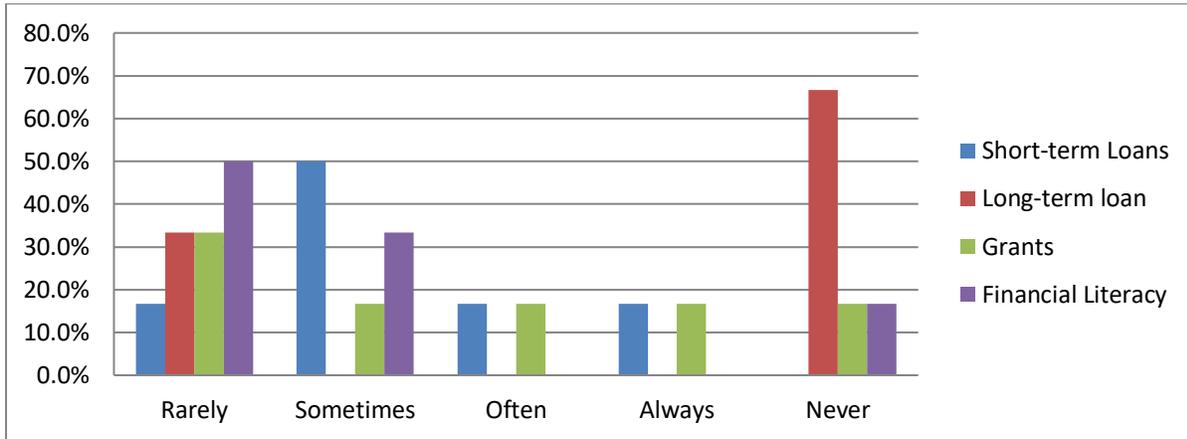
In Figure 4.23, the respondents were asked to indicate the frequency of their application of the services. Relating short-term loans, the 50% of the respondents indicated that they receive application for short-term sometimes, 16.7% rarely receive applications, 16.7% receive applicants for short term loans often while 16.7% indicated that they always receive application for short-term loans.

On long term loans, three quarters (66.7%) of the respondents indicated that they never receive applicants for long term loans while the remainder of the respondents 33.3% rarely receive applications for long term loans.

When it comes to grants, 33% indicated that they rarely receive applications for grants, while 16.7% sometimes, 16.7% often and 16.7% never receive grants applications at all.

On financial literacy, 50% indicated that they rarely receive applications for financial literacy training, 33% receive applicants sometimes and 16.7% indicated that they never received applications for financial literacy training.

Figure 4. 184: Frequency of application for financing

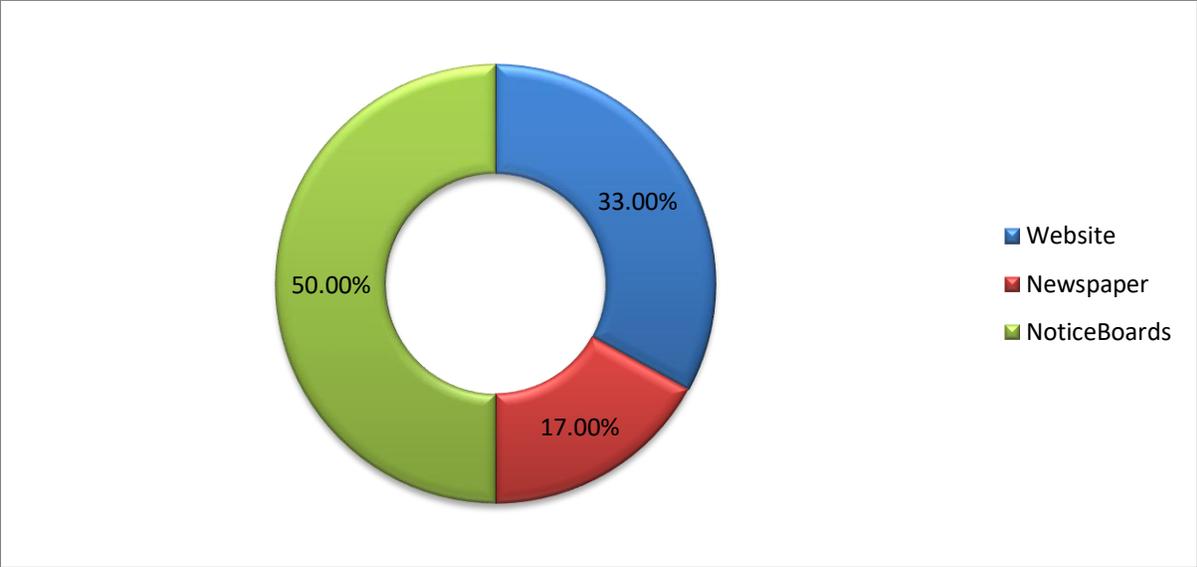


Source: Survey Findings Dec. 2017

4.3.5.2. Awareness creation for services offered to SMEs

As presented in Figure 4.25, when asked how the MITSMED creates awareness for the services they offer 50% of the respondents indicated that the ministry use notice boards, 33% indicated that it is mostly done through their website and 17% indicated that it is mostly done through the newspaper.

Figure 4. 195: Awareness creation for services provided

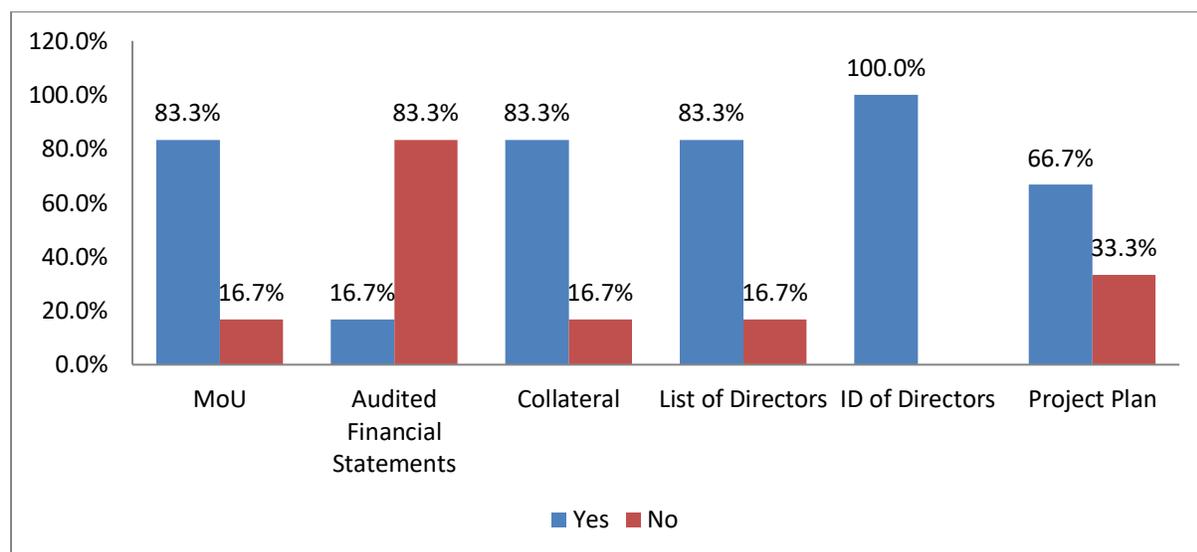


Source: Survey Findings Dec. 2017

4.3.5.3. Financing requirements applicability MITSMED.

Figure 4.26 suggested that the respondents were asked to indicate whether the requirements discussed below applied to their institution. On whether their institution requires a memorandum of understanding, founding statement or registration documents 83.3% indicated that this is a requirement at their institution while 16.7% indicated that it is not required. For audited financial statements, 83.3% indicated that it is not required when applying for financing while 16.7% indicated that it is required. Eighty-three point three per cent (83.3%) indicated that collateral is a requirement while 16.7% indicated that it is not a requirement. On whether the list of directors is a requirement, 83.3% indicated that it required while 16.7% stated it is not required. On whether owner’s Identification document is required all respondents (100%) indicated that an owner ID is a requirement. On whether a project plan is a requirement two-thirds (66.7%) of the respondents stated that it a requirement while one third (33.3%) indicated that it is not a requirement.

Figure 4. 206: Financing requirements for MITSMED



Source: Survey Findings Dec. 2017

Table 2.6. ANOVA data collected

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Business Age	4	200	50	1962
Employees	5	182	36.4	948.3
Education	5	200	40	1173.5
Nature	7	200	28.57143	1339.286
Capital	4	200	50	1824.667
Location	5	200	40	1479.5
Reason	6	196	32.66667	1330.267
Status	6	500	83.33333	6666.667
source	5	200	40	2089.5
revenue	4	200	50	2255.333
Loan process	3	200	66.66667	1794.333
Hardest	7	600	85.71429	8928.571
complexity	5	240	48	1720
interest	4	200	50	1200
repayment	4	200	50	1200
services	6	500	83.33333	6666.667
banking requirement	3	200	66.66667	1458.333

Application process	3	200	66.66667	1458.333
Application Challenges	3	200	66.66667	1002.333
Encourage	3	200	66.66667	2277.333
MITSMED	5	200	40	1359.375
frequency of applications	6	500	83.33333	6666.667
Awareness	4	200	50	1292.667
MITSMED finance	7	600	85.71429	8928.571

ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	44116.05	23	1918.089	0.571434	0.936384	1.649918
Within Groups	302095.9	90	3356.622			
Total	346212	113				

Indicate a statistical significant variance at $\alpha = 0.05$, confidence interval: 95%

The hypothesis is does all this Challenges contribute to SMEs early stage failure or not. The overall analysis of variance test result was for analysing if challenges listed above does affect SMEs to fail during start-up. Applying the acceptance rule that, it is acceptable if and only if the p-value $> \alpha = 0.05$; else it must be rejected. Using this data analysis tool we see that p-value = 0.936384 $> \alpha = 0.05$, and so we cannot accept the hypothesis and conclude that there are challenges that affect the success of SMEs. This results implies that all thus above challenges does affect the success of SMEs to grow.

4.4 Discussion and interpretation of data

This section indicate all findings with an analysis of data through graphs and tables. This chapter summarise the outcome of the whole research. The section outlines discussion of the results as provided by the questions in relation to the research objectives. The outcome are then linked to the

literature review as discussed in chapter 2, by using critical analytical approach. The research was critically analysed in order to ensure that the research questions and objectives are achieved.

4.4.1 Business Type

The challenges facing SMEs in Namibia are varied and many; lack of financial support, lack of reliable information, lack of adequate financial statements, weak economic infrastructure, and lack of education and training support for SMEs that would help establish a good foundation for SMEs (Biggs and Shah, 2006). In practice this means that SME training and other business support services should play an important leverage effect and enhance competitive advantage through their support and facilitating efforts in the learning process of the entrepreneur (TNA Report, 2010). Financial literacy, education and training is key factors that reduce SMEs problems in Namibia.

As shown in figure 4.1, the majority of SMEs constituting 74% in Katutura Windhoek are operating as one-man business. There is a need of assistance for SME owners to register their businesses as close corporation or partnership. Currently it means the absence of such individuals due to illness or death will lead to the collapse of the business. Most SMEs needs good management team that can execute the business plan correctly, it leads to business growth and better credit rating that provide better credit rating that provide better chance of been graded credit facilities.

Figure 4.2 indicated that 36% have been in business for more than 6 years in business. All that have more than 6 years' experience in business are 75%, which is a clear indication that experience does not cause business to fail at early stage.

SMEs choose to register at some institutions and not. The registration of SMEs to institutions like EEC, SSC and MOF is mandatory for SMEs to qualify for tenders and other benefits like grants,

free training of its employees. Figure 4.9 it shows that 81% are not registered with EEC. While 61% registered with local municipalities, in order to have a chance to operate from municipality incubation centres. Studies have pointed out that a range of barriers faced by SMEs concerned with their awareness of regulations and standards either generally, or of relevant to their business (Katrak and Strange, 2002).

The education level of SMEs operators/owners is very promising considering that most can read and write. Only 22% of SME operators/owners have no education, while the remaining 78% have both primary to tertiary education. This is an indication that lack of education is not the cause of improper bookkeeping but is caused by lack of proper management knowledge.

Reason for business

48% have indicated that they started business in order to make a living. They did not have ideas of the business they are involved in and no clear objective and goals for starting their business. The study indicated that a lack of strategic vision lead to business failure. This lead to business collapsing before fully taking off.

Capital employed (finance)

Figure 4.6 shows that 68% started business with funds of N\$10 000.00, the other 32% of SMEs have invested between N\$10 001 to N\$100 000.00 in the starting up of their business. It is difficult for SMEs to build and have reserve funds for growth and expansion of business, due to low initial start-up.

The respondents indicated that 78% started their business with own savings, while only 16% borrowed from families and 3% are the only once that borrowed money from financial institutions.

These findings are similar to what Nieman and Pretorious (2004) said that gaining financial support is one of the most challenging difficulties experienced by SMEs. This explains why most of the SMEs in Katutura Windhoek used their savings to start their business.

Due to less investment it also lead to less return income, the majority of SMEs of about 81% had less than N\$100 000 profit, while only 6% had more than N\$100 000.00 profit. While the return of SMEs is very low. They need to have proper book keeper. Financial institutions does not want to give financial assistance to SME as they have a lower return due to lower initial investment. The financial institutions are perceived to be high risk by banks, and this create a bad image to investors. Longenecker, Justice, Carols and William. (2003) find that improper planning and poor management have been posited as main causes of failure for SMEs. Lack of credit has been identified as one of early stage challenge faced by SMEs that hinders their growth towards fully taking off and advancing globally. The availability of investors is narrowed by poor creditworthiness of many SMEs, and this is proved by Nieman et al (2004: P153) where they argued that SMEs can't attract investments.

The respondent's shows that 40% indicated that bank requirements are very difficult, while 40% said it's very difficult. The study concluded even though most SMEs do not apply for funding but those that apply end up with complicated process, while 20% felt it was easy.

Banks charges high interest rates on SMEs loans as they are very risky borrowers, and the term of loan to SMEs also scored the same as the cost of funding to SMEs. Which means only few SMEs benefit in getting funds from financial institutions, even though financial institutions created SME departments and schemes to help catering for SMEs needs, loan instalment is very high and the repayment period is very low.

The study indicated that various criteria used in accessing loans from financial institutions by SMEs are collateral, revenue, financial statement, business registration documents, good standing certificate from Social Security Commission and Ministry of Finance. It is evident from the study that 60% of SMEs indicated that these requirements are difficult for them, and constitute automatic disqualification.

Government support to SMEs

Even though MITSMED plays a huge role in the support of SMEs on behalf of the whole government. They 83.3% indicated that the Ministry does not offer any short or long term loan to SMEs, but 66.7% respondents of the ministry indicated that they offer grants to SMEs as a means of taking off. This results is supported by the findings of Mambula (2002) study stating that despite existing policies on financial support for SMEs; very few SMEs receive financial support when they need it. And Wallace (1999) confirms that SMEs assistance from governments of African countries is weak and inadequate. Honohan and Beck, (2007) agreed that African firms finance their investment with internal funds.

4.4. Summary

This chapter scrutinized and discussed challenges faced by SMEs and opportunities available for small business. The researcher presented the arguments of the findings of the study based on the outcome of the study.

The study also confirms the believe that accessing funds from financial institutions is very difficult to SMEs as most financial institutions have put up sophisticated measures/ requirements in providing financial assistance to SMEs. 60% of the respondents stated that this requirements are

difficult to comply with. On the other side banks have said the requirements are a lot but can be met, the only challenge is indicated by figure 4.62, that SMEs are not applying to the loans as indicated that only 19% applied for bank loans, while the whole 81% SMEs owners did not apply for any loan due to their belief that it is difficult.

The myth about education level being the cause of most small business owners not having proper and audited bookkeeping records of their day to day business activities is not corresponding to the practical study. The study indicated that only 22% of the respondents have no education, which means the lack of proper bookkeeping is due to other factors and not only lack of education alone.

The following chapter provides conclusions and recommendations of the study, which can be used as assistance to SMEs in the whole of Namibia. Areas for future studies are also identified.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter summarises the findings in the research, conclusions and various suggestions based on the study as well as providing recommendations from the research. The researcher ends the study by identifying areas for future research.

5.2. Summary of study

The research was undertaken with the main objective of finding out the early stage challenges in that SMEs in Namibia are faced with in accessing the needed seed capital during start-up. The sample was selected using non-probability sampling method. A total of 100 SMEs and 10 officers from the MITSMED and 10 from financial institutions participated in the research. The SMEs selected were in different business trades, ranging from food vendors, hairdressing, TV repairs, making keys, retailing, and tailors. The financial institutions included banks and microfinance companies.

All data collected in the study was analysed and presented using descriptive statistics - pie charts, graphs, tables and detailed explanations. Competition becomes a problem among most of the SMEs as above 55% are in the retailing business. It is clear that most SMEs have more than 5 years of business experience, while only 26% of SMEs have been in business longer. One can conclude that this indicates clearly that experience is not an obstacle to business success.

5.3. Recommendations

The research proof clearly that SMEs encounter lot of challenges during start-up when accessing economy. Due to the above observations, the following recommendations are outlined from the research.

5.3.1. Business intention

Even though some of SMEs got funds from financial institutions, they still could not be able to achieve a good outcome for their business. It might be due to lack of knowledge in the business area of operation or other reasons. SMEs are therefore encouraged to do a clear and proper feasibility study of the business they want to undertake, so they do not start business for the sake of wanting to make money but to go for what they are best at. This will add value to the business plan that is one of the critical requirements financial institutions need.

5.3.2. Other funding options

All financial institutions indicated that they had special facilities for SMEs that can reduce the application process and monitor the payment of loans from SMEs who get loans. Short-term loans, long-term, grants financial education and asset financing are all included in these special facilities for SMEs. The manual process of application was also indicated to be an issue, while banks introduced online application to ease the process and increase applications.

Financial institutions in Namibia have reflected that SMEs sector as a high-risk sector to provide funding. They are henceforth reluctant to provide credit facilities to the sector. This has a poor effect on SMEs that prosper in terms of getting a loan as they are all regarded as high risk by financial institutions. These SMEs end up opting for other sources of funding like getting funds

from families, venture capital, personal savings, that are perceived to be having a lower cost of capital.

5.3.3. SME operator & owner's education/ training

The majority of SME operators/owners in Namibia don't have the necessary training and education to help them manage and run their business profitably so they cannot fail during start up. When SMEs are provided with training such as cash management, credit management, investment decisions and bookkeeping this should help improve the performance of SMEs. If SMEs start to perform very well, financial institutions will relax their regulations. Due to them being small and afraid of losing their business management to investors, most SMEs end up being a one-person business and the going concern of the business is at risk. Given the small number of indigenous African SMEs compared to firms from other parts of the world, education and training support for SME will help establish a good foundation for small business growth (Biggs and Shah, 2006).

5.3.4. Proper book keeping

Keeping business transactions up to date in the company books is very important to the operations of the organisation. Most financial institutions end up providing funds to SMEs that are up to date with their accounts record. The records if kept properly also indicate how healthy the organisation is, as it also reflects funds that are in the bank account and funds that the organisation needs for its operations. Having a bank account that is favourable with a bank is an indication of affordability for one to be able to pay a loan. So, it increases the likelihood of loans being awarded as it indicates that they could have the capability to pay back the loan.

5.3.5. Financial institutions ways of giving funds

One of the main challenges to access funds from financial institutions is the high interest rate offered by financial institutions. The study recommends financial institutions to provide credit facilities with lower interest rates to the SME sector. It is also recommended that financial institutions provide goods, raw materials and monitoring to assist the government to assist and control the SME sector. Financial institutions can also provide financing to SMEs and provide control in order to make an SME to repay the loan until its finished, then leave it to continue at a better management level after the financial institution pulls out.

Financial institutions interviewed confirmed insistently, that they had refused a credit application from SMEs in the past. They were refused funding due to a lack of collateral, lack of reliable information, unrealistic business plans, general economic conditions, improper accounting records, cash mismanagement, unfair competition that causes less turnover, collateral, financial statements and entrepreneurial credibility were the frequent appearances among different reasons why credit applications were disapproved. Policies to address this financial problem should be established with input from lending institutions in Namibia. Honohan and Beck (2007) suggested that the concerns of banks should be taken into consideration in developing financial support policies for small businesses.

The study indicated that various criteria used in accessing loans from financial institutions by SMEs are collateral, revenue, financial statement, business registration documents, good standing certificate from Social Security Commission and Ministry of Finance. It is evident from the study that 60% of SMEs indicated that these requirements are difficult for them, and constitute automatic disqualification.

5.3.6. Government intervention

Government, firms and academic institutions that are best in different fields could provide critical mass analysis for the economic turn-around process, through discussion of opportunities and early stage challenges affecting SMEs. Even through government and other partners have put in place efforts to assist in obtaining credit in Namibia, a lot still needs to be done. The government can ensure that the central bank reduces the repo rate for loans offered to SMEs by reducing tax for organisations supporting the small business sector. The government must provide training and require reports in case it provides SMEs with grants, assets, tools and any machinery needed to start a business, in order for SME owners to have a sense of responsibility. Government should work with lending institutions to lower the risk of loan default.

Despite existing policies on financial support for small businesses, very few SMEs receive financial help when they need it. Mambula (2002) found that 72% of SMEs he studied in Nigeria considered lack of financial support as number one constraint in developing their business, and this can be proven by the study due to that only 3% manage to borrow and get assistance from the financial institutions. Although in some African countries banks are by law required to set aside a certain percentage of their profits for small business loans, while many banks would rather pay a fine than make what they believe to be a high risk loan to SMEs. In Namibia the development of an SME bank was one of such government policies but only proper monitoring and control by the government.

The Namibian government's role is to establish and monitor the day to day running of financial institutions meant for assisting small business to avoid failure and loss of public funds like the SME bank in Namibia. The facilities should be only for small business not gurus in business, who

end up borrowing huge amounts thereby crowding out the SMEs who are supposed to be the beneficiaries.

Information dissemination at the level of the Ministry (MITSMED) is not advertised in vernacular languages in all advertising media to create proper awareness of different requirements needed on registration and how to apply for grants and loan assets finance assistance. 50% of the MITSMED respondents indicated that the ministry uses noticeboards, which is an indication that only a few people get to read information on noticeboards. There is a need of radio and TV usage for awareness.

5.4. Conclusion

It is an undisputable fact that SMEs are the cornerstone of most economies in developing countries. They are the formation from which all big companies are developed. It is a fact the development and success of all new and old SMEs should be assisted as they help the entire economy of the country at large. In reviewing previous literature, it clearly came out that SMEs are faced with lots of challenges that hinder their start-up as well as growth in accessing the needed finance from financial institutions. Financial institutions at the other hand have put in place a lot of challenging requirements that SMEs have to adhere to when applying for funds. This requirements at the bank side is due to the general belief that SMEs are high risk investors.

In conclusion, according to the theoretical framework, there are several sources of funding available to SMEs in Namibia, this includes microloan schemes, seed capital, venture capital, bank loans & overdraft facilities. The study proves explicitly that even though funding facilities are available, only 3% indicated that they had borrowed funds from financial institutions while 78%

stated that they started their businesses with own savings while 16% used loaned funds from families & friends. It is evident that different forms and sources of funds have been made available to SMEs by financial institutions in Namibia but SMEs believe in the old myth of saying starting business with own funds is cheaper in case the business fails, you have no worries with paying debt.

Government with its policies can impose tax relief to business that assists the small enterprise sector. There are a lot of ways to reduce the challenges effecting SMEs in Namibia, but the top of the list is training and education in business development. This may encourage financial institutions to lend to SMEs. An accurate database on SMEs must also be established for their proper monitoring. Government should play an important role, other sources of assistance, such as venture capitalists, should considered. Government should relax the time and costs of starting up a business to create room for new creative entrepreneurs to start-up business. The study also recommends that the government supports SMEs to ensure that they play their role in assisting the improvement of Namibian economy and improve the country's Gross Domestic Product (GDP)

5.5. Recommendations for Future Studies

The study may be extended to explore the effects of the closure of the SME Bank on SME funding in Namibia. This is because it was a national policy to establish SME bank to facilitate funding to SMEs. It is clear that banks need to identify with SMEs' needs on an individual basis and come up with technical knowledge to help SMEs apart from providing only finance. To have SME owners be shareholders or have their representative on the board of directors to spearhead their needs and survival of the bank. This may help in finding out how SMEs' access to loans affects their profitability and failure at early stages. There is room to find out on how access to financial

facilities affects their profitability and how the supply of funds affects financial institutions' performance. Profitability ratios may be used for analysis. Studies on SME practicality need to be undertaken to determine factors like profitability of SMEs in order to determine the challenges they face.

5.1. Ethics in Research

The researcher ensured that ethical considerations in research were given utmost attention during the research process. All works extracted from secondary data were cited accordingly.

For primary data collected through the questionnaires, the researcher ensured that the research objective was explained to the respondents and that the answers were treated as anonymous and confidential and that the data would be used for the purpose of this research only.

An informed consent form was part of the questionnaire and this section was read out to the respondents to ensure that the respondents voluntarily agreed to partake in the research and that he/she may withdraw from the research at any time should the respondent so desire. The respondents' names and identity would not be linked to any research materials, and would not be able to be identified in any report which would result from the results as the information was analysed in aggregate than in units.

The participants were assured that the information would be strictly used for academic purposes, and would be locked away in a safe place for a period of five years and destroyed by shredding and burning soon after. Only the researcher himself has access to the documents and information.

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APPENDIX A

RESEARCH QUESTIONNAIRE



SURVEY QUESTIONNAIRE

QUE NO: _____

TITLE: AN ANALYSIS OF EARLY STAGE FORMAL SME CHALLENGES WITHIN SINGLE QUARTERS SETTLEMENT, WINDHOEK, NAMIBIA

This research forms part of my Master's Degree in Finance Course of the University of Namibia.

The purpose for this study is to analyse the early stage formal SMEs Challenges within Single Quarters in Windhoek, Namibia. The researcher wishes to understand the challenges facing SMEs especially the different forms of challenges facing SMEs, the current sources of SME funding, requirements for acquiring finances and determine the different forms of government funding in Namibia.

You are informed that participation is voluntary and you may withdraw at any point when it becomes necessary. All answers will be treated confidentially

Should you have any questions regarding the research, please contact the researcher or the supervisor at the particulars below.

Researcher: Mr Clemens Tjano, University of Namibia, tnguundjua@yahoo.com

Supervisor: Dr. Nyasha Kaseke

INSTRUCTIONS:

QUESTION A: (Q1 -18) to be answered by SMEs owners and managers

SECTION B: To be answered by Financial Institutions/Financiers

Section C: MINISTRY OF INDUSTRIALISATION, TRADE & SME DEVELOPMENT

SECTION A: SME OWNERS AND MANAGERS

DEMOGRAPHIC FACTORS

How would you classify your type of business ownership for your business?

One-man business	1
Partnership	2
Close corporation	3
Public/Private company	4
Others, State	9

Number of years in operation

Less than 1 year	1
1 to 5 years	2
6 to 10 years	3
11 to 15 years	4
16 years and more	9

Number of Employees

0-5 employees	1
6-10 employees	2
11-15 employees	3
16 or more employees	4

What is your education level?

None	1
Basic	2
High School	3
Tertiary	4

Nature of business

Retail	1
Manufacturing	2
Services and repairs	3
Agriculture	4
Construction	5
Others, State	9

Capital Employed

Up-to N\$ 10 000	1
N\$ 10 001-\$100 000	2
N\$ 100 001 to N\$1 000 000	3
More than N\$ 1 000 000	4

Business location

Home	1
------	---

Incubation Centre	2
Street vending (Informal)	3
Illegal structure	4
Other, State	9

Reason for establishing the business

Profit-making	1
Make a living	2
Risk taking	3
Unemployment	4
Contribute to society	5
Freedom: Be own boss	6
Others, State:	9

Indicate whether your institution is registered with the following institutions?

[1-Registered

2-Not-Registered]

a.	Registration with Ministry of Finance	1	2
b.	Local Municipality or Council	1	2
c.	Social Security Commission	1	2
d.	Employment Equity Commission	1	2

If your enterprise is not registered, state major reason for not registering your enterprise.

a.	Time constrains	1
b.	Cost constrains	2

c.	Regulatory constrains	3
d.	Ignorance	4
e.	Others, state	5

What is your main source of funding for your business?

Business Loans	1
Personal savings	2
Retained profits	3
Family and Friends	4
Banks	5
Other, (specify)	6

What is your annual income or revenue?

0 to N\$ 10 000	1
N\$ 10 001 to N\$ 100 000	2
N\$ 100 001 to N\$ 1 000 000	3
More than N\$ 1 000 000	4

LOAN APPLICATION

Did you apply for a bank loan over the last 12 months?

Yes	1
No	2

If your answer above is “Yes”. Please rate the application process in terms of the requirements of the Bank.

Too Difficult	5	Difficult	4	Neutral	3	Easy	2	Very Easy	1
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Which of the specific banking requirement is the hardest to comply with?

Financial Statements	5	4	3	2	1
Good Standing Certificate-Ministry of Finance	5	4	3	2	1
Good Standing Certificate-Social Security Commission	5	4	3	2	1
Certificate of Fitness	5	4	3	2	1
Cash flow Projections	5	4	3	2	1
Other, (Specify)	5	4	3	2	1

COST OF FUNDING

15. Rank the ease or complexity of the loan application procedures using the following Likert scale: (Very complicated-5, Complicated-4, Neutral-3, Easy-2, Very Easy-1)

Complexity of Application procedures	1	2	3	4	5
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16. How do you classify the loan Interest rates using the following Likert-scale: [Very High-5, High-4, Neutral-3, Low-2, Very Low-1]

Interest rates	1	2	3	4	5
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17. In your opinion how do you classify the loan repayment period using the following Likert-scale? (Very Long-5, Long-4, Neutral-3, Short-2, Very Short-1).

Loan Period	1	2	3	4	5
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18. What do you think can be done to improve early-stage challenges faced by SMEs in Namibia?



SURVEY QUESTIONNAIRE

QUE NO: _____

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Supervisor: Dr. Nyasha Kaseke

INSTRUCTIONS:

QUESTION A: To be answered by SMEs owners and managers

SECTION B: (19-30) to be answered by Financial Institutions/Financiers

Section C: MINISTRY OF INDUSTRIALISATION, TRADE & SME DEVELOPMENT

SECTION B: QUESTIONS TO FINANCIAL INSTITUTIONS ONLY

19. Type of Institution

Nedbank Namibia Ltd	1
Standard Bank	2
First National Bank	3
Bank Windhoek	4
Development Bank	5
Agricultural Bank of Namibia	6
Others, (Specify)	7

20. Indicate whether the organisation have a special facility for SMEs?

Yes	1
No	2

21. State whether the following facilities are offered by your institution.

Short-Loans	1	2
Long-Term Loans	1	2
Grants	1	2
Financial Educations	1	2
Asset financing	1	2
Others, State	1	2

22. What are the requirements that SMEs should meet during loan application?

Memorandum of Understanding, Founding Statement or registration documents as the case may be	1
Audited Financial Statements	2

Collateral	3
List of Directors	4
Identification documents of Directors	5
Project report and plan.	6
Other, State	7

23. In your opinion, which is the most difficult requirement to SMEs during loan application?

Memorandum of Understanding, Founding Statement or registration documents as the case may be.	1
Audited Financial Statements	2
Collateral	3
List of Directors	4
Identification documents of Directors	5
Project report and plan.	6
Other, State	7

24. State below whether your application process is on-line, manual forms or both?

Manual Application form	1
On-line application form	2
Both-Manual and online	3
Others, Specify	4

25. What are the challenges faced with the application process listed above question no. 21?

Time consuming	1
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Not user friendly for illiterate applicants	2
Lost application forms-manual forms	3
Unsaved data-online applicants	4
Unreliability of process- (Applicants do not trust the process)	5
Other reasons, state	6

26. In your opinion would a change in application process encourage more applicants to apply for loans?

Yes	1
No	2

27. If your answer in the above question is (Yes), what do you think should be done to improve the situation?

1	
2	
3	

28. Rank how much the following are challenges to your institution using the following Likert scale. [Huge challenge-5, Somewhat a challenge-4; Neutral-3; Somewhat not a challenge; Not a challenge-1

Lack of Finance	5	4	3	2	1
Competition	5	4	3	2	1
High Interest rates	5	4	3	2	1
High Taxes	5	4	3	2	1
Competition	5	4	3	2	1
Others (specify)	5	4	3	2	1

29. Which do you consider as the greatest early stage challenge to your institution?

Lack of Finance	1
Competition	2
High Interest rates	3
High Taxes	4
Competition	5
Others (specify)	6

30. What do you think can be done to improve early-stage challenges faced by SMEs in Namibia?

a	
b	
c.	
d	

Thank you for your time



SURVEY QUESTIONNAIRE

QUE NO: _____

**TITLE: AN ANALYSIS OF EARLY STAGE FORMAL SME CHALLENGES WITHIN
SINGLE QUARTERS SETTLEMENT, WINDHOEK, NAMIBIA**

This research forms part of my Master's Degree in Finance Course of the University of Namibia.

The purpose for this study is to analyse the early stage formal SMEs Challenges within Single Quarters in Windhoek, Namibia. The researcher wishes to understand the challenges facing SMEs especially the different forms of challenges facing SMEs, the current sources of SME funding, requirements for acquiring finances and determine the different forms of government funding in Namibia.

You are informed that participation is voluntary and you may withdraw at any point when it becomes necessary. All answers will be treated confidentially

Should you have any questions regarding the research, please contact the researcher or the supervisor at the particulars below.

Researcher: Mr Clemens Tjano, University of Namibia, tnguundjua@yahoo.com

Supervisor: Dr. Nyasha Kaseke

INSTRUCTIONS:

QUESTION A: To be answered by SMEs owners and managers

SECTION B: To be answered by Financial Institutions/Financiers

Section C: **(Q31-35) MINISTRY OF INDUSTRIALISATION, TRADE & SME DEVELOPMENT**

SECTION C:

GOVERNMENT: MINISTRY OF INDUSTRIALISATION, TRADE & SME DEVELOPMENT

31. State whether the government offers the following financial assistance to SMEs in Namibia? [Yes-1 No-2]

Short-Loans	1	2
Long-Term Loans	1	2
Grants	1	2
Financial Educations	1	2
Others, State	1	2

32. Indicate the frequency level of SMEs application for the different financing options listed below. [Never-1; Rarely-2; Sometimes-3; Often-4; Always-5]

Short-Loans	1	2	3	4	5
Long-Term Loans	1	2	3	4	5
Grants	1	2	3	4	5
Financial Literary	1	2	3	4	5
Others, State	1	2	3	4	5

33. How does your organisation create awareness for the services offered to SMES?

Website	1
Radio	2
Television	3
Facebook Page	4
Magazines	5
Newspapers	6
Billboards	7

34. State whether the followings requirements are applicable to financing at your institution.

Memorandum of Understanding, Founding Statement or registration documents as the case may be	1	2
Audited Financial Statements	1	2
Collateral	1	2
List of Directors	1	2
Identification documents of Directors	1	2
Project report and plan.	1	2
Other, State	1	2

35. What do you think can be done to improve early-stage challenges faced by SMEs in Namibia?

a	
b	
c.	
d	

Thank you for your time



The Rev. Dr. Greenfield Mwakipesile

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CONTACT

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Namibia

LANGUAGE & COPY-EDITING CERTIFICATE

14th September 2018

RE: LANGUAGE, COPYEDITING AND PROOFREADING OF CLEMENS TJANO'S THESIS FOR THE MASTER OF BUSINESS ADMINISTRATION DEGREE OF THE NAMIBIA BUSINESS SCHOOL OF THE UNIVERSITY OF NAMIBIA

This certificate serves to confirm that I copyedited and proofread **CLEMENS TJANO'S** Thesis for the **MASTER OF BUSINESS ADMINISTRATION DEGREE** entitled: **AN ANALYSIS OF EARLY STAGE FORMAL SME FUNDING CHALLENGES IN WINDHOEK NAMIBIA**

I declare that I professionally copyedited and proofread the thesis and removed mistakes and errors in spelling, grammar, and punctuation. In some cases, I improved sentence construction without changing the content provided by the student. I also removed some typographical errors from the thesis and formatted the thesis so that it complies with the University of Namibia's guidelines.

I am a trained language and copy editor and have edited many Postgraduate Diploma, Masters' Thesis, Dissertations and Doctoral Dissertations for students studying with universities in Namibia, Zimbabwe, Swaziland, South Africa and abroad. I have also copy-edited company documents for companies in the region and abroad.

Please feel free to contact me should the need arise.

Yours Sincerely,

The Rev. Dr. Greenfield Mwakipesile



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