

ANALYSIS OF FACTORS HINDERING SMALL AND MEDIUM ENTERPRISES

ACCESS TO FINANCE IN PROSPERITA INDUSTRIAL PARK II

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ABSTRACT

The primary objective of the study is to assess both the demand and supply side factors that hinder Small and Medium Enterprises (SME's) in Namibia to gain access to finance. This is a case study of SMEs of Prosperita Industrial Park II in Windhoek. Four commercial banks, SME Bank and the Ministry of Industrialization, Trade and SME Development were also included in this study.

The study employs both quantitative and qualitative methods, whereby a questionnaire and interviews were used as the research instruments. The data was analysed using SSPS and Microsoft Excel software. Statistical analysis, including Pearson Product-Moment Correlation, descriptive statistics, thematic code and content analysis were used.

The study found that both demand side and supply side factors impact on access to finance among the SMEs. These are factors such as the age and the size of the business, collateral, asymmetrical information and stringent conditions, such as high interest rates and high transaction costs. The study recommends that the Government should intervene in the operations of the supply side and apply leniency regarding criteria, especially in the collateral requirement. The study further recommends that training should be availed to SMEs in order to create an understanding of the art of financial administration. SMEs should furthermore be encouraged to implement financial systems with at least three basic components of the budgetary period. It is also recommended that in order to build credibility with lenders, SMEs should start maintaining proper records to avoid asymmetrical information. In addition, SMEs should invest in fixed assets, such as property and machinery, which could serve as collateral for financial providers.

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What, then, shall we say in response to these things? If God is for us, who can be against us? Roman 8:31. I would like to thank God for being with me during my studies, for giving me strength, courage, knowledge and understanding, time and good health. My sincere appreciation and gratitude goes to my mentor, Dr. E. Kaakunga, for his advice, guidance and time availed to me. I wish to extend my thanks for the help and great assistance received from Mr. Camillus Mahindi from the UNAM statistics department. Many thanks to NBS staff for your tireless efforts, in particular to Dr. A. Isaacs. Further thanks are due to my lovely family. Bravo to you Mr. Nanyanga! My thank-you-list for you is endless. To my children – Shen, Rejoice, Taimi (Mbushandje) and Nonah Ngendina, I thank you so much for your understanding. I know at many times you felt lonely and really wanted me there to attend to your sweet questions. I once again thank God for being with you every time, for protecting you and making this happen. Many thanks go to my entire family because it is through their encouragement, prayers and motivation that I have come to the end of this chapter. *"Glory to God in the highest heaven, and on earth peace to those on whom his favour rests." Luke 2:14*

DEDICATION

This thesis is dedicated to my husband, Mr. Fillemon Nanyanga, and my children Shen, Rejoice, Taimi and Ngendina for being great pillars of support during my studies.

DECLARATION

I hereby declare that this thesis is my own work. To the best of my knowledge this work has not been submitted for a degree in any other institution of higher learning. The thesis contains no materials previously published or produced by other parties, except where due acknowledgement is made in the text.

Signature.....

Name:

Date:

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LIST OF ABBREVIATIONS

BoN:	Bank of Namibia
CIH:	Capricorn Investment Holding
EASGPS:	Equipment Aid Scheme and Group Purchasing Scheme
FNB:	First National Bank
GDP:	Gross Domestic Product
IFC:	International Finance Corporation
ILO:	International Labor Organization
MITSMED:	Ministry of Industrialization, Trade and SME Development
MTI:	Ministry of Trade and Industry
NCCI:	Namibia Chamber of Commerce and Industry
NDP 4:	Namibia Development Plan number 4
NDP:	Namibian Development Plan
NEPRU:	Namibia Economic Policy Research Unit
NPC:	National Planning Commission
RPED:	Regional Project on Enterprise Development
SMEs:	Small and Medium-sized Enterprises
SPDP:	Sites and Premises Development Programme
SPSS:	Statistical Package for Social Sciences
UCS:	Underhill Corporate Solutions

CHAPTER ONE

1. Introduction

Namibia has a national vision for the future. According to the National Planning Commission (NPC) (2004), the main goal of this Vision is to improve the quality of life of the people of Namibia to the level of their counterparts in the developed world by 2030. Hence, its name is Vision 2030. Namibia's Vision 2030 is one of the most prominent initiatives since the drafting and acceptance of the National Constitution (NPC, 2004). The Vision 2030 planning process commenced in January 1998, when His Excellency the Founding President, Dr. Sam Nujoma, drew attention to the need for members of the Cabinet to be clear about the status quo, the way forward and a time frame (NPC, 2004).

One of Vision 2030's objectives is to steer Namibia towards the status of an industrialized nation, and to create an enabling environment for growth in key economic sectors of the country's economy (NPC, 2004). Therefore, this is envisaged to be the basis for availing resources for the fulfilment of major national objectives such as poverty reduction, human resource development, employment creation, access to finance for the private sector as well as small and medium-sized enterprises (SMEs) and the provision of adequate social services and infrastructural facilities (NPC, 2004). In order to achieve this objective, the Government and public and private sectors, including SMEs, have a crucial role to play in spearheading industrialization and economic development in the country.

With reference to Vision 2030 objectives, the SME sector in Namibia has been and is still a major driving force in the economy in terms of income and employment generation (NEPRU, 2010). According to Arnold, Grossmann, Mwatotele, Stork and Tobias (2005), SMEs are believed to contribute about 12% to the country's GDP and employ about 20% of the country's work force. However, the sector requires access to finance in order to be able to contribute to the national economy in terms of employment creation, add value to the GDP of the country and help towards the realization of the government's 2030 Vision agenda (Stork, 2010). Despite the ambitions of the national plan access to finance, especially for SMEs, remains a challenge. A study by Stork (2010) indicates that the SME sector in Namibia is constrained by lack of access to finance. In his study Kakwambi (2012) focuses on local economic development in Oshakati Town and how to enhance the contribution of small and medium-sized enterprises. He also concludes that SMEs are challenged by access to finance.

Many Namibian studies about access to finance among SMEs focus on either demand or supply side only. This study is unique in that it explores both the demand and supply side factors that hamper SMEs' access to finance and then relates the findings regarding the supply side to that of the demand side studies. Olawale and Asah (2011) state that few studies have focused on the demand side of access to finance and even fewer exist on SMEs access to finance from a supply side. In respect of this, a dyadic survey to examine factors that limit SME's access to finance as perceived by providers of funds and SMEs themselves could help to expand on the findings of existing studies (Olawale & Asah, 2011). The gap in knowledge and the financing challenges within the SME's sector motivated the undertaking of a dyadic study. This dyadic research takes the form of a case study of SMEs at Prosperita Industrial Park with the purpose of analyzing and

determining the factors from the supply as well as the demand side, which contribute to the lack of access to finance among SMEs.

1.1. Problem statement

Although economic importance and the contribution of small businesses to development are positively acknowledged, SMEs in Namibia are faced with many obstacles that limit their growth, survival and employment creation potential (Ramsden, 2010). According to Kapepiso (2014), the main challenge facing SME development in Namibia has been singled out as a lack of access to finance, especially to start up a business or for expansion. Family and friends remain the main source for business loans in the informal and/ or micro business sector (Stork, 2010). However, this form of funding leads to inadequate working capital especially for start-ups. The development of the SME sector needs to effectively address constraints impeding SME development, such as access to affordable finance (National Planning Commission, 2012).

To date there is no dyadic study that examines the obstacles of SME's access to finance from both the supply and demand side. A study by Kapepiso (2014) aimed to investigate the relationship between bank finance and SMEs success. Amwele (2013) focused on investigating the factors that affect the performance of SMEs in the retail sector in Namibia, whereby access to finance is singled out as one of the contributing factors. Therefore, the primary purpose of this paper is to analyze the factors that hinder access to finance among SMEs in Namibia as comprehended by SMEs as well as from the perspective of financial institutions.

1.2. Objective of the study

- The main aim of this study is to assess both the demand and supply side factors that hinder SMEs at Prosperita Industrial Park II to access finance.
- To provide suggestions and recommendations that will be useful for SMEs in accessing finance from financial institutions.

1.3. Significance of the study

The major importance of this study is the contribution it will make to the fields of finance, research and practice concerning the analysis of factors hindering SMEs access to finance. This study contributes to the existing literature and fills the gap of carrying out a dyadic study that analyzes the factors from both a supply and demand side that hinder access to finance among SMEs in Namibia. In addition, the outcome of the study is expected to benefit the SMEs: The findings could be useful to the Government of Namibia and other financial institutions, including banks, should they revisit their policies and regulations with the view to meet the national objective to accommodate SMEs financially. Furthermore, the study is relevant in that it will set out the path for future research, since there is a need of dyadic studies in Namibia regarding access to finance.

1.4. Limitations of the study

The study was confined to SMEs at Prosperita Industrial Park II in Windhoek. In addition, only commercial banks, SME bank and MTI were considered in this study. Another limitation is that not all concerned parties were willing to participate in the study, more specifically the SME bank decided not to partake. Therefore, from the supply side only four commercial banks and MITSMED took part in the study, whilst SME bank could not be included..

1.5. Outline of the study

Chapter (chapter one) provided the background of the study, outlined the problem statement, research objectives and presented the significance and limitation of the study. The second chapter provides the theoretical context of the research, such as an overview of small and medium enterprises, policies and programmes aimed at promoting SMEs and an overview of financial institutions that cater for SMEs.

The third chapter of this study presents the literature review by looking at both theoretical and empirical reviews based on the objectives of the study. The fourth chapter presents the overall methodology used to attain the purpose of the study, whereas chapter five presents the analysis of the data and the findings of the study. The sixth chapter concludes the study with suggestions and recommendations. Lastly, the reference list provides appropriate details to enable readers to locate and verify the sources used in the thesis.

CHAPTER TWO

2. Literature Review

This chapter surveys the previous studies on SMEs access to finance with the purpose of gaining a broader knowledge based on the theory of credit rationing by Stiglitz and Weiss (1981) that emphasises the financing gap analysis concerning SMEs. The chapter begins with section 2.1 that discuss the definitions, classifications and importance of SMEs as discussed in the literature. Section 2.2 explores policies and programs aimed at promoting SMEs. In addition, the overview of financial institutions that cater for SMEs is examined in section 2.3. Section 2.4 scrutinized the theoretical review while section 2.4 provides the empirical review regarding access to finance among SMEs.

2.1. Definitions, classification and importance

This sub-section provides a broad overview of the nature and role of small and medium enterprise in general and in the Namibian context in particular, including the definitions and categories of SMEs being used across the globe as well as the importance of SMEs generally and in Namibia.

2.1.1. Definition of SMEs

The Small and Medium Enterprises (SME) definition varies across national statistical systems. Finding a common definition of what constitutes a small or medium enterprise remains a

concern. Some countries attempt to define an SME using the business size, others use labour skills and turnover level, while other countries define SMEs in terms of their legal status and method of production. The business size has been defined in different contexts, including the number of employees, annual turnover, and ownership of enterprise and value of fixed assets. Weston and Copeland (1998) hold the view that definitions of size of enterprises suffer from a lack of universal applicability. This is because in their view, enterprises may be conceived on varying terms.

According to Underhill Corporate Solutions UCS (2011), SME definitions can be broadly divided into two categories, i.e. economic and statistical definitions. Under the economic definition, a firm is regarded as small if it meets the following three criteria (UCS, 2011); Firstly, it has a relatively small share in the market place. Secondly, owners manage or part-owners manage it, in a personalized way and not through the medium of a formalized management structure. Thirdly, it is independent in that it is not part of a larger enterprise. The statistical definition on the other hand, is used in three main areas which quantify the size of the small firm sector and its contribution to GDP, employment and exports, comparing the extent to which the small firm sector's economic contribution has changed over time and in a cross country comparison of the small firms' economic contribution (UCS, 2011).

The British Department of Trade and Industry has maintained that the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This states that a small firm is an independent business, managed by its owner or part-owners and has a small market share (UCS, 2011). In February 1996 however, the European Commission adopted

the definition for SMEs as firms with less than 250 employees, less than 40 million Euro turnover and less than 27 million Euro total assets, positive equity resources (shareholders' equity) and also positive net income (Mira, 2002). In Ghana, the classification of firms by size as given by the Regional Project on Enterprise Development (RPED) Ghana manufacturing survey paper, defines SMEs as firms with a number of employees of less than 100 (Teal, 2002). In South Africa, various authors have given different definitions to this category of business. However, a common definition of SMEs includes registered businesses with less than 250 employees (International Finance Corporation [IFC], 2009).

In Namibia, there are several names and definitions given to the SME sector. However, a widely used definition of SME is the one defined by the Ministry of Industrialization, Trade and SME Development. In its SME policy, the Ministry defines SMEs as manufacturing companies that employ less than 10 people, reaching a turnover of less than N\$1 000 000, and with a capital basis of less than N\$500 000, whereas non-manufacturing SME's are those with less than 5 employees, a turnover of less than N\$250 000 and a capital basis of less than N\$100 000 (MTI, 1998). According to Ramsden (2010), this definition of the SME sector has some limitations. Measuring capital investment as suggested by the above definition is problematic because of the difficulty of achieving accurate measurement:., capital investment cannot in reality be measured due to the high impact of inflation. However, the employee characteristic is simple to verify and remains a valid criteria. Research institutes like the Labour Resource and Research Institute (LaRRI) and the Namibia Economic Policy Research Unit (Nepru) have adopted the number of employees as the single defining criterion (Schöneburg-Schultz & Schultz, 2006).

2.1.2. Classification and categories of SMEs

According to The World Bank (2015), SMEs across the world can be grouped into those of a formal and those of an informal nature. The World Bank's study states that there are between 365-445 million micro and small and medium enterprises (MSMEs) in emerging markets. Out of these, 25-30 million are formal SMEs, 55-70 million are formal medium enterprises and 285-345 million are informal enterprises. According to IFC (2010), an estimated 80% of enterprises in developing economies are informal firms, which absorb around 60% of the labour force.

In Namibia, the SME sector can be divided into a formal and an informal sector (Kapepiso, 2014). According to Schöneburg-Schultz and Schultz (2006), an SME can be anything from an unregistered street vendor selling Kapana (fried meat strips), a farmer selling his farm produce, a person repairing shoes from a shack in an informal settlement area to the registered company manufacturing solar-technologies with a respectable capital employment. A formal business is usually regarded as an enterprise, is somehow officially registered either with a local authority, a ministry, the registrar of companies or the SME-database in the Ministry of Trade and Industry (Kapepiso, 2014). To distinguish enterprises in the formal sector from those in the informal sector, the International Labour Organisation (ILO) proposes 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 (Schöneburg-Schultz & Schultz, 2006).

However, a study by April (2005) shows that the majority of small enterprises in Namibia are operating in the semi-formal or informal sector. Stork (2010) points out that the informal sector

is different from the formal sector in that the laws and regulations that govern SMEs are only partly followed if at all adhered to. Employees usually do not have an employment contract; they have no leave, no social security, and no medical aid and are usually family members or friends. In addition, informal businesses usually neither pay taxes, nor do they keep receipts or conduct bookkeeping. The informal sector is for those who cannot thrive in the formal sector and struggle to make a living (Stork, 2010). According to Ogbokor (2012), almost 40,000 SMEs are currently registered in Namibia and operating as formal SMEs.

2.1.3. Importance of SMEs

Over many centuries the world over, SMEs have contributed immensely to the growth and development of many countries' economies since they employ more labour-intensive production processes than large enterprises and thus contribute significantly to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty. Consequently the sector has become a major provider of private sector employment and can significantly impact on a country's development. Therefore, the around the world, the SME sector can be considered as a potential sector for industrial development, economic growth and job creation.

Empirical evidence shows that even in developed economies such as the United States of America, SME's have been responsible for the creation of 80% of all new jobs (Mead & Liedholm, 1998). In Northern Ireland and the UK as a whole, it is estimated that SMEs account for about 56% and 48% of employment in the private sector (Ayyagari, Beck & Kunt, 2003).

Kongolo (2010) provides statistics that indicate the percentage of SME contribution to private sector employment in industrialized countries. The empirical studies have shown that the SME sector contributes over 55% of GDP in such countries and over 60% of total employment in high-income countries. In addition, in low-income countries, the SME sector and informal enterprises account for over 60% of the GDP and for over 70% of total employment, whereas in middle-income countries the sector contributes 70% of the GDP and 95% of total employment (Kongolo, 2010). In South Africa SMEs account for about 91% of formal business entities, contributing about 57% to the GDP and providing almost 60% of the country's employment (Kongolo, 2010).

SMEs are the major force behind Chinese economy, the fastest growing economy in the world. This is in terms of contribution to the national GDP (accounting for 40%), scale of assets, diversification of products, and the creation of employment (Ayyagari et al., 2003). Similarly, the role of SMEs is well acknowledged in other countries such as Japan, Korea and all other industrialized economies in terms of creating employment, reducing poverty and increasing welfare. In respect of this, the sector can be viewed as exemplary in stimulating the economic growth of many countries the world over, since it is the main player in the economy of most countries. Nkongolo (2008) states that the contribution that the SME sector makes to the national economy and to wealth creation, which has been recognized by many governments, is considered part and parcel of the economic development process. Not only does it provide employment and income opportunities, but in many countries it is the backbone of the economy, in the form of technological innovation, diversification of the production process and intensification of export activities.

2.1.3.1. Importance of SMEs in Namibia

Though SMEs are important to almost all economies in the world, the sector can certainly not be overlooked in developing countries like Namibia. Namibia currently experiences major income discrepancies between the rich and the poor, and a high rate of unemployment. However, SMEs contribute to the output by participating in the mainstream economy and by creating jobs especially for our unemployed youth. SMEs in Namibia are believed to contribute about 12 % to the country's GDP and employ about 20 % of the country's work force. The current and potential contributions that SMEs can make to the Namibian economy, namely employment and income opportunities, alleviation of poverty, reducing gender based income gaps, driving technological innovation and diversification of production processes, call for greater government support and a more conducive environment in which they can operate (MITSMED, 2012). In addition, SMEs provide some form of employment and income to close to 160,000 people (Ogbokor, 2012).

The recent estimates indicate that the small business sector provides full-time employment of about 160, 000 people, ranking it alongside Government which is the country's biggest employer (NCCI, 2012). Like in other countries, SMEs are the nursery for the larger firms in Namibia as a number of large firms start out as SMEs before they become large enterprises, for example John & Penny Group (Pty/Ltd) and Frans Indongo Group (Pty/Ltd). SMEs feature prominently in the Namibian Development Plans (NDP) as well as Government's long-term development document, Vision 2030 (MITSMED, 2012). The Namibian government estimates this sector as a

great potential for the socio-economic development of the country in terms of economic growth and poverty alleviation.

Based on the existing literature SMEs can be considered as the ultimate means for job creation, income generation, economic growth and poverty alleviation in all countries around the world and Namibia is no exception. However, in order to achieve this goal, SMEs need to perform and develop properly. Yet, the development and performance of SMEs can be influenced by many different factors, including the entrepreneurial mind of the operator (innovativeness, competitiveness, aggressiveness, risk taking), management abilities (long-term vision, activeness instead of reactivity) and the financial situation of the business. Despite the importance of SMEs, the sector is being challenged by lack of access to finance which cripples their development and the expected contribution to the national economy of Namibia in terms of employment creation, value addition to the country's GDP as well as helping towards the realization of the government's 2030 Vision agenda (Schöneburg-Schultz & Schultz, 2006).

2.2. Policies and programs aimed at promoting SMEs

The Government of Namibia has adopted and pursued policies and programmes aimed at fostering an environment where its citizens have access to resources and undertake economic activities that will result in the improvement of their social welfare and national economic growth and development. According to Namibia Economist (2013), one of such policies is the "Growth at Home" strategy, which is spearheaded by the Ministry of Trade and Industry. This strategy is premised on the developmental focus of the country's Vision 2030 and the current

National Development Plan 4 (Namibia Economist, 2013). The policy emphasizes collaborative efforts and investments by both the Government and business sector in developing adequate industrial production and supply-side capacity that will help the country to process and turn its natural resources into finished or semi-finished goods for consumption at home and for exports.

According to the Ministry of Industrialization, Trade and SME Development (2015), the role of SMEs has been recognized by the Namibian Government, and the Government adopted a National Small and Medium Enterprises Policy and Programme in 1997 as a framework to create an enabling regulatory environment, in which SMEs can be developed and promoted by the public and the private sectors (MITSMED National Policy, 2015). The Policy aims at addressing challenges facing SMEs in the areas of finance, marketing, technology, infrastructure, skills development and institutional support. The government has also developed and implemented a series of programs, such as the Equipment Aid Scheme and the Rental Space Support Program aimed at addressing the challenges that often hamper the effective establishment, operation and growth of the SME sector and the sector's potential to contribute to employment, exports and the country's gross domestic product (MITSMED National Policy, 2015). According to the then Minister of Trade and Industry, Mr. Calle Schlettwein, the main challenges identified, and thus the focus of the Ministry policy interventions, are access to finance, marketing, production technology and equipment, business infrastructure and entrepreneurial skills (Namibia Economist, 2013).

In response, the Ministry has designed a number of interventions with the purpose of improving access to finance, which have resulted in the establishment of the SME Bank, the development

and provision of affordable basic business infrastructure for lease to SMEs across the country through its Business Sites and Premises Development Programme and the provision of production equipment and technology through the Equipment Aid Scheme. In addition, the Ministry has also implemented a program that assists SMEs with product development (business plan and feasibility study) and marketing as well as linkage of small scale producers to retail outlets, entrepreneurial skills development and business mentorship (MITSMED National Policy, 2015).

2.3. Overview of financial institutions that cater for SMEs

There are four commercial banks in Namibia, which include First National Bank, Standard Bank, Bank Windhoek and Nedbank that play a role in financing SMEs. Recently the Government of Namibia introduced the SME bank as a financial initiative specifically designed for SMEs with the purpose of enhancing the ability of SMEs to access funds. Furthermore, the Ministry of Industrialization, Trade and SME Development (MITSMED) also houses a department that deals with the financing of SMEs. Moreover, NCCI, Development Bank of Namibia and a few others also play a role in financing SMEs. However, this study focuses on the institutions that have a high involvement with SMEs, namely the four commercial banks, SME bank and MITSMED.

2.3.1. Namibia Commercial banking sector

There are four commercial banks: Standard Bank, Nedbank Namibia, Bank Windhoek and First National Bank Namibia. Bank Windhoek is the only locally owned bank of the four, the others

are subsidiaries of South African institutions. A significant proportion of bank loans come in the form of bonds or mortgages to individuals. There is little or no investment banking activity (Commonwealth of Nations).

Commercial banks are under the control of the Bank of Namibia (BoN), which regulates and oversees their operation in the economy through monetary policies. According to its mission statement the bank of Namibia was established to promote internal and external monetary stability, serve as lender of last resort to commercial banks as well as be a banker of the government (Bank of Namibia, 2011). In addition, the Bank of Namibia is expected to coordinate and spearhead the attainment of national goals by means of appropriate monetary policy measures. Commercial banks in Namibia's play a vital role in the financial system, as they allocate funds for investment projects and mobilize savings.

2.3.1.1. Bank Windhoek

Among the four commercial banks, Bank Windhoek is the only locally owned bank, while the others are subsidiaries of South African institutions. Bank Windhoek was established in 1982, when a group of Namibian entrepreneurs took over eight local branches of Volkskas Bank. The aim was "to create a financially independent bank for Namibians in Namibia." (Bank Windhoek, 2016) Currently, Bank Windhoek is operating under the umbrella of Bank Windhoek Holdings Ltd group of companies, in which Capricorn Investment Holding (CIH) is the main shareholder. Global Credit Ratings, an international credit rating organization, has accorded

Bank Windhoek a short term credit rating of A1+ and a long term credit rating of AA. (Bank Windhoek, 2016).

2.3.1.2. Standard Bank

Standard Bank Namibia opened its first commercial branch in 19 August 1915 in Lüderitz. Standard Bank's is a major player in the local market with representation across the country. The bank claims to offer services evolving the needs of local and international clients through their universal banking offering. The bank's advertises itself as a financial institution, which aims "to understand its customers better, have people with strong knowledge of local business conditions and to do a better job of connecting borrowers with lenders." (Standard Bank, 2016)

2.3.1.3. First National Bank (FNB)

FNB Namibia was founded as Deutsche Afrika Bank (DAB) in 1907 and in 1915 National Bank of South Africa took over the assets of DAB, which was in 1926 integrated with Barclays Bank. Barclays Bank changed name of the South African operation to Barclays National Bank Limited in 1971. It later changed to First National Bank of Southern Africa, after the shareholding changed in December 1987. First National Bank of SWA/Namibia Limited was incorporated in February 1988. The merger between FNB Namibia and SWABOU took place in 2003. FNB Namibia Ltd. celebrated its Centenary in 2007. The bank is Namibian financial services group and the only Namibian bank listed on the Namibian Stock Exchange as from 1997 and is currently the largest locally listed company with market capitalization of N\$1,9 billion or 39% of

the NSX total market capitalization. In addition, FNB professes to be involved in various issues of national interest such as affirmative action, BEE (ownership), Corporate Social Investment, SME development and other national growth initiatives. The bank furthermore portrays itself as “the most innovative and technologically advanced financial services group and with the widest range of products and services across the financial services spectrum” (FNB, 2016).

2.3.1.4. Nedbank Namibia Limited

Nedbank Namibia Limited, is a registered Namibian bank with assets of N\$7, 32 billion. It provides a range of domestic and global financial services to individual, corporate specialized finance, micro lending, wealth management, life assurance, property and asset finance, foreign exchange and securities trade and international clients. It operates through a branch network and a business centre and head office in Windhoek. The bank is a member of the Old Mutual Group. Nedbank Namibia describes its approach of doing business as “driven by its values of accountability, integrity, pushing beyond boundaries, respect and being people-centered” (Nedbank, 2016).

2.3.2. SME Bank

The SME Bank was founded by the Government of Namibia and it has been in operation since the first half of 2012. The self-professed objective of the Bank is to provide affordable access to financing for business development, especially in the SME sector. Its establishment is meant to significantly expand the financial services available to small businesses. The bank is fully

budgeted for under the Ministry of Industrialization, Trade and SME development's support services. According to the Ministry of Trade and Industry (MTI) (2015), The Ministry owns 70% of the bank, and 30% is owned by private investors.

The Bank prides itself on giving attention to projects for the Small and Medium Size Enterprises (SMEs), and those catering to rural communities and Previously Disadvantaged Individuals (PDIs). SME Bank has a full Commercial Banking License and is thus in a position to offer banking services to individuals and companies that are not necessarily SME's, through Personal Banking (Retail), Corporate Banking, and Treasury and Investment Management. The bank advertises special schemes that have been established to promote entrepreneurship across priority and growth sectors. Through these schemes, the Bank is meant to be able to assist start-ups and/or micro business's to grow and provide the entrepreneurs with financing. In addition, the bank offers development advice to SMEs as part of its business support programmes. The SME bank emphasises that it "offers its assistance to all the SMEs regardless of the business focus i.e. manufacturing or services" (SME Bank, 2016).

2.3.3. Ministry of Industrialization, Trade and SME Development

The Ministry of Industrialization, Trade and SME Development sees itself as the authority responsible for the development and management of Namibia's economic regulatory regime, on the basis of which the country's domestic and external economic relations are conducted. In addition, the Ministry is responsible for promoting growth and development of the economy through the formulation and implementation of appropriate policies to attract investment,

increase trade, develop and expand the country's industrial base. "Growth at Home" is the theme chosen by the Ministry of Industrialization, Trade and SME Development to reinforce the importance of accelerating economic growth, reducing income inequality and increasing employment. (MTI, 2016)

The Ministry formulated a number of support services for Namibian Business in its driving efforts to execute its mandate as directed by the SME Policy of 1997 (MTI, 2015). This is however to promote manufacturing, value addition, and entrepreneurship throughout the country, in particular targeting the rural areas and those who can generate income regardless of their academic background and in turn create more job opportunities (MTI, 2015). One of the support services the Ministry has in place aims at assisting aspiring entrepreneurs in accessing finance so that they can plan and research the viability of their business. This is done through feasibility studies, business plans and capacity building interventions to stimulate and nurture entrepreneurship, creativity, and innovation. Access to finance and the aforementioned measures is of particular importance for previously disadvantaged Namibians (MTI, 2015). Another support service available to SMEs by this ministry is in the provision of productive equipment, machines and input through the Equipment Aid and Group Purchasing Scheme with the purpose of enhancing business production capacity, productivity and competitiveness, quality and standards in compliance with the world market place (MTI, 2015).

2.4. Theoretical review

Credit rationing is one of the most important theories that focus on financing gap analysis (Stiglitz & Weiss, 1981). In their formulation, Stiglitz and Weiss (1981) argue that agency

problems and information asymmetries are the major reasons why SMEs have constrained access to finance. In their study they argue that the problem with asymmetric information in the SME sector occurs when it is only the SME founder himself who knows his financial structure, the real strength of the investment project and its ability to repay the debt. When small business operators approach banks for loans, they always have an information advantage over the bankers. This in some cases can lead small business operators to overstate the viability of their businesses in relation to the finances sought (Storey, 1994). It is because of this information asymmetry that banks usually end up making unprofitable loans. Another factor is that the activities of most of these small-scale business operators who borrow from banks are rarely monitored and are not directly observable by banks. According to Agyapong et al. (2011), the fact that these borrowers use the funds for other purposes other than those stipulated in the loan agreement cause moral hazard. This means that banks should not only investigate the credit worthiness of small business borrowers, but should also monitor their activities once they have obtained the loans (Agyapong et al., 2011).

Moral hazard also known as one of the aspects of credit rationing refers to a situation in which the agent (the borrower) takes an action that adversely affects the return to the principal (Stiglitz & Weiss, 1981). In order for the bank to prevent moral hazard, it resorts to methods such as demanding collateral which will be lost if the firm becomes insolvent. In the case of default (moral hazard), collateral serves to put the lender into a privileged position with regard to other creditors (Green, 2003). Another aspect of credit rationing is the size and age of the firm as financial lenders consider these factors before approval of any form of finance to SMEs Stiglitz and Weiss (1981).

On the other hand, commercial banks raise the loan threshold; strengthening SMEs credit appraisal and management, in order to reduce the lending losses arising from the moral hazard. However, this reaction will boost the transaction costs between banks and enterprises dramatically. The transaction cost can be divided into two different types, namely searching cost and loan-after supervision cost. Searching cost happens before signing the contract with any borrowers. Due to asymmetric information, the bank has to make efforts in terms of money and time to search for information, which reflects the real situation of the enterprise, to ensure the safety and efficiency of loans and to prevent the borrower fraud. This information varies from financial statements over credit rating level and quality of management to cash flow, business prospects and so forth. Loan-after supervision cost arises when the banks need to supervise the SMEs in order to prevent borrowing enterprises from gambling behaviour and speculation,.

In addition, in the pecking order theory of Myers (1984) alludes that there is no well-defined optimal capital structure, instead the debt ratio is the result of hierarchical financing over time. Management has a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, managers select the least risky and demanding source first. When it is necessary to issue external sources, debt issuance is preferred to new equity. The pecking order theory suggests the use of external debt before the use of external equity by SMEs. (Frelinghaus, Mostert & Firer, 2005 point out that despite the disadvantages of debt (financial distress), the inadequacy of internal equity and the non-availability of external equity imply that debt is one of the principal sources of finance for SMEs.

Furthermore, the agency theory of Jensen and Meckling (1976) is based on the conflicts between the shareholders and managers of the firm and the equity holders and debt holders. Conflicts between shareholders and managers arise because managers do not hold total residual claim, thus they cannot capture the entire gain from their value-maximizing activities. On the other hand, conflict arises between debt holders and equity holders because debt contracts give equity holders an incentive to invest sub-optimally. The debt contract results in an asymmetric distribution of the gains. According to Stiglitz and Weiss (1981) agency problems such as asymmetric information and moral hazards can impact on the accessibility of credit and hence the capital structure of SMEs.

2.5. Empirical review

There are various sources available for the financing of SMEs. Even though many different names have been created for these sources, they all fall into the category of either debt or equity financing. Although equity as a source of financing for SMEs has received little attention in literature, it is an important source of financing for SMEs. Churchill and Frankiewicz (2006) argue that credit alone is not sufficient as a developmental tool. Therefore other sources of financing, such as equity financing, and in particular venture capital, should be considered. Worldwide, small and medium-sized enterprises (SMEs) are highly bank dependable for their external funding (Gama & Geraldes, 2012). Gama & Geraldes further stress that SMEs heavily rely on debt financing; bank loans have always been one of the most important external financing sources for SMEs.

De la Torre, Martínez Pería, Politi, Schmukler and Vanasco (2008) show that the most important driver for the banks' involvement with SMEs is the perception of high profitability for the sector. Other factors driving banks to become involved with SMEs are their relations with large corporate clients and the fact that SMEs are a strategic sector for growth in banking economies. Furthermore banks to a certain extent use their relations with large firms to identify the SMEs that are credit worthy. In turn, banks benefit from the knowledge embodied in large corporations about the quality of SMEs, as this knowledge can help to substantially reduce the problem of information asymmetry that banks are faced with when approaching new SMEs (Beck et al., 2008).

Banks perceive the SME segment to be large and with good prospects and therefore adapt their business model to serve SMEs by setting up separate units with new strategies to approach and specifically serve the SME segment. Additionally, to serve SMEs, banks are continuously developing new technologies and risk management systems. Moreover, banks have changed their organizational structure to incorporate SMEs among their clientele to the extent of employing relationship managers who serve SMEs, look for new clients and also prepare information on each SME. Through such relationship building lending banks are able to serve the SMEs and at the same time overcome the problem of information opaqueness (Beck et al., 2008).

According to BoN (2005), bank finance has traditionally been the primary source of finance for business growth, while private equity finance has remained in its infancy. However, a subsequent study by Kapepiso (2014) found that the most important sources of money to start up a small business are own savings and bank loans. A study by Arnold et al. (2005) found that SMEs do

not only rely on their own financial resources, but in fact do not seek out credit opportunities as they perceive it as negative.

2.5.1. Challenges faced by SMEs in developed and developing countries

SMEs are a fundamental part of the economic fabric in developed and developing countries. In addition, SMEs play a crucial role in furthering growth, innovation and prosperity. However, in order for SMEs to coordinate their activities efficiently and effectively, they require adequate funding (Kongolo, 2010). Unfortunately, SMEs are strongly restricted in accessing finance that they require to grow and expand their business (Ayyagari et al., 2003).

Nearly half of SMEs in developing countries rated access to finance as a major constraint (Odeng, 2011). Odeng further indicates that SME managers mention that access to finance is a main obstacle to creativity, entrepreneurship and growth as funds to borrow are scarce. (IFC, 2010) A stocktaking report on SMEs to the Group of Twenty (G20) - *Scaling-Up SME Access to Financial Services in the Developing World* - indicated that 45% to 55% of SMEs do not have access to loans from formal financial institutions in developing countries. This ratio increases to 65% to 72% if informal SMEs are included. With restrictions and unavailability of finance, the creation, growth, and maturity cycle of SMEs are a very rough ride and most SMEs do not make it through all the steps of these cycles (IFC, 2010).

Migiro (2005) finds that SMEs in Kenya face financial challenges, the majority of SMEs are not aware of the existence of certain sources of finance. Thus, SMEs are credit-constrained as a

result of a number of factors acting together. Iarossi (2009) points out that more than 80% of informal medium enterprises in Kenya rank access to finance to be a major constraint, compared with 55% of formal micro enterprises. Microenterprises, both formal and informal, rely significantly more on internal funds and retained earnings to finance their working capital and investment than do firms in the formal sector (Iarossi, 2009). This is supported by Sebatindira (2009), who reveals that banks in Uganda are hesitant to extend credits to some clients. Narrow exposure levels have further affected SMEs, which financial institutions already consider as risky.

A study by Fin Scope Small Business Survey (2010) indicates obstacles to growth among SMEs in South Africa: Access to finance ranked third with 8.7%, while space to operate ranked highest with 16.2% followed by competition at 12.5%. In addition, a survey conducted by the Department of Trade and Industry (DTI, 2008: 49) found that crime, infrastructure, informality and regulation, corruption, labour problems, increased competition and negative public perceptions were considered to be some of the major obstacles (DTI, 2008).

The Namibian Minister of Finance recently stated that despite the fact that Namibian SMEs contribute as much as 30% to the country's GDP and have drastically curbed unemployment, this sector remains crippled by limited access to finance for start-ups and financing of SMEs (Steenkamp, 2015. According to Ramsden (2010), SMEs in Namibia lack access to finance especially during the start-up phase. Stork (2010) argues that Namibia struggles with access to formal financial services for its citizens and the informal sector. Contrary to these studies, the director of SME Compete in Namibia argues that a lot has been done about financing SMEs and

that SMEs access to finance is not a problem anymore (Nyaungwa, 2012). In addition Simpson, Padmore, and Newman (2012) disagree that finance is a critical success factor, but point out that growth or development of SMEs can depend on both financial and non-financial factors.

2.5.2. Demand side impact on access to finance

Many studies have assessed the factors limiting SMEs access to finance from the demand side perspective and found out that business characteristic has a positive influence on this issue. Olawale and Asah (2011) focused on the demand side only and captured quantitative data using a questionnaire as the data collection instrument. The data was analysed using statistical analysis such as descriptive statistics, Pearson Product-Moment Correlation and Logistic Regression. The study found that a firm's characteristics (demand side factors), such as firm size, firm age and collateral are some of the demand side factors that impact on access to finance. In addition, the study recommended a dyadic survey to examine the obstacles to finance as perceived by providers of funds as well as by SMEs themselves. This could help to further confirm the findings of their study.

According to Kitindi, Magembe and Sethibe (2007), lenders use a firm's information to assess current and future performance of the firm. Absence of sufficient information leads to information asymmetry and may jeopardize access to credit finance (Sarapaivanich & Kotey, 2006). In addition, transparency in information disclosure and accountability is acknowledged as a foremost bottleneck in the banks' financing supply (Pfaffermayr, Stockl & Winner, (2008).

According to Stiglitz and Weiss (1981) information asymmetry is at the core of SMEs' limitations when attempting to access finance from banks.

Stiglitz and Weiss (1981) state that in West African communities SMEs were found incapable of providing audited financial statements and accounting reports in accordance with the accounting standards prescribed by OHADA (Organisation for the Harmonization of Business Law in Africa), the providers of accounting standards in West Africa. They further argue that lack of financial statements pose a threat to access to finance. Green (2003) indicates that the problem of asymmetric information is more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk. Green's study employs the quantitative method and finds that there is a positive correlation between asymmetric information and access to finance.

According to Caprico and Demirguc-Kunt (1998), valuable assets that are acceptable as collateral considerably ease borrowing constraints. Similarly, Ovtchinnikov (2010) states that availability of tangible assets to a firm provides an injection to its collateral value, making it possible for the firm to increase the levels of debt or equity in its capital structure. In the case of default, collateral serves to put the lender into a privileged position with regard to other creditors (Green, 2003). Green (2003) further argues that small firms are disadvantaged in this regard due to the fact that they lack collateral security and a proven credit track record.

The size of the firm seems to be one of the factors financial lenders and investors consider before approving any form of finance to SMEs. The size of a firm has an important influence on the

debt ratios, as firms with more real assets tend to have greater access to long-term debt (Burkart & Ellingsen, 2004). According to Honhyan (2009) larger firms tend to be more diversified and fail less regularly, consequently size can be an inverse proxy for the probability of bankruptcy. Fatoki and Asah (2011) find that firm size impacts SMEs' access to debt and equity finance from commercial banks and other investors; large firms are favoured over small enterprises. According to Cassar (2004) there is a positive correlation between the size of a business and banks' willingness to provide credits. Green (2003) argues that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to the small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high.

The relationship between a firm's age and access to finance within SME sector is still not equivocal. Some argue that these two elements, firm's age and access to finance, are positively correlated: Nico and Van Hulle (2010) state that older companies have a longer track record and stronger reputation and should have better relationships with lenders. By their lasting reputation, older firms, unlike newer ones, may be faced with fewer adverse selection and moral hazard problems and relatively lower degrees of uncertainty, which endear them to investors and lenders (Huygebaert, 2003). Sakai et al. (2010) argue that, as firm ages, its relationship with lenders facilitates various types of information exchange between borrowers and lenders, alleviating information asymmetries and improving the efficiency of credit allocation. Huygebaert (2003) also points out that once firms grow older, they will probably generate more stable, positive cash flows and obtain easier access to reasonably priced bank loans

Contrary to the empirical evidence presented above, another set of studies report negative age-leverage relationships and defend that, under normal circumstances, a firm that has remained in the market for a long period of time might have built up a reasonable amount of reserves and retained earnings that could serve as a good alternative to debts (Petersen & Rajan, 1994). In addition, by growing its productive level, a firm is able to accumulate internal equity, which allows it to reduce its reliance on debt (Petersen & Rajan, 1994). This results in negative age-leverage relationship because banks assume that older firms do not need credit.

In addition, a study conducted by Klapper, Laeven and Rajan (2010) discovers that young firms, i.e. in operation less than 5 years, are less likely to rely on debt financing from lenders. Ngoc, Le and Nguyen (2009) support the argument that younger firms face hardship and more costs in accessing external financing from lenders because of information asymmetry, as do Fatoki and Asah (2011).

Evidence on whether the correlation between age of an SME and its access to debt finance is a positive or a negative one, is clearly not conclusive.

2.5.3. Supply side impact on access to finance

According to Mason and Harrison (2002), aspects like stringent conditions set by financiers contribute to the fact that SMEs have difficulties to access finance. A study by Beck et al. (2008) compares banks in developing economies to those in developed economies and finds that banks tend to be less exposed to SMEs and thus charge them higher interest rates and fees. The study further concludes that this has been largely due to informational asymmetries related to SMEs,

which result in banks mostly being unable to gauge the creditworthiness of SMEs and thus asking for higher charges and collateral requirements.

A study by Kapepiso (2014) aims at investigating the relationship between bank finance and SMEs success. The study employed both qualitative and quantitative methods. The data collected, was in written text form, and were analysed using thematic analysis. The qualitative data were coded to enable interpretation and discussion of responses. According to Ryan & Bernard (as cited in Welman et al., 2005) theme identification is one of the most fundamental tasks in qualitative research. The “conventional wisdom” on SME finance dictates that “supply-side” factors are at the root of the inadequate financing of SMEs because the way in which financial institutions operate is biased against offering SME financing (Kapepiso 2014). Thus, many banks and other financial institutions are not interested in servicing SMEs. One of the main factors that hampers SME financing is “opaqueness”, such as the difficulty to ascertain whether SMEs have the capacity to pay back and can offer viable projects and/or the moral hazard of willingness to pay back (De la Torre, Martinez Pería & Schmukler, 2010).

Mason and Harrison (2002) looks at the barriers to investment in the informal venture capital sector from the venture capitalists point of view. It indicates that over 90% of venture capitalists in the United Kingdom were constrained on their ability to invest in SMEs as they did not see enough deals that met their investment criteria. This demonstrates that the debt and equity owners were setting conditions way beyond the reach of the entrepreneurs. In some equity markets, entrepreneurs are required to show favorable liquidity conditions, profitability, and risks that offer both trust and security to investors (Haque, 2003). In Bangladesh, where SMEs in most

cases are unable to meet all the requirements of the venture capitalist or investors, SMEs have mostly relied on their personal savings, loans from relatives, friends, money lenders, retained earnings, profits from other business ventures or funds generated through employee stock ownership (Haque, 2003).

CHAPTER THREE

3. Methodology

This chapter systematically outlines the methods used to analyse the data. Quantitative and qualitative research methods were adopted in order to achieve the objective of the study, which is to assess both the demand and supply side factors that are hindering access to finance of SMEs. The chapter covers various components, which include research design, the population of the study, sample size, research instruments, procedures taken, data analysis and research ethics.

3.1 Research Design

Identifying a study's research design is important because it communicates information about the key features of the study. One common feature across research design is that at one or more points in the research process data is collected (numbers, words, gestures, etc.), albeit in different ways and for different purposes. Therefore, in order to achieve the objectives of this research, this study adopted both quantitative and qualitative research methods. With reference to the literature, this study necessitates assessing the factors that impact access to finance among SMEs in depth rather than breadth. Therefore, the study adopted a case study at Prosperita Industrial Park II, Windhoek.

3.2 Population

There are about 55 SMEs at Prosperita Industrial Park II. Therefore, the population of this study consists of 55 SME CEOs, Directors or Managers, 2 business analysts from the Directorate of Industrial Development at MITSMED, 5 Account Relationship Manager (Corporate Banking) and 5 Business Analyst from all the banks. In total, the study has a population of 67 participants.

3.3 Sample

Due to the relatively small size of the SMEs at Prosperita Industrial Park, data was collected from all SMEs at this park. As the population of the financial institutions targeted for this study is also very small in number, all the four commercial banks in Namibia, the SME bank and MITSMED were covered for the purpose of this study. Thus the study covers the whole population targeted and the sample taken is equal to the population.

3.4 Research Instruments

Questionnaires were employed as the research instruments for this study. Two different questionnaires were used to collect data from SMEs and the commercial banks. The questionnaire for SMEs was designed as a structured questionnaire that comprises closed-ended questions only, whereas the structured questionnaire for the banks comprises both closed-ended and open-ended questions. The questionnaire for the Ministry of Industrialization, Trade and

SME Development consists of open ended questions only. Some closed-ended questions require the respondents to circle one or more response, while other questions require the respondents to respond to 5-points on a liker-type scale by circling their responses to statements provided. The provision of alternative replies at times helps the respondents to understand the meaning of the question clearly.

3.5 Procedure

The questionnaire was accompanied by a cover letter that explains the purpose of the study. Moreover, questions were designed to be short and precise in order to ensure accurate interpretation of the questions by respondents. A period of 3 to 4 weeks was used to collect the primary data from the SMEs and banks.

A pilot test was employed to improve the validity of the questionnaires. However, no pilot test was conducted for the MITSMED since this was the only Ministry targeted for this study. The purpose of the pilot test was to see whether the questionnaire is understood by the respondents or changes need to be made before distributing the questionnaires. Furthermore, the purpose of the pilot test was not only to identify common problems within the designed questionnaire, but also to incorporate respondent's comments that enhanced the quality of the questionnaire in order to attain the purpose of the study.

The questionnaire for the SMEs was administered via collective administration since the study is a case study and the SMEs are assembled at the same place. The questionnaire for the banks was

mailed to the respondents. For this to be successful, the email addresses of the necessary respondents were sourced first. The respondents from the banks were asked to complete the questionnaire in their own time. Clarification about any part of the questionnaire could be obtained telephonically or via email. Cross sectional research design was used as a quantitative research method to generate data from the questionnaire. Cross-section design is best suited to studies aimed at finding out the prevalence of a phenomenon, situation, problem, attitude or issue by taking a cross-section of the population in obtaining an overall picture as it stands at the time of the study (Babbie, 1989).

In addition, thematic coding was used as a qualitative research method to accommodate the interview responses (open ended questions) from the MITSMED. This interview was an unstructured interview, recorded in a descriptive format and the responses obtained in reply to open-ended questions. Furthermore, other useful information, especially on loan portfolios regarding SMEs, was obtained from secondary sources in form of published and non-published information.

3.6 Data analysis

The data was analysed using Microsoft excel software. The study also uses graphs, pie charts and bar charts to present and analyse the data. For the quantitative method, statistical analysis, including Pearson Product-Moment Correlation and descriptive statistics, was used. For qualitative method, content as well as thematic analyses were used.

In order to analyse the data from qualitative data (unstructured interview), the content was analysed and the main themes that emerge from the responses were identified. According to Ryan & Bernard (as cited in Welman et al., 2005) theme identification is one of the most fundamental tasks in qualitative research and can be described as “umbrella” constructs which are usually identified before, after and during data collection.

The process of analysis is as follows:

- Identify the main themes: In order to understand what was communicated by the respondents, each answer was carefully read, then a broad theme that reflects a common meaning (since people use different words and language to express themselves) was identified.
- Assigned codes: Upon identifying the themes, codes were assigned to the main themes.
- Classification of responses: Having identified the themes, the responses were classified under different themes.
- Analysis: Having identified responses that fall within different themes, the responses were integrated into the text of the report using content analysis.

Access to finance is the dependent variable while collateral, business age, business size; information asymmetry and requirements set up by the banks are independent variables. Therefore a relationship was drawn between access to finance and collateral, business age, business size, information asymmetry and requirements set up by the banks.

3.7 Research Ethics

All the materials obtained from published and unpublished sources were referenced and acknowledged to avoid plagiarism. The anonymity and privacy of participants were respected and personal information was kept confidential and secure. The study ensured full privacy by giving assurance of confidentiality about information shared and gave participants number codes to ensure that they remain anonymous. Furthermore, in case of the questionnaire, no data was falsified or misrepresented with a purpose of criticizing the participants. The data will be kept in a locked cabinet for a period of ten years, where after it will be shredded and burnt.

CHAPTER FOUR

4. Presentation and analysis of field study

4.1. Introduction

This chapter discusses and analyses the findings of the raw data gathered during the course of the research project. The chapter presents the results of the survey from various stakeholders, which include SMEs at Prosperita Industrial Park II, the commercial banks and MITSMED. The data was gathered during the period from 18th - 29th July 2016. The main purpose of the research was to assess firstly, the demand side factors, and secondly, the supply side factors hindering SMEs to gain access to finance. The explanatory variables were business age and size, collateral and information asymmetric and stringent conditions set by financial institutions such as high interest rate and transaction cost.

The chapter is structured into six sub-sections. Six sub-sections 5.1 give an introduction to the chapter. Section 5.2 presents the profile of SMEs while 5.3 contain data about assistance to SMEs. Furthermore, section 5.4 discusses the results from the key stakeholders while 5.5 contain the obstacles or challenges among SMEs as perceived by the banks and by the SMEs. The suggestions on how to improve SMEs' access to finance are discussed in section 5.6.

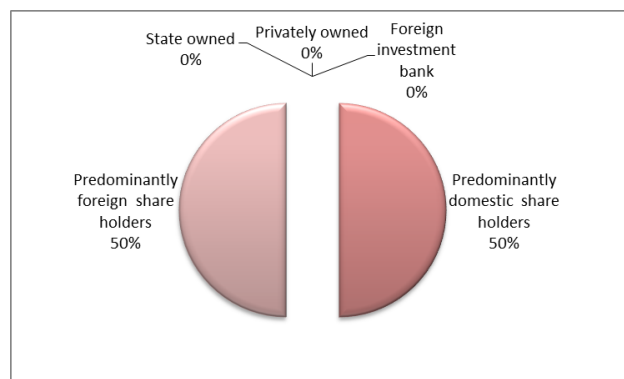
4.2. Stakeholder profiles

The study targeted 61 participants from financial institutions as well as SMEs. Out of the 61 participants, 45 responded to the questionnaire, which represents 74%. In addition, out of the 61 participants, 55 were SMEs. The SMEs' response rate was 73%, i.e. 40 SMEs. The results reveal that 80% of the participants are business owners, while 20% were employed managers at the time of the study. In addition, the response rate of the financial institutions was 83%. Therefore, the study summarizes by indicating that the response rate from all the stakeholders were sufficient to draw significant conclusions.

5.2.1 Stakeholder ownership and categories

Regarding the commercial banks, it was found that 50% of the commercial banks in Namibia have primarily domestic shareholders while the other 50% have predominantly foreign shareholders.

Figure 5.1: Ownership of commercial banks

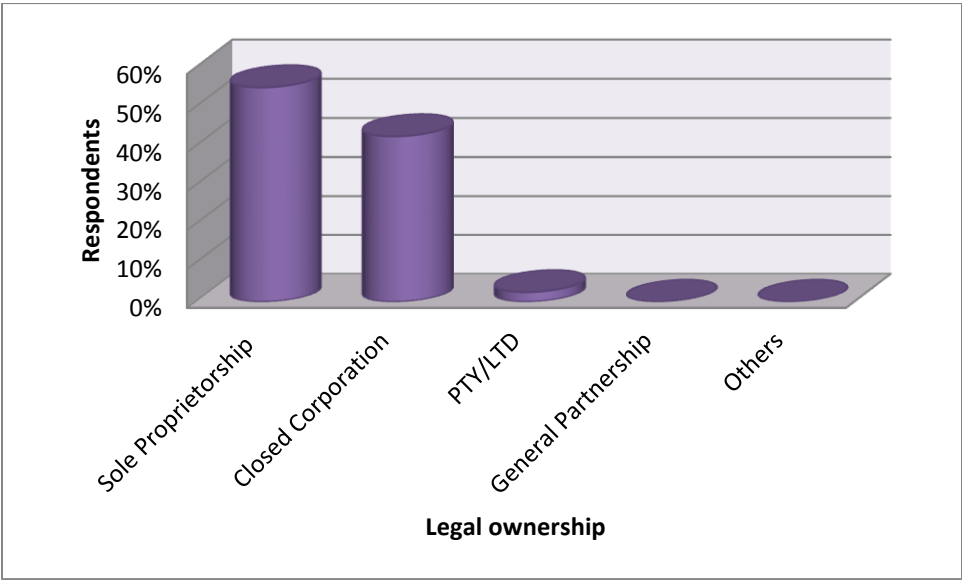


Source: Field Survey, 2016.

In terms of the ownership of the SMEs, the study found that 55% of the businesses were owned and operated by sole proprietors or sole traders (see figure 5.2).

The study further divulged that 43% of the respondents have registered their business as closed corporations (CC). Close corporations have been designed especially for small businesses. The big representation of this business type is because its benefits are shared according to the member's percentage in the CC. While a CC may have more than one member, the number of members may not exceed 10. Proprietary limited or unlimited companies (PTY/LTD) represent 2% of the respondents, while general partnerships were not represented at all; the respondents indicated no other form of business.

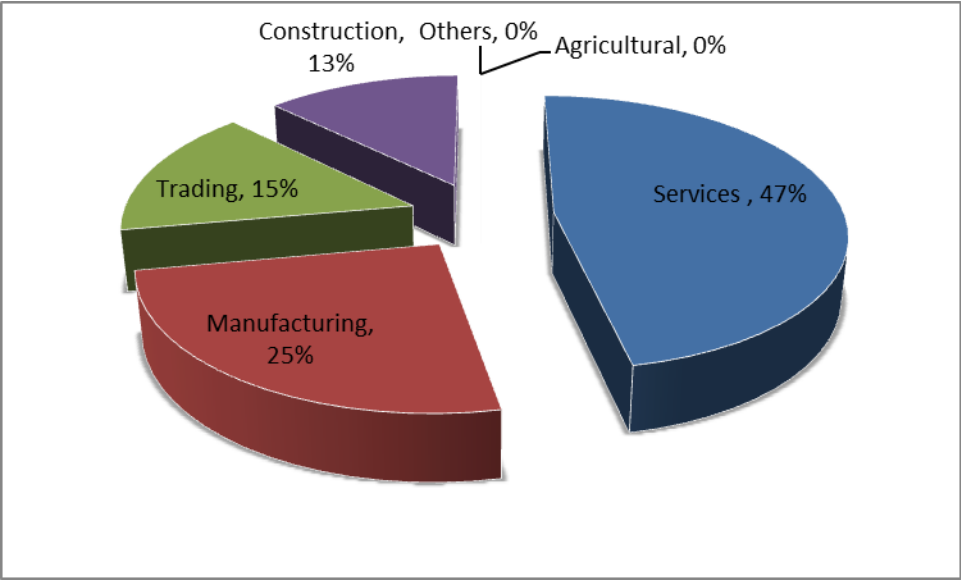
Figure 5.2: Ownership of SME



Source: Field Survey, 2016.

With respect to business categories, the results show that the service category dominates the sector with a representation of 47% (see figure 5.3). This implies that the service category has a large market share compared to other categories. The activities under service include bookshops, restaurants, sound and stage tools and equipment, spray painting and panel beating, funeral services and architectural services. The study also revealed that 25% of the SMEs are involved in manufacturing activities, such as bakery, shade net production, ice block production, sewing of school uniforms and art work. In addition, construction and trade take up 13% and 15%, respectively of the market share.

Figure 5.3: Business categories



Source: Field Survey, 2016.

5.2.2 Business Registration, Age and Gender

Regarding business registration, it was found that businesses at Prosperita Industrial Park II operate as formal SMEs, as they are all registered with one or more authorities. It was further found that 100% of the SMEs obtained a certificate of fitness with the City of Windhoek and business registration certificate with the Ministry of Industrialization, Trade and SME Development (see figure 5.4).

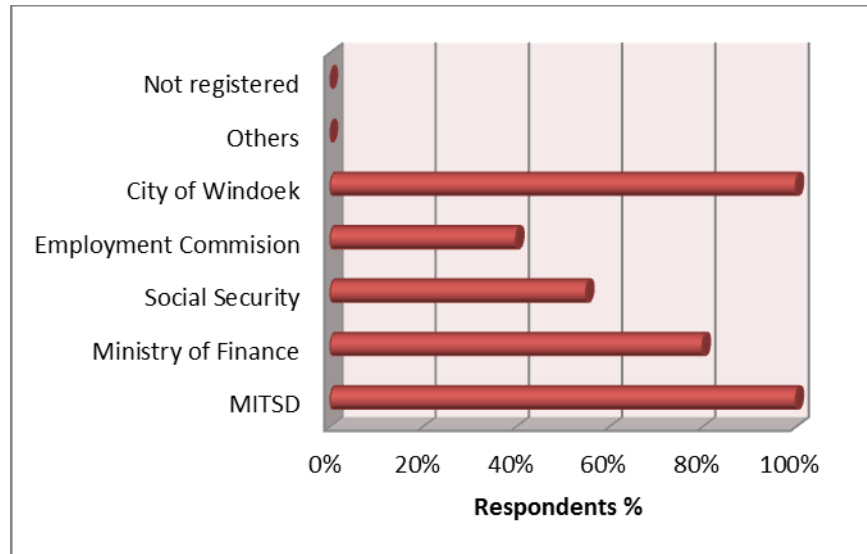
The study also revealed that 80% of the SMEs have registered as taxpayers with the Ministry of Finance. This confirmed the importance of SMEs: they do not only contribute significantly to employment creation and income generation but they also contribute to the government revenue by paying taxes. However, 20% did not indicate that they registered their business with Ministry of Finance and no reason was provided. This merits further investigation, which this however exceeds the scope of this study. Furthermore, the registration with the Ministry of Finance is also required for importing purposes that some of the SMEs are involved with.

The study further revealed that of the SMEs that participated in this study, 60% are registered with Social Security and 40% with The Office of Equity and Employment Commission. These registrations are required for the SMEs to register their employees so that they can get benefits such as permanently and totally disabled benefit, maternity, death and sick benefit.

Business registration and other business certificates serve a vital purpose during tendering processes. Tender Board of Namibia has set out the furnishing of all necessary documents,

including the business founding statement as well as a good standing certificate from both the Ministry of Finance and Social Security, as a primary prerequisite for a tenderer's bid to be considered.

Figure 5.4: Business registration



Source: Field Survey, 2016.

With regard to distribution in terms of age of business owners, the study divulges that the business owners at Prosperita Industrial Park II are predominantly within the age bracket of 31 to 40. This age group was represented by 35%, followed by the age group of 20 to 30 with a representation of 32% (see table 5.1). The reason for the high representation of these two age groups could be that many Grade 12 failures and the large number of prospective tertiary-level students who experience financial constraints seek occupation and income by founding an SME. Thus the share of young persons was observed to be higher among SME operators. 17% and 13% operators are estimated to be between the age groups of 41 to 50 and 51 to 60 respectively.

Similarly, it can be also observed from table 5.1 that only about 3% represented the age group of 61 years and above. The reason for low representation of this age group could be that when business owners grow older, they pass on the companies they have founded and grown to the next generation of their family.

Concerning the distribution in terms of gender, the study found that there are more men than women operating SMEs. The study found that 78% of the respondents were male, while only 23% were female. Since the bulk of the respondents were SME owners, we can conclude that for an unknown reason men own most of the businesses at Prosperita Industrial Park II. Table 5.1 contains a summary of age and gender statistics of those working/operating in the SME sector.

Table 5.1: Ages and Gender Structure

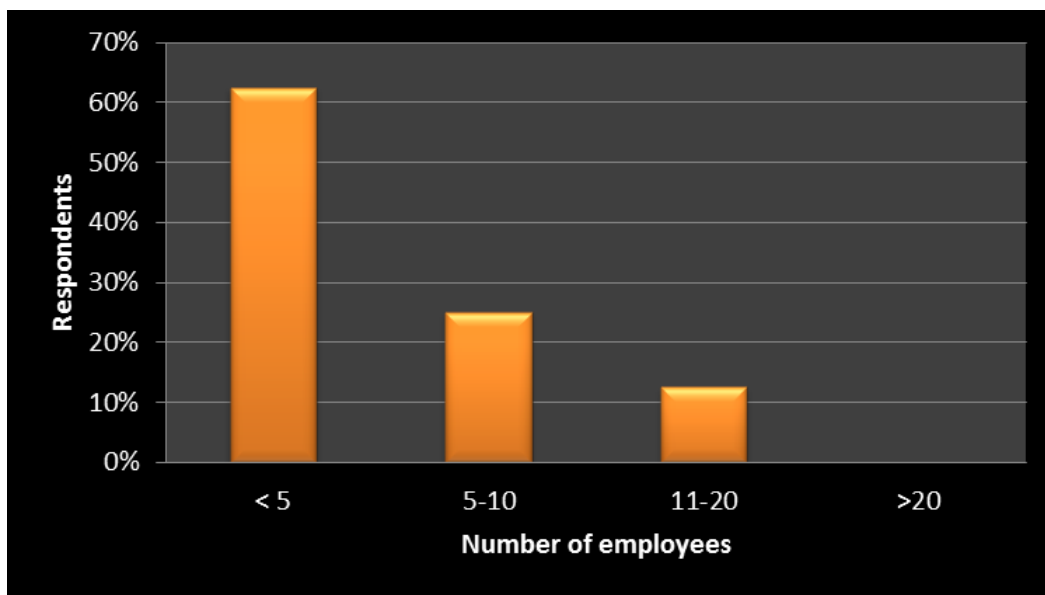
Age Group	Frequency	Frequency %
20-30	13	32.50
31-40	14	35.00
41-50	7	17.50
51-60	5	12.50
61 and above	1	2.50
Total	40	100.00
Gender		
Male	31	77.50
Female	9	22.50
Total	40	100.00

Source: Field Survey, 2016.

5.2.3 Size and age of business

The size of a business can be determined by different factors, such as the number of employees and the value of assets the company has in possession. Therefore, with regard to the number of employees employed by the SMEs, the study disclosed that 62% of the businesses employ less than 5 people (see Figure 5.5). 25% indicated that they employ 5-10 people in their business, while only 13% of the respondents have approximately 11 to 20 employees.

Figure 5.5: Number of employees in SMEs



Source: Field Survey, 2016.

With respect to the size of the business in terms of asset value, the study divulged that 40% of the SMEs-owned assets are valued at N\$10 000 to N\$100 000 (see table 5.2). It was further indicated that 19% of the businesses have asset values that range from N\$5 000 to N\$10 000, while only 2% of the businesses have an asset value of less than N\$1 000. In addition, the study

found that 16% of the businesses own assets with a value ranging from N\$1 000 to N\$5 000, while 23% of the businesses have assets valued at more than N\$100 000.

Table 5.2: Asset value of SMEs

Business' total asset	Frequency %
< 1,000	2%
1,000-5,000	16%
5,001-10,000	19%
10,001-100,000	40%
>100,000	23%
Total	100%

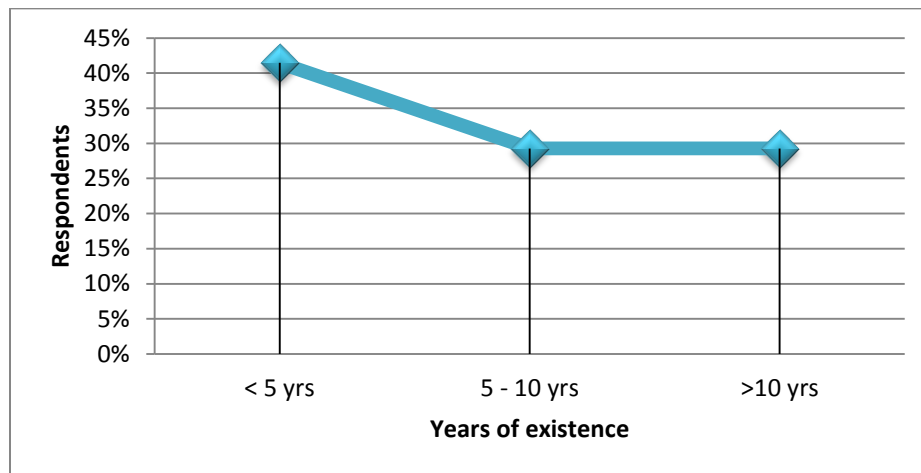
Source: Field Survey, 2016.

With respect to the age of the business it was found that this factor is also one of the important factors the financial institutions consider when granting financial assistance to SMEs. The data from the survey presented in the figure 5.6 shows the years a businesses has been in existence on the x-axis, while the participants in percentage appear on the y-axis. It can be seen clearly that the number of business rose steadily from year one to the period of less than five years. This implies that the number SMEs entering the market are on the rise, but many drop out before their fifth year of existence.

The results of the study show that 43% of the businesses have been in the market for less than 5 years. This substantial number of young enterprises is consistent with previous studies, where it was found that the majority of SMEs in developing countries are at start-up or a very early level

(Hsu, 2004; Woldie, et al., 2012) of their existence. The study further revealed that the minority, i.e. 28% of the respondents, have been in the business between 5 and 10 years and longer.

Figure 5.6: Age of business



Source: Field Survey, 2016.

4.3. Assistance to SMEs

5.3.1 Financial assistance

The results indicate that 72% of the participants strongly agreed while 23% agreed that SMEs require access to finance in order for them to prosper (see table 5.3). However, 5% of the participants were neutral while none of the respondents were disagreed with the statement that without access to finance SMEs cannot flourish.

With the statement that SMEs are granted financial support from the financial institutions whenever it is needed, 12% of the SMEs strongly agreed while 15% were neutral. 50% of the

respondents strongly disagreed, while 5% disagreed. Regarding SMEs financial assistance from MITSMED, 35% of the SMEs strongly agreed, while 28% agreed and only 3% disagreed that they were granted financial assistance from MITSMED. However, 22% remained neutral while 12% strongly disagreed see table 5.3.

Table 5.3: SMEs Financial Assistance

Question Statement	Frequency %				
	SA	A	N	D	SD
SMEs require access to finance in order for them to prosper	72%	23%	5%	0%	0%
I always get financial support from the financial institutions whenever needed	12%	18%	15%	5%	50%
The Ministry of Industrialization, Trade and SME Development provide SMEs with access to finance	35%	28%	22%	3%	12%
Commercial banks support SMEs financially anytime it required	10%	18%	12%	2%	58%
SME bank facilitates SME access to finance since its commencement	5%	17%	8%	5%	65%

Source: Field Survey, 2016.

It was also found that not all the applicants for finance were provided with financial assistance. The study revealed that some might be approved, while some applications may be rejected even when the SME is willing to pay more interest. This was indicated by the result of data provided by MITSMED. The result shows that out of 351 SMEs that applied for financial assistance only 55.6% applications were successful while 43.3% were declined (see table 5.4).

Table 5.4: MITSMED approved versus rejected applications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Denied	152	43.3	43.8	43.8
	Given	195	55.6	56.2	100.0
	Total	347	98.9	100.0	
Missing	System	4	1.1		
Total		351	100.0		

Source: Field Survey, 2016.

The major reason for rejecting applications for finance was found to be incomplete information provided, which was indicated by 21.3% of the participants. Lack of own contribution represented 11.0% and 2.9% indicated that lack of collateral as the major reason.

It was also indicated that 4.3% of the applicants withdrew their applications. The researcher assumes that the same reasons as for declination of applications (lack information, lack of own contribution or lack of collateral) might be the contributing factors for withdrawal of applications. Other factors such as bad credit, lack of space and age of the business's owner also play a role, but are not great significance.

Table 5.5: Reasons for denied finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Incomplete Information provided	74	21.1	21.3	21.3
	Lack of own contribution	38	10.8	11.0	32.3
	Withdrew	15	4.3	4.3	36.6
	Bad Credit	2	.6	.6	37.2
	Project not viable	5	1.4	1.4	38.6
	N/A (Finance was given)	195	55.6	56.2	94.8
	Promoter died	2	.6	.6	95.4
	Lack of Collateral	10	2.8	2.9	98.3
	Lack of Space	3	.9	.9	99.1
	Age of Owner	1	.3	.3	99.4
	Sub-standard work	2	.6	.6	100.0
	Total	347	98.9	100.0	
Missing	System	4	1.1		
Total		351	100.0		

Source: Field Survey, 2016.

In addition, in a situation of information asymmetry, financial institutions tend to approve only part of the amount applied for, which can lead to atrophy of the SME loan market. Table 5.6 contains the data obtained from the MITSMED, which indicates that in most cases financial institutions approve only part of the amount requested by the SMEs. The result had a correlation coefficient of $R = 0.015$, which indicates a very weak correlation between the requested and approved amount. This implies that there is no relationship between the amount that was granted and the amount requested by the SMEs.

Table 5.6: Actual loan requested against loan approved

Correlations

		Actual amount approved	Requested amount
Actual amount approved	Pearson Correlation	1	.015
	Sig. (2-tailed)		.805
	N	333	271
Requested amount	Pearson Correlation	.015	1
	Sig. (2-tailed)	.805	
	N	271	282

Source: Field Survey, 2016.

On the other hand, commercial banks indicated that they may raise the loan threshold, strengthen SMEs credit appraisal and management in order to reduce the lending losses arising from moral hazard.

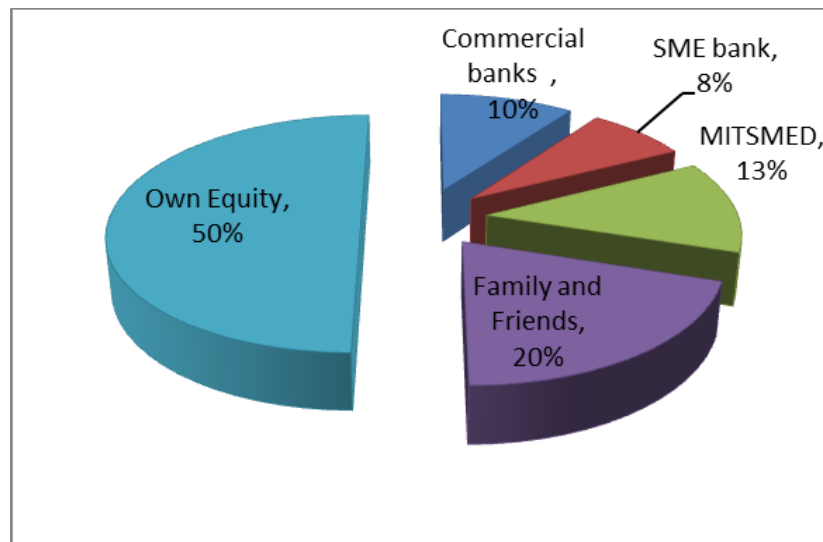
The study further revealed that 10% of the SMEs strongly agree, 18% agree and 12% of the respondents were neutral with regard to the statement that commercial banks support SMEs financially. However, a majority of 58% of the respondents strongly disagree, while only 2% agree that SMEs get financial support from commercial banks. Moreover the study divulged that 5% of the respondents strongly agree, 17% agree and 8% are neutral regarding the statement that SME bank facilitates SME's access to finance since its commencement. However, 65% of the respondents strongly disagree, while 5% disagree that they receive financial assistance from SME bank.

The SMEs were requested to give their own opinion about who they consider to be their main financial supporter. Half (50%) of the SMEs indicated that they finance their business with their own money (see figure 5.7). This implies that they consider themselves to be the main financier of their business. This type of financing is defined in The Pecking Order Theory developed by Myers & Majluf (1984), where they state that companies prioritize their sources of financing according to the principle of least effort, or of least resistance, preferring to raise equity as a financing means of last resort. However, this theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available, and debt is preferred over equity if external financing is required. Even though this theory supports financing business

via internal financing to own equity, it still emphasizes that debt, as an external finance, is a preference.

This study further discloses that 20% of the respondents finance their business through family and friends. It was also found that 13% of the participants receive finance from MITSMED, while 10% of the respondents indicated that Commercial banks are the main players in SME financing. However, SMEs at Prosperita Industrial Park II were less in agreement that the SME Bank is the main financier among SMEs; only 8% listed this institution as their main financier.

Figure 5.7: SMEs main financier



Source: Field Survey, 2016.

Secondary sources confirm the primary information and findings of the current study as was revealed during the MITSMED's budget speech (2015), when Hon. Immanuel Ngatjizeko stated that 22 business premises are under planning and construction, from which 936 jobs were created during construction. In addition, 45 SME Industrial Parks are in operation country wide, which

accommodate 676 SMEs. These 676 tenants have created over 5088 jobs in these occupied parks. Furthermore, in a related intervention, the Industrial Upgrading and Modernization Programme (IUMP) aims at improving production and supply capacity, efficiency and competitiveness of Namibian-owned manufacturing firms. The report states that 26 beneficiaries were assisted in ten regions of Namibia, in four sectors. These interventions have created job opportunities and increased export sales (MITSMED budget speech, 2015).

Another secondary source as per ANNUAL REPORT 2015/2016 indicates that through the Equipment Aid Scheme and the Group Purchasing Scheme the Ministry assisted 406 SMEs with N\$29 319 259.00 in 2012. In 2013 423 SMEs were assisted with N\$27 783 307.00, while in 2014 988 SMEs were assisted with N\$95 935 708.00. In 2015 the Ministry provided equipment assistance to 431 needy SMEs in the 14 regions, which amounted to N\$ 28 million (see table 5.7).

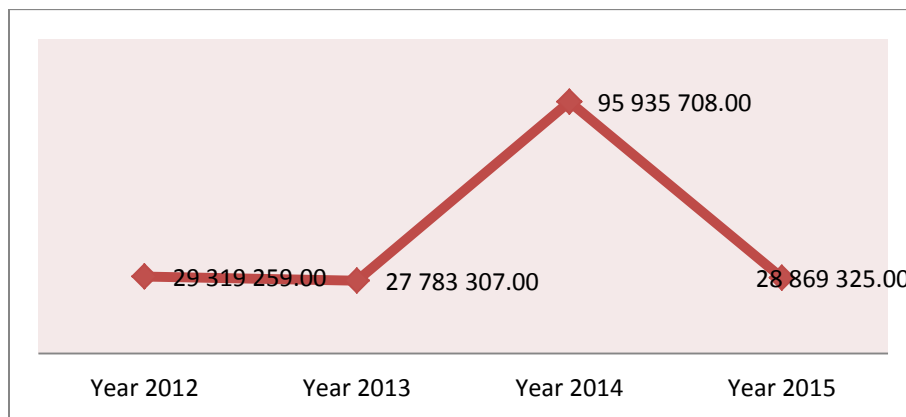
Table 5.7: Assistance to SMEs (Secondary Data)

NO	REGION (SMEs)	NUMBER OF APPLICATIONS APPROVED	VALUE OF EQUIPMENT TO BE PURCHASE/ REGION, N\$
1	Zambezi	24	1,455,680.00
2	Erongo	46	3,090,399.00
3	Hardap	28	2,181,561.00
4	//Karas	18	1,549,331.00
5	Kavango East and West	34	1,436,122.00
6	Khomas	47	5,175,028.00
7	Kunene	34	1,365,122.00
8	Ohangwena	40	2,852,057.00
9	Omaheke	28	1,509,346.00
10	Omusati	34	1,881,495.00
11	Oshana	34	2,351,241.00
12	Oshikoto	23	1,936,496.00
13	Otjozondjupa	41	2,085,447.00
Total		431	28,869,325.00

Source: MITSMED, 2015/2016.

Though the MITSMED supported SMEs financially, it was found that they are not consistent in doing this. For example, the number of SMEs that benefited from the Equipment Scheme program between 2014 and 2015 dramatically decreased by 557, i.e. 56% (see figure 5.9). This is in agreement of Kapepiso’s (2014) findings; he mentions that although MITSMED does provide assistance to SMEs, this happens at a slow rate.

Figure 5.8: MITSMED equipment assistance (Secondary Data)



Source: MITSMED, 2015/2016.

The current study also wanted to discover how many SMEs benefited financially from the banks. Unfortunately, none of the banks attended to this question. Their reasoning was that the information is proprietary or that they do not have the data. However, secondary information available indicated that since 2001, Bank Windhoek has been involved with SMEs and each year about 340 SMEs benefit financially and receive other support through the support programs of Bank Windhoek (Kapepiso 2014). In addition, the MITSMED annual report (2015/2016) reveals that over 353 SMEs were provided with financial assistance and other related services through the capitalization of the SME Bank.

Due to non-responses from banks and the non-availability of recent secondary sources to provide information on the number of SMEs that have benefited financially each year, this current study was unable to perform a trend analysis.

5.3.2 Other support programs

This question was a qualitative one in form of an open ended question. In order to analyse the answers provided, a theme (“Other support programs”) was identified. Table 5.5 summarizes how this theme emerged. The financial institutions indicated that they also provide the SMEs with other support programs, namely feasibility studies and business plans preparations, business mentorship services and entrepreneurial skills training, financial assistance for booths or stalls, Sites and Premises Development Programme (SPDP), Equipment Aid Scheme and Group Purchasing Scheme (EASGPS), research and development and SME Portal Site. Therefore, these are the other support and service programs identified under this theme. This is also in agreement with the study carried out by MTI (1997), which finds that Government firms and agencies such MISTD have been requested, in advance, to provide training to SMEs because of the shortage of suitably-trained entrepreneurs in the country. This shortage has limited development of both the vocational and business disciplines and has been a major disadvantage to small business in the past.

The Ministry of Industrialization, Trade and SME Development indicated that they have initiated a rental space program that supports the development of new entrepreneurs and the establishment

of new businesses and aims to make the SME sector more competitive through, amongst others, the acquisition of technology and affordable business premises. However, there are some requirements that SMEs should meet to benefit from the program. These include the years of existence of the business, the size of the business, own investment and a business account.

Table 5.8: Other support programs – Financial Institution view

Theme	Categories	Codes
Other support programs	Support and Services	<ul style="list-style-type: none"> •Financing of feasibility studies/business plans •Business mentorship services and entrepreneurial skills training •Financial assistance for booths or stalls •Sites and Premises Development Programme (SPDP) •Equipment Aid Scheme and Group Purchasing Scheme (EASGPS) •Facilitation of business linkages and experiential factory visits •Research and development •Facilitation of linkages to financial services •SME Portal Site
	Potential SMEs to qualify for Equipment Aid Scheme and Group Purchasing Scheme	<ul style="list-style-type: none"> •3 years or more of existence •Potential to access finance from Financial Institutions •At least 5 fulltime employees •Potential to grow into a self-sustaining business •Own investment or contribution into the business •Business banking account in the name of a registered company •Namibian citizens

Source: Field Survey, 2016.

In the view of SMEs regarding other support program, 75% of the SMEs indicated that the Ministry has Sites and Premises Development Program aimed for SMEs, 70% shows that the Ministry provides Equipment Aid to SMEs and business mentorship while 65% indicated that the Ministry accord entrepreneur skills training to SMEs (see table 5.9). Furthermore, it was found that commercial banks also provide other support programs to SMEs. 20% of the SMEs indicated that they receive various support programs such as businesses mentorship services while 38% shows that they received entrepreneurial skills training. Moreover, the SMEs

indicated that SME bank also has other programs that aimed for SMEs. These are business plan fund, businesses mentorship services and entrepreneurial skills training. However, the SMEs response rate about other support programs from SME bank indicated that the bank does not support SMEs significantly (see table 5.9).

Table 5.9: Other support programs – SME perspective

Support Type	Frequency (Yes)			Frequency (Yes) %		
	MITSMED	Commercial Bank	SME Bank	MITSMED	Commercial Bank	SME Bank
Feasibility studies/business plans Fund	19	3	5	48%	8%	13%
Provision of entrepreneurial skills training	26	15	4	65%	38%	10%
Provision of business mentorship services	28	8	10	70%	20%	25%
Provision of financial management and reporting training	7	5	3	18%	13%	8%
Sites and Premises Development Programme (Construction and leasing of affordable business outlets and industrial)	30	0	0	75%	0%	0%
Equipment Aid Scheme and Group Purchasing Scheme (Procurement of production equipment and inputs)	28	5	0	70%	13%	0%
Facilitation of business linkages and experiential factory visits	9	0	0	23%	0%	0%
Research into and development of industrial products	8	0	0	20%	0%	0%
Facilitation of linkages to financial services and access to finance for SMEs	9	0	0	23%	0%	0%

Source: Field Survey, 2016.

4.4. Obstacles/Challenges faced by SMEs

5.4.1 Financial institution perspective

Table 5.10 presents the findings regarding obstacles and challenges faced by SMEs as viewed by the banks. The financial institutions stated that one of the major challenges faced by SMEs is lack of assets to pledge and inability to meet collateral requirements. This was indicated by 50%

of the respondents, who strongly agreed while the other 50% did not agree. The result further shows that SMEs are challenged by having to provide financial information on their business (financial statements). 50% of the financial institutions strongly agreed that SMEs are challenged by having to provide financial reports on their business. The study further revealed that SMEs are unable to provide proof of how profitable the project they intend to invest in is; 100% of the respondents agreed with this statement.

The banks are in agreement with one of the most important theories focusing on financing gap analysis, which is the credit rationing theory by Stiglitz and Weiss (1981). In their study they argue that in most cases only the SMEs themselves know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, i.e. firms have superior private information (Stiglitz and Weiss, 1981). The banks stated that due to the existence of asymmetric information among SMEs, financial institutions are more likely to finance firms that are able to provide collateral and base their lending decisions on the amount of collateral available.

The size of the SME was found to be one of the obstacles faced by SMEs in accessing finance. With respect to legal form of ownership, 75% agreed and 25% of the respondents did not agree with the statement that the form of business ownership has influence on financial assistance related decisions. This is supported by Abor (2005), who points out that the form of business organization could affect the debt-equity decisions of SMEs. Capital investment also contributes to the challenges faced by SMEs regarding the size of their businesses. 75% of the banks indicated that the size of SMEs in terms of assets is a challenge to the small business, while 25%

did not agree. The results for the size of business as measured by the number of employees was that a representation of 75% agreed that the size of SME in terms of employees plays a major role in decision making regarding finance. However, 25% of the respondent did not agree.

It was also found that another obstacle faced by SMEs in accessing finance is due to the fact that some SMEs do not have a bank account. This is a challenge to the banks since they do not have any transaction history for the business and do not know anything about the credit-worthiness of the applicant. In absence of a business account banks will not provide SMEs with the required financial assistance.

Table 5.10: Obstacles faced by SMEs: bank perspective

SMEs lacks access to finance due to the following	Strongly agree	Agree	Somewhat Agree	Don't agree	No answer	Total	% Responses: Strongly agree	% Responses: Agree	%Responses: Somewhat Agree	% Responses: Don't agree	% Responses: No answer
Lack of assets to meet collateral requirements	2	2	0	0	0	4	50%	50%	0%	0%	0%
SMEs cannot provide reliable information of their financial status	2	2	0	0	0	4	50%	50%	0%	0%	0%
SMEs cannot provide a proof of how profitable is the project they would like to invest in.	0	4	0	0	0	4	0%	100%	0%	0%	0%
SMEs are too young in the market (SME's years of survival is an important factor in decision making regarding financing).	0	0	0	4	0	4	0%	0%	0%	100%	0%
The size of the SME is too small in terms of Capital Investment	0	3	0	1	0	4	0%	75%	0%	25%	0%
The size of the SME is too small in terms of legal form of ownership	0	3	0	1	0	4	0%	75%	0%	25%	0%
The size of the SME is too small in terms of employees	0	3	0	1	0	4	0%	75%	0%	25%	0%
Lack of financial management skills	0	3	0	1	0	4	0%	75%	0%	25%	0%
Lack of management skills	0	2	0	2	0	4	0%	50%	0%	50%	0%

Source: Field Survey, 2016.

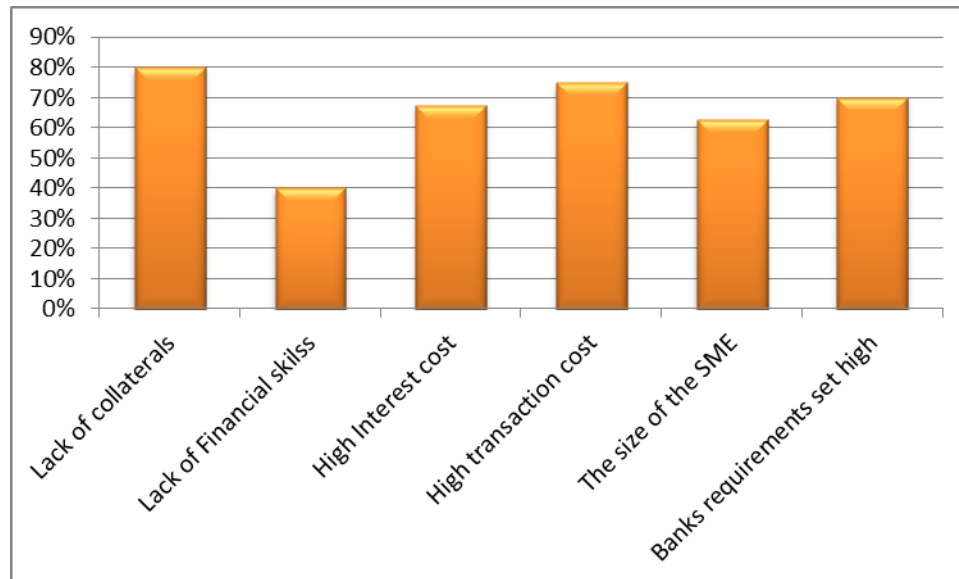
5.4.2 SME perspective

The SMEs indicated that the major obstacle hindering access to finance is collateral (see Figure 5.10). This factor was indicated by 80% of the respondents. It is clear that collateral has become an essential prerequisite to access bank finance as argued by Azende (2012) in a study undertaken in Nigeria, which shows that SMEs struggle to access finance from banks due to stringent collateral requirements and inefficient guarantees schemes.

Regarding financial management skills, 40% of the SMEs indicated that SMEs lack these skills. It is a challenge to them as banks require financially related information in order to be able to grant financial support to SMEs. This really is a challenge, as most of the SMEs lack financial management skills and they do not employ accountants to produce these documents (financial statement, cash flow and balance sheet). Some of these documents are very important as the bank uses them to investigate how profitable projects are. Furthermore, 68% of the participants indicated that banks charge SMEs high interest rates and 75% indicated that banks charge SMEs high transaction costs.

70% of the SMEs claim that banks set their requirements too high and this is an obstacle when finance is required. 62% indicated that another obstacle for SMEs in accessing finance is the size of the business. The size of the business is determined by the factors such as asset value or the number of employees in the business.

Figure: 5.9 Obstacles faced by SMEs: SME views



Source: Field Survey, 2016.

5.5 Views on improving SMEs' access to finance

5.5.1 Banks

This study was also interested to get some views from the supply side as to the extent to which the SMEs need to improve in order to successfully access finance in the future. Information on this was obtained through an open-ended question and the responses were analysed based on content analyses (see table 5.11). The financial institutions suggested that SME's should acquire the necessary skills to manage their business financially. It is further suggested that SMEs should employ skilled accountants to handle all financial business matters, keep business records and prepare sound financial statements whenever needed. This will avoid asymmetric information and eliminate lack of access to finance faced by SMEs. The financial institutions further

suggested that SME should invest in good projects that they can complete to gain some profit. Another suggestion is that SMEs should attend trainings offered by the financial institutions as another sort of support, as this will help them to improve their business skills.

Table 5.11 Improving SMEs’ access to finance: financial institution perspective

Theme	Categories	Codes
Financial Institutions’ remarks on SMEs improvement	Improvement required among SMEs	Strong business case, Proper market research and Accurate records keeping
	Motivation to SMEs	Invest in a good business and complete mentorship and other SMEs support program
	Policies	Developing of new policies and Review the existing ones

Source: Field Survey, 2016.

5.5.2 SMEs

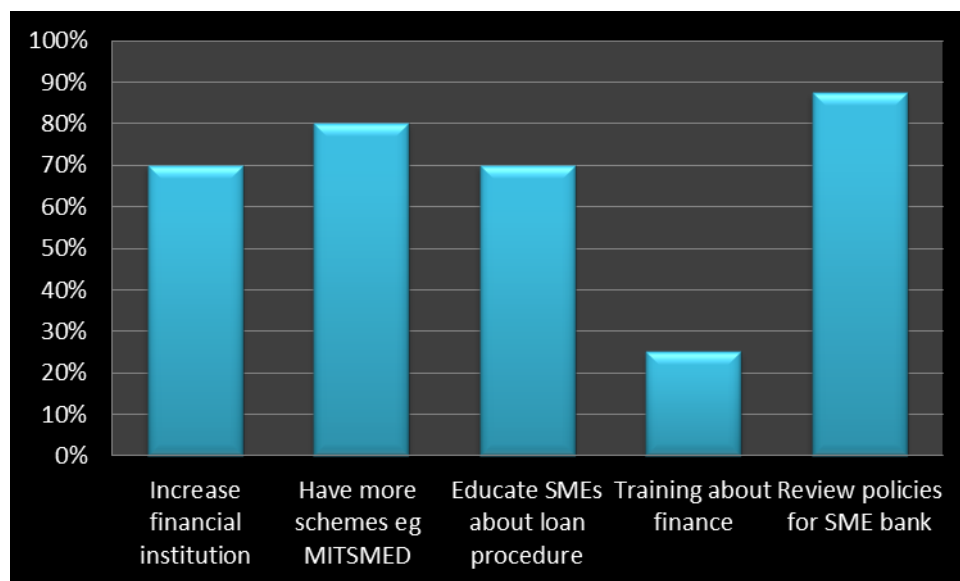
In their own view, 88% of the SMEs indicated that some policies of the financial institutions, especially that of the SME bank, need to be reviewed (see figure 5.10). Although the SME bank has been forthcoming in assisting SMEs financially, their support was not yet perceived as satisfactory at the time of the study; in comparison with other financial institutions SMEs are less content with the level of support they are receiving from this institution.

80% of the participants indicated that in their view demands for access to finance could be eliminated if more schemes such as the one by MITSMED were introduced. 70% of the respondents highlighted that the challenge to access finance among SMEs could be mitigated if more financial institution in the country catered for SMEs and if awareness programs were introduced to educate the SMEs about loan requirements procedures. In addition, awareness for

alternative financing sources, such as private equity and venture capital among SMEs should be promoted.

It was stated earlier in this study that the MITSMED established SME bank in order to facilitate access to finance for SMEs. With this background, the Government is in a position to intervene in the operations of SME bank and appeal for leniency in the criteria, especially the collateral requirement. Another intervention could be through training to equip prospective SMEs with an understanding of the art of financial administration, thus increasing their trustworthiness from the lender perspective.

Figure 5.10: Improving SMEs access to finance: SME perspective



Source: Field Survey, 2016.

CHAPTER FIVE

5. Conclusions and recommendations

5.1. Summary of findings, conclusion and recommendations

The objective of this study was to assess both the demand and supply side factors that are hindering SMEs at Prosperita Industrial Park II to access finance. In order to reach the objectives of the study, both qualitative and quantitative methods were employed. The main findings were that inability to provide collateral and proper financial records were the two most important factors that led to the rejection of loan application by SMEs. High interest rates, high transaction cost, asymmetric information and lack of collateral cost were the most important constraints limiting SMEs' access to finance. Other factors that hinder SME's access to finance include the age and size of the SMEs and other legal and contractual factors.

The study revealed that inadequate information provided by SMEs to financial institutions leads to information asymmetry, which was found to be the one of the major constraints for SMEs to obtain financial assistance. It was concluded that banks use information provided by SMEs about their business and information from the SME's financial statements as an indicator of borrower's future prospects and ability to service loans. However, it was found that SMEs, in particular young SMEs lack financial reporting skills. Due to uncertainty about the profitability of the project SMEs would like to partake in and the fact that banks cannot determine whether an SME will be able to pay back a loan, banks have introduced a number of conditions to be met by

SMEs, such as collateral. It was found that banks impose high level of collateral to mitigate unforeseen risks, as the financial soundness of enterprises could not be ascertained due to lack of information provided. This implies that those SMEs without collateral will find it difficult to obtain finance from lenders, especially from the commercial banks. This criterion hinders SMEs in accessing finance. This applies specifically to young firms and firms with low levels of financial reports as well as the firms with few assets to pledge as collateral. The results of this study are in agreement with the conclusion drawn by Jimenez et al. (2009) that lenders employ collateral to hedge against high credit risks associated with lending to relatively small and young firms.

Another aspect that was found to hinder SMEs from accessing finance was business size and SME's age. The business size is determined by two factors, namely number of employees in an SME and the value of assets an SME has in possession. It was revealed that financial institutions prefer offering financial assistance to businesses that have been in existence for three or more years and employ more than five people on a full time basis and have made a significant investment or contribution into the business, i.e. have added assets to their business. However, the current study revealed that about 63% of the businesses in the sample employ less than five people. The implication is that this factor has a huge negative impact on SMEs with regard regarding to accessing finance. This notably affects start-up businesses that employ less than five people and have few assets in the business. This is also supported by Klapper et al. (2010) and Ngoc et al. (2009), who found that younger firms find it difficult to access debt financing from lenders due to the size of their business.

Regarding the supply side, the results confirmed that high requirements set by the financial institutions hamper SMEs from accessing finance. These include collateral, availability of information and other factors, such as higher transaction costs and high interest costs. It was therefore found that SMEs face obstacles when trying to access finance due to highly stringent conditions, such as high interest rates and high transaction costs, set by the banks. It was found that banks' imposition of high transaction costs to SMEs result from searching cost and loan-after supervision cost. The banks concluded that in order to prevent borrowing SMEs from gambling behaviour and speculation, the banks should supervise these SMEs, which at the same time attracts cost of supervising. It was also concluded that due to asymmetric information, the bank has to make efforts in terms of money and time to search for information, which reflects the real situation of the SMEs in order to ensure the safety and efficiency of loans and prevent the borrower from defrauding the banks.

The study further divulged that Namibia has a bank, namely the SME bank, which was established by the Government with the sole aim of assisting SMEs. However, the bank is reported to be failing SMEs, in a sense that it has introduced stringent selection criteria and conditions similar to those of commercial banks. The implication is that even with the establishment of the SME bank, SMEs still face challenges with regard to obtaining finance due to the fact that this bank has set requirements that are very similar to those of private commercial banks.

It is highly recommended that financial institutions, government and government agencies should maximize their financial support to the small business sector as it remains the economic

engine of any country and this will help the sector to continue reducing the impact of socio-economic challenges like unemployment, inequality and poverty. This study has revealed that commercial banks set requirements that are too high to be met by the SMEs. It is then recommended that financial institutions, including MITSMED, should create awareness for especially the importance of collateral through advertisements, communication with trade associations and at business related events like trade fairs. This will help the SMEs to be aware of requirements and perhaps encourage them to start investing in assets that can be used as collateral whenever they require financial assistance.

In addition, government over the years has created and implemented market policies for SMEs. It is vital that these interventions are effective and meet the needs of those they declare to support. It is therefore incumbent to the Government and other stakeholders to ensure that schemes, such as the Equipment Aid Scheme and Group Purchasing Scheme, are well publicized and in fact made available to SMEs. In addition, SMEs need to plan spending and saving so as to be able to acquire tangible assets that in future can be pledged as security to acquire loans at low interest rates.

Information asymmetry was also found to be a limiting factor in view of access to finance for SMEs. It causes the banks to demand collateral in order to lower the risk associated with lending. With this background, it is worth noting that advancement on the records management of SMEs is crucial. Therefore, SMEs should start to appreciate the need to maintain proper records in order to build credibility with lenders. In addition, SMEs need to improve their financial information systems. This involves a proper financial accounting system for SMEs, which has to

assure adequate disclosure of financial information. This financial system should at least be equipped with the three basic components of the budgetary period, which are an income statement, a balance sheet and a cash flow statement. This information disclosure would allow financial institutions insight into the governance of SMEs and enable them to an adequate evaluation of the potential credit risk involved.

Another crucial intervention is training. This is to equip prospective loan applicants with an understanding of the art of financial administration, thus increasing their trustworthiness in the eyes of lenders. It is crucial then to build the skill base of SMEs in financial analysis and business plan writing. This would improve credit prospects for young, small firms that lack tangible asset to be pledged as collateral for capital security or those that do not have a credit history. It was also revealed that MITSMED is in the process, i.e. the draft has been submitted to cabinet, of developing an SME policy which addresses various cross-cutting issues, including access to finance. This study therefore highly recommends that this policy be approved by cabinet and implemented soonest in order to eliminate the finance gap within the SME sector.

5.2. Further study

The current study focused on the demand side of access to finance (perception of SMEs) and the supply side (perception of commercial banks). However, the study could not obtain the loan portfolios of the SMEs that benefited financially from the commercial banks. With this limitation, a trend analysis could not be done. Therefore, another dyadic survey that would collect loan portfolios and examine the obstacles to finance as perceived by providers of funds

and SMEs would be of great interest. Future studies should also extend the study population to include other financial institutions for SMEs, such as private equity and venture capital providers to gain an insight into their requirements and establish whether the trends correlate with the findings of this study.

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Appendix A

A questionnaire for Commercial Banks

	Name of the Bank					
	Name and Rank of the respondent	Name:			Rank:	
1	Which of the following best describes your bank	<input type="checkbox"/> State owned	<input type="checkbox"/> Privately owned	<input type="checkbox"/> Foreign investment bank	<input type="checkbox"/> Share holding bank with predominantly domestic shareholders	<input type="checkbox"/> Share holding bank with predominantly foreign shareholders
2	Does your bank open for business to SMEs?	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
SMEs lacks access to finance due to the following [Mark with an X the appropriate responses]:						
	Lack of assets to meet collateral requirements	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
	SMEs cannot provide reliable information of their financial status	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
	SMEs cannot provide a proof of how profitable is the project they would like to invest in.	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
3	SMEs are too young in the market (SME's years of survival is an important factor in decision making regarding financing).	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
	The size of the SME is too small in terms of Capital Investment	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
	The size of the SME is too small in terms of annual turnover	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
	The size of the SME is too small in terms of legal form of ownership	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
	The size of the SME is too small in terms of employees	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
Years of Existence						
4	Your bank does not consider loaning SMEs whose years of survival is	<input type="checkbox"/> < 1 year	<input type="checkbox"/> < 3 years	<input type="checkbox"/> < 5 years	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
If you have indicated that the banks require collateral in order for them to finance SMEs, state which of the following reasons below contributing to this factor [Mark the appropriate response with an X].						
	SMEs are more unstable	<input type="checkbox"/>				
	Most SMEs are informal	<input type="checkbox"/>				
5	SMEs have poor financial management	<input type="checkbox"/>				
	SMEs are difficult to evaluate	<input type="checkbox"/>				
	SMEs are difficult to prosecute	<input type="checkbox"/>				
	SME s' loan difficult to seize in case of default	<input type="checkbox"/>				
Please indicate the most common reasons for rejecting a loan application. [Mark with an X the appropriate response]						
	SME too young in the market	<input type="checkbox"/>				
6	Weak financial position of the borrower (SMEs)	<input type="checkbox"/>				
	Lack of adequate collateral	<input type="checkbox"/>				
	Asymetrical information (non-transparency information)	<input type="checkbox"/>				
	Other, please specify:	<input type="checkbox"/>				

7	Can you provide us with the loan/debt and equity portfolio as from 2010 -2015 with information of how many loans and equity application were submitted, how many were appoved and how many were not approved and reasons to why they were rejected.
8	How do you identify potential SME clients (what particular criterias does the bank use to determine the successfull SMEs regarding access to finance)?
9	What other commercial Commercial Products does your bank provide to SMEs?
10	Please list one or more alternatives (in order of priority which 1 is the most important and 5 is the least important) that you think is/are the most feasible and efficient financial source(s) that SMEs should recourse
11	With reference to question 6: To the extent that the size, age or/and collateral capacity for the SMEs are some of the requirements the bank looks at in order to offer the financial assistance to SMEs, please comment and provide adequate information for your answer (why this is the case?)
12	In your own view, to what extent would SMEs need to improve in order to sussessfully have access to finance?

Your time and co-operation are highly appreciated.

Appendix B

Structured Interview Schedule for MTI

1	Name of the respondent.....	Rank of the respondent.....
2	Does the Ministry have a division focusing in SME activities?	
3	Does the Ministry provide financial support to the Namibian small enterprises or businesses ?	
4	List the financial supports, services or any assistance which the ministry offers to SMEs	
5	What criteria does the Ministry use to indentify potential SMEs?	
6	In terms of financial support, provide us with annual figures of how many small enterprises have benefited financially from the Ministry as from 2010-2015	
7	In your opinion, how does the Ministry contribute to the development and success of SMEs?	
8	Mention and provide any policy or guideline the Ministry have in place regarding SME financing	
9	From the Ministy point of view, is there any policy in place that facilitate SMEs in accessing finance from commecrial banks	

10	<p>In your opinion does SMEs face obstacles/ problems when applying for finance elsewhere (e.g commecrial banks)?</p> <p>.....</p> <p>.....</p> <p>.....</p>
11	<p>Does the ministry have any intervention program (s) on how SMEs can overcome these obstacles</p> <p>.....</p> <p>.....</p> <p>.....</p>
12	<p>How do you perceive the SME market in Namibia (e.g. SME market is small but prosperous etc.)?</p> <p>.....</p> <p>.....</p> <p>.....</p>
13	<p>In your view, to what extend would the government improve access to finance within SME sector?</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>

Your time and co-operation are highly appreciated.

Appendix C

A questionnaire for SMEs

1	Name of the business				
	Name and Rank of the respondent	Name.....	Rank.....			
	Age of the business owner				
	Gender of the business owner	Male.....		Female.....		
2	Have your business registered with the following authorities?	<input type="checkbox"/> Ministry of Trade and Industry	<input type="checkbox"/> Ministry of Finance	<input type="checkbox"/> Social Security	<input type="checkbox"/> Office of Employment Commission	<input type="checkbox"/> City of Windoek
3	Which best describes the legal ownership of your enterprise	<input type="checkbox"/> Sole Proprietorship	<input type="checkbox"/> Close Corporation	<input type="checkbox"/> PTY/LTD	<input type="checkbox"/> General Partnership	<input type="checkbox"/> Others
4	Which best describes your core business sector	<input type="checkbox"/> Services	<input type="checkbox"/> Manufacturing	<input type="checkbox"/> Trading	<input type="checkbox"/> Construction	<input type="checkbox"/> Others
5	How long have you been in business	<input type="checkbox"/> < 1 year	<input type="checkbox"/> 1 - 2 years	<input type="checkbox"/> 2 - 5 years	<input type="checkbox"/> 5 - 10 years	<input type="checkbox"/> > 10 years
6	Number of full-time workers in your company as of December 31, 2014	<input type="checkbox"/> < 10	<input type="checkbox"/> 10 - 50 workers	<input type="checkbox"/> 51-100 workers	<input type="checkbox"/> 101-200 workers	<input type="checkbox"/> >300
7	Total assets of your enterprise in (thousand N\$)	<input type="checkbox"/> < 1000	<input type="checkbox"/> 1000 - 5000	<input type="checkbox"/> 5001 - 10,000	<input type="checkbox"/> 10,001 - 100,000	<input type="checkbox"/> > 100,000
8	SMEs require access to finance in order for them to prosper	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
9	I always get financial support from the financial institutions whenever needed	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
10	The Ministry of Industrialization, Trade and SME Development provide SMEs with access to finance	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
11	Commercial banks support SMEs financially anytime it required	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer
12	SME bank facilitates SME's access to finance since its commencement	<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Somewhat agree	<input type="checkbox"/> Don't agree	<input type="checkbox"/> No answer

13	The main obstacles that SMEs are facing in accessing finance are (select more than one if necessary in order of priority whereby 1 is the most important and 5 is the least important)	
	SMEs lack the required collaterals	<input type="checkbox"/>
	SMEs cannot provide reliable information on their financial statement and prove the profitability of projects they would like to invest in	<input type="checkbox"/>
	SMEs are too young to have enough information to gain banks' good relationship	<input type="checkbox"/>
	The size of the SME is too small in terms of employees	<input type="checkbox"/>
	Banks requirements are too high (for the bank to consider loaning SMEs)	<input type="checkbox"/>
14	In your opinion, who are the main players in SME financing? (select more than one if necessary in order of priority which 1 is the most important and 5 is the least important)	
	Commercial banks	<input type="checkbox"/>
	SME bank	<input type="checkbox"/>
	The Ministry of Industrialization, Trade and SME Development	<input type="checkbox"/>
	Family and Friends	<input type="checkbox"/>
	Own Equity	<input type="checkbox"/>
15	What should be done in order to improve access to finance within SMEs sector (select more than one if necessary in order of priority which 1 is the most important and 5 is the least important)?	
	Increase the number of financial institution in the counrty that can support SMEs financially	<input type="checkbox"/>
	The Government to introduce more schemes that assist in facilitating access to finance for SMEs (e.g Equipment Aid Scheme)	<input type="checkbox"/>
	Financial Institutions to educate the SMEs regarding their procedures and what SMEs must do infuture in order to meet bank's requirements	<input type="checkbox"/>
	Government agencies should organize training for SMEs especially in the area of finance management and investment skills	<input type="checkbox"/>

Your time and co-operation are highly appreciated!!!

Thank you.