CONSTRAINTS OF FINANCING SMALL AND MEDIUM ENTERPRISES IN NAMIBIA

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HILJA IYALOO HAUFIKU

STUDENT NUMBER: 9819371

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SUPERVISOR: PROFESSOR U.L. PALIWAL

ABSTRACT

The study focused on factors which encumber SMEs from acquiring financial resources from financial institutions and banks in Namibia. The major objectives of the study were to critically evaluate the status of SMEs in Namibia regarding access to formal credit facilities. The study also sought to document the difficulties that SMEs have in accessing finances and assess the financial gap that exists between fund providers and SMEs and how it can be narrowed.

The analysis provided an explanation as to how independent variables influenced the financing of SMEs in the Central Business District in Windhoek, Khomas Region in Namibia. The major findings that emerged from this study are that SMEs are not experiencing constraints in funding, and this finding is substantiated by the following: there is a relationship between the age of a firm, bank information and the educational background of an entrepreneur and access to finance. An older firm is less constrained to access financing as opposed to a younger small firm. An entrepreneur with a higher educational background is less likely to be constrained to access finance as opposed to their counterparts who holds no educational qualification. A firm that presents reliable, strong and adequate information to a bank for financing is less likely to be declined funding as opposed to the firm that presents poor and unreliable information.

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ACRONYMS

AGRIBANK	Agricultural Bank of Namibia
ANOVA	Analysis of variance
ATM	Automatic Teller Machine
BON	Bank of Namibia
CBD	Central Business District
CPA	Certified Public Accountant Association
DBN	Development Bank of Namibia
DFI	Development Finance Institutions
DGDA	Dalberg Global Development Advisor
EIDD	Export and Industrial Development Department
FNB LTD	First National Bank Ltd Namibia
ICEG	International Congress on Environmental Geotechnics
IMF	International Monetary Fund
JCC	Joint Consultative Committee
MSME	Micro Small and Medium Enterprises
MTI	Ministry of Trade and Industries

NAMFISA	Namibia Financial Institutions Supervisory Authority
NCR	Namibia Credit Regulator
NDC	Namibia Development Corporation
NDP	Namibia Development Plan
NEPRU	Namibia Economic Policy Research Unit
OECD	The Organization for Economic Co-operation and Development
SBCGT	Small Business Credit Guarantee Trust
SBN	Standard Bank Namibia
SDF	Special Development Fund
SME	Small Medium Enterprises
UEAPME	The European Association of Craft, Small and Medium-sized Enterprises
USA	United States of America

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DEDICATION

"…….I can do all things through Christ who strengthen me……" Philippians 4:13

I dedicate this thesis to my Heavenly Father, my pillar of strength, my rock, my fortress, my wisdom, my mentor- from whom, through whom and to whom are all things. All glory and honour be to HIM.

I further dedicate this thesis to my beloved husband, Hendrik Nghishakenua Haufiku, and our beautiful children, Grace, Latungala, Erasmus and Hendrik Jr,. I love you very much. God bless all of you with every good and perfect gift.

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DECLARATIONS

I, Hilja Iyalo Haufiku, hereby declare that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Signed…… Date……

CHAPTER 1

Introduction

1.1 Background

Small and medium-sized enterprises (SMEs) are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies (The Organization for Economic Co-Operation and Development [OECD], 2006a).Therefore it is necessary for financial institutions to provide a wide range of services in order to meet the financial needs of the SMEs, for their domestic as well as their international activities.

There is no generally accepted definition for SMEs, because the classification of business into large or small differs from country to country. Industries in Canada defines a small business as one with fewer than 100 paid employees and a medium-sized business as one with at least 100 and fewer than 500 employees (Key Small Business Statistics, 2013)

In the United States, the Small Business Administration sets small business criteria based on industry, ownership structure, revenue and number of employees, which in some circumstances may be as high as 1500, although the cap is typically 500 (United States Small Business Administration, 2011). Whereas in Japan a business is defined or grouped into small to medium enterprise in terms of the number of employees, the type of the industry and the amount of paid-up capital (Ekpnenyong & Nyong, 1992). Erastus-Sacharia, Hansohm and Kadhikwa (1999) argued that, in Namibia such definitions are not appropriate, largely because the manufacturing sector is extremely weak, and the vast majority of the small businesses would be viewed differently in terms of paid-up capital and number of employees

Commonwealth Secretariat (1994) provided a unique definition of small business sector in Namibia, based on the employment of fewer than 10 employees and capital deployed of less than N$ 250 000. This definition seems to be appropriate for Namibia because the term "small sized enterprise is very broad and encompasses a wide range of business sizes.

According to MTI (2014), a small business is defined as an enterprise that makes an annual turnover of up to N$ 1 million per annum and a medium enterprise is defined as an enterprises that makes above N$ 1 million and up to N$ 10 million per annum. Any enterprise that makes more than N$ 10 million per annum is regarded as a corporate entity.

The unavailability of finance is regarded as a key constraint to the development of the SME sector world-wide. In Namibia the problem is more pronounced. Formal financial institutions in Namibia, especially commercial banks, are reluctant to lend to the SME sector. Reluctance by these institutions can be attributed to the lack of collateral and the perception that small businesses are high risk and also to the fact that the costs of administering small loans are relatively high (Erastus-Sacharia et al., 1999). However, it should be noted that not all business finance is externally or commercially supplied through the market. In specific terms, much finance is internally generated by business out of their own earnings and or supplied informally as trade credit.

The constraints of external finance availability for small and medium enterprises (SMEs) is a topic of significant research interest to academics and an issue of great importance to policy makers around the globe. The conceptual framework to which most of the current research literature adheres has proven to be quite helpful to advancing the understanding of the markets for providing funds to SMEs in both developed and developing countries (Onny, 2012).

1.2 Problem statement

SMEs have limited access to finance, which hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, unsecure and have little scope for risk sharing because of their regional or sectorial focus (Kauffmann, 2005). Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Namibia can rarely meet the conditions set by financial institutions, which view SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

The development of SMEs is generally agreed to be a key ingredient in poverty reduction. However these firms suffer from a range of problems in their establishment and development (Satta, 2006). Among problems affecting their growth, difficulties on accessing finance is considered primary. Commercial banks claims that lending to SMEs is too risky because they have no reliable financial statements and traditional collateral and costly to serve because of the small value per transaction (Ferrari & Jaffrin, 2006). SMEs face more problems in raising finance, as the providers of finance may not find the return on investment profitable as compared to large enterprises, and also investor is more skeptical about repayment (Dlamini, 2008). Since most SMEs are without collateral, and because the small loans may have the same administrative cost associated with it as larger loans, the risk taken for a potentially limited return on investment frequently is not sufficient incentive to entice offshore investment. The result is that large numbers of entrepreneurs in developing countries have no access to finance (Geroy, Hyden & Jackovich, 1997).

Despite government initiated efforts, the small medium enterprise sector remains underdeveloped and underserved. The availability of finance is regarded as a key constraint to

the development of the SME sector world-wide. Namibia is not an isolated case. A number of surveys carried by various institutions indicate that the availability of finance is a major problem in the development of the SME sector. These include the First National Development Corporation survey of small informal businesses in Windhoek, the Export and Industrial Development Department (EIDD) survey of the Commonwealth Secretariat on informal businesses outside Windhoek, and the EIDD survey of small manufacturing businesses (Commonwealth Secretariat, 1994). In all these surveys, finance was cited as a major problem facing the development of SMEs. Some studies on the SMEs sector argue that credit is expensive and scarce in Namibia. However, according to past studies (Hansohm, Matsaert & Bebi, 1996) carried out by NEPRU, that the problem is credit availability rather than high interest rates. Apart from availability, the other problem is the lack of viable proposals forthcoming from the entrepreneurs.

As mentioned, lack of access to finance is a major factor hindering the development and growth of SMEs in Namibia, particularly among start-up small enterprises and those owned by formerly disadvantaged groups. Even though the Government has embarked on an elaborate programme to resolve the challenges, very little is known about the sources of finance for small businesses in Namibia. Investigating the reasons for the scarcity of finance for SMEs is one way of assessing the success or otherwise of government policies on small business development in Namibia.

1.3 Research questions

1. Are SMEs still facing financial assistance challenges, despite considerable efforts by government and other stakeholders to help SMEs develop?
2. How can the financial gap that exists between finance providers and SMEs be narrowed?

1.4 Research objectives

In the light of recognizing the importance of SMEs in their attempt to reduce poverty and create job opportunities, the objectives of this study are to:

- Critically evaluate the status of SMEs in Namibia regarding access to formal credit facilities.
- Document the difficulties that SMEs have in getting finances and identify the reasons thereof.
- Suggest measures that can ensure easy availability of financial products for SMEs to increase their competitiveness.

1.5 Significance of the study

Having recognized the importance of SMEs in the creation of employment, eradication of poverty and overall contribution towards the growth of any economy around the globe, it is very unfortunate that this sector is under developed in Namibia. One of the reasons contributing to this sector being under-developed can be attributed to the fact that fund providers are reluctant to provide financial assistance to SME owners.

The primary purpose of this study is to critically assess the factors that are mainly hindering the development of the SME sector and hence to suggest to regulators and policy makers ways in which this sector can be developed in order to align it with the objectives of Vision 2030.

The findings and suggestions of this study will contribute significantly towards the development of SMEs in Namibia by suggesting ways in which they can easily access finance and any other

ways in which this sector can be developed which will eventually contribute towards more jobs being created, poverty eradication and economic sustainability.

1.6 Limitations of the Study

Though it is a researcher's responsibility to take necessary steps to conduct research effectively and efficiently, the present study may suffer from the following limitations namely:

- Shortage of time
- Costs
- Non responses from respondents

A comparatively bigger sample covering larger geographical areas would have been ideal and appropriate, but cannot be permitted due to financial, time and other constraints. As a result, the study did not cover the whole Namibia, but the results can be applied to the other regions of Namibia

1.7 Delimitations of the study

The study focused on the financing constraints faced by SMEs in Namibia particularly, the four main industrial zones in (namely Central Business District, Southern Industry, Northern Industry and Prosperita Industrial zone) Windhoek, Khomas region, Namibia. Central Business District is one of the areas with a higher concentration of SME in the Windhoek district in Namibia. This research was restricted to selected SMEs in the CBD in Windhoek, although the topic broadly focused on financial constraints that affect SMEs in Namibia.

CHAPTER 2

Literature Review

2.1 Introduction

The literature review describes aspects connected to the study of the challenges faced by SMEs in obtaining credit in Namibia. It therefore follows a particular layout. First, a small profile on the SMEs sector in Namibia is given. This paves the way for the discussion of their contribution to the economic development and also looks at literature on the constraints SMEs faced in accessing credit. Attention will then be focused on the type of financing available to these SMEs without forgetting to also look at the sources on credit/finance for these SMEs. In the final sub-section, we will delve into how SME development can be promoted and the importance of financial institutions (banks) in helping the development of these SMEs.

2.2 Definition and profile of the SMEs sector in Namibia.

There is no unique definition of a small business or enterprise, since this definition take into account the legal, social and economic environments of different countries. The most common criteria used to arrive at such a definition would include the number of employees, the turnover and the capital employed. The following definition of a small business has accordingly been adopted to fit the Namibian context (Ministry of Trade and Industry [MTI], 1997).

Table 2.1 Definition of a small business in Namibia

Sector	Employment	Turnover (N$)	Capital employed (N$)
Manufacturing	Less than 10 persons	1 000 000	500 000
All other business	Less than 5 persons	250 000	100 000

Source: (Republic of Namibia: Policy and Programme on Small Business Development, 1997).

MTI (1997) argued that this definition is believed to cover the most disadvantaged small enterprise in the country. Small businesses fall under the wider category of SMEs, which are believed to provide employment and income for approximately one third of the Namibian workforce. This fact indicates the weight that the sector has objectively acquired in Namibian society and substantiates the rationale for programme aiming to promote the growth and development of small and micro enterprises.

In Namibia, as in any country, a small business may be informal unregistered enterprise or a formally licensed firm. Informal businesses are generally very small enterprises with a turnover of below N$ 20 000, while formal small enterprises are generally larger in terms of both staff size and turnover (MTI, 1997).

It has to be stressed that the participation of women in the small business sector is consistently higher in the informal sector vis-à-vis the formal sector. In fact, less than 1% of women in Namibia own a formal business; most of those in business are engaged in a low-profit informal business. Hence, it is widely recognized that women entrepreneurs are the most disadvantaged of all entrepreneur types in Namibia.

It is widely believed that of the many constraints to the stability and growth of small businesses in Namibia, a lack of finance is the most crucial. The lack of collateral, as well as difficulties in dealing with banking procedures and regulations are the main factors which deter the access of small entrepreneur to formal credit. Women are again particularly disadvantaged in this regard, as they rarely own property that can be used as collateral for loans. Relatives and friends are usually the only sources of finance for those who intend to start any kind of business (MTI, 1997).

After finance, other important constraints to the development of the small business sector in Namibia reportedly relate to marketing, purchasing, technology, training and a lack of business support. In addition, managerial skills and strategic planning abilities are generally very low among Namibia's small entrepreneurs (MTI, 1997).

Both local and international institutions in Namibia are still in a learning process with regard to the most effective ways of promoting the development of the small business sector. Periodic evaluations of the impact of ongoing programme are certainly necessary as a tool for ensuring that these programme meet existing needs and that they are driven by the needs of the sector they intend to support (MTI, 1997).

According to (MTI, 2014), a small business is defined as an enterprise that makes an annual turnover of up to N$ 1 million per annum and a medium enterprise is defined as an enterprises that makes above N$ 1 million and up to N$ 10 million per annum. Any enterprise that makes more than N$ 10 million per annum is regarded as a corporate entity.

2.3 Profile of the SME sector in Namibia

Dieci, Foresi, Hansohm, Ricover and Tonin (1998) state that the SME sector in Namibia was operating on informal basis before and at post-independence. The Sector however gains prominence and formal recognition only in 1997/98 when the Government of the Republic of Namibia launched its first Small Business policy. The White Paper on Small Business Development, five key constraints was identified to SME Growth and Development: Finance, Markets, Purchasing, Technology and Training. Access to finance is seen as the greatest constraint, in both formal and informal sectors (Dieci et al., 1998).

Amiss (2012) states that the identification of access to finance as major impediment for SME development the Namibian Government laid the foundation for SME development in conjunction with the Namibian commercial banks to provide finance to small entrepreneurs who due to lack of collateral could not obtain loans from commercial banks. This assistance was in the form of the establishment of the Small Business Credit Guarantee Trust (SBCGT) in June 1999, whereby the objective of the trust was to provide small business entrepreneurs with the necessary security in the form of a Guarantee to enable them to obtain loans at commercial banks. The SBCGT was based on collaboration between the Namibian and German governments.

Having realized the important role that the SME sector plays in overcoming socio-economic problems, the Government furthermore created a number of institutions to increase the access of financial services to SMEs. Many of the institutions created however collapsed as a result of operational inefficiencies. The only remaining institutions are the Development Bank of Namibia (DBN), Agricultural Bank of Namibia (Agri–Bank), and the National Housing Enterprise (NHE) (Amiss, 2012).

In addition to the abovementioned institutions, commercial banks like Bank Windhoek Limited and First National Bank of Namibia also entered the SME sector by opening their own SME branches tailor - made for the needs of SME.

Dieci et al. (1998) argued that the aim of the Namibian Government was to provide financial assistance to SMEs in short to medium term, with the hopes that commercial banks would in the longer term take over the role of finance provider for SMEs. This idea however failed to deliver

the anticipated outcomes due to the fact that commercial banks were either unable or unwilling to provide financial assistance to SMEs. This view was supported by Dahlberg (2011) who highlighted several barriers to debt financing for SME's from banks which hampers SMEs access to finance. In their report, Dalberg Global Development Advisors (DGDA,2011), state that banks are not adequately providing SMEs with capital in developing countries. They often earn high returns in their core markets, giving them little reason to take additional risk in the SME market, they incur higher administrative cost by lending to SMEs, have difficulty providing long-term capital, have limited information, skills and regulatory support to engage in SME lending and the characteristics of the banking system (formal lending criteria) generate unfavorable lending conditions to SMEs.

In the past, commercial banks were either reluctant or unwilling to provide access to finance to SMEs for various reasons. In support of this, Levitsky (1996) highlighted several elements pertaining to SMEs which make it difficult for commercial banks to finance SMEs. This includes among others:

- SME lending is perceived as risky.
- The mortality rate of SMEs are high.
- There is reluctance on the part of SMEs to borrow from formal banks due to administrative and costly formalities.
- Banks maintain an institutional bias towards lending to the large corporate sector due to close links.
- The administrative costs of SME lending are high.

- SMEs are either unable or unwilling to present the full accounting records demanded by banks.
- SMEs are usually unable to provide collateral security.

The banking sector in Namibia came under severe scrutiny in 2010 at the 12th Annual Symposium of the Bank of Namibia (BoN) where the main focus was on the Namibian SME sector. The symposium highlighted the Namibian Government's recognition of the importance of the SME sector in Namibia and Government's aim to have a flourishing SME by the year 2030 in line with the country's national vision. The need for the establishment for an appropriate financial model for SMEs was suggested, with commercial banks highlighted as stakeholder to ensure that this come to the fore (Amiss, 2012).

In order to fulfill Government's aim regarding the provision of access to finance to SMEs, several banks have initiated efforts to assists address the lack of access to finance, by establishing specialized branches dedicated to SME lending and have also initiated mentoring programs in order to assist SMEs (Bank of Namibia [BoN], (2011).

The current Namibian banking system comprises of the Bank of Namibia (regulator), Bank Windhoek Limited, E-Bank Limited, First National Bank Namibia Limited, Nedbank Namibia Limited, Standard Bank Namibia Limited, SME Bank Limited, Trustco Bank Namibia Limited, Banco Atlantico (branch of foreign banking institution), Bank BIC Namibia Limited, Letshego Bank Namibia Limited and the Development Bank of Namibia. (BoN, 2016).

2.4 Institutional Framework for SME financing in Namibia

Access to finance has been acknowledged by many as one of the major barriers to the development and growth of small businesses in the country. Arnold, Grossman, Mwatotele, Stork and Tobias (2005) asserted that SMEs are one of the backbones of the Namibian economy. They further estimated that SMEs contributed approximately 12 percent (12%) to GDP and employed about 20 percent (20%) of the workforce during 2004, growing at an average annual rate of 2 percent (2%).

According to Nakusera, Kadhikwa and Mushendami (2008) formal financial institutions in general have been reluctant to provide credit and finance facilities to SMEs until early 2000s, despite their significance role in the economy. This was due to, amongst other things, a lack of collateral and the high transaction costs involved in small transactions. In response to the predicament of the SMEs, the Government of Namibia set up a number of institutions. Due to operational inefficiencies which characterized most of the development finance institutions (DFIs), some of these entities collapsed or merged to form new companies. In addition, banking institutions started to realize the importance of SMEs in the domestic economy. As a result, Bank Windhoek and First National Bank established branches tailor-made to take charge of the needs of the SMEs. Similarly, venture capital or private equity firms were established which could enhance access to working capital for SMEs in Namibia, namely Stimulus and Oshipe Development Fund.

2.4.1 Development finance institutions

The Development Bank of Namibia (DBN) and the Small Business Credit Guarantee Trust (SBCGT) are the main development finance institutions providing access to financial services for SMEs. The objective of the DBN is to fill the existing gap in financing the major medium and

long-term development projects of both the private and public sectors. The DBN caters for the larger firms and larger projects, yet through their Special Development Fund (SDF) also focuses on SMEs, thereby supporting key sustainable projects and programmes of development importance (Nakusera et al., 2008).

Such support can take the form of credit lines managed by banking institutions in low-interest account which are extended at lower (subsidized) rates, direct lending and provision of working capital. The direct lending provides bridging finance in the form of working capital for SMEs which are awarded tenders or contracts by well-established institutions to supply goods and services. The direct lending has a minimum of N$ 250 000 and maximum of N$ 3 million and is repayable over a maximum period of 18 months. Clients are required to provide acceptable collateral. DBN lending also includes training, mentoring, monitoring and the evaluation of SMEs, and clients have to contribute two percent (2%) of the total training cost (Nakusera et al., 2008).

The DBN furthermore provides medium-term finance through banking institutions with the same minimum and maximum amounts as well as collateral which needs to be provided. The repayment however differs as the medium-term finance has a repayment period of a maximum of 5 years. Through its SME operations, the DBN has created 319 new jobs in 2006 and 290 in 2007. The SME loan portfolio in 2006 and 2007 was N$ 34.1 million and N$ 34 million respectively, and is reportedly healthy, paving the way for further expansion (Nakusera et al., 2008).

The SBCGT was established with the purpose of assisting small business entrepreneurs with the security required to access commercial bank loans. SBCGT provides guarantees to participating

lending banks of up to 80 percent (80%) of the loan, of which the maximum limit is N$ 250 000. In terms of the qualifying criteria the business must have fewer than 2 employees, less than 1 million in annual turnover, and less than N$ 500 000 in capital. The only exception to this is in the case of manufacturing business, where all the criteria are doubled. The Trust has until 2007, provided guarantees to about 762 businesses to a tune of N$ 69 million. The average loan guarantees range between N$ 1 500 to N$ 200 000 with a repayment period of 3 years. Interest rates are capped at prime plus 5, and the banks are expected to charge less if the risk profile of the borrower allows this (IMF and World Bank, 2006). Through these guarantees, the Trust has also positively impacted on 4 630 jobs. The problems, nevertheless, which the SBCGT has encountered, were the poor credit appraisals and monitoring of its supported loans on the part of the banking institutions (Nakusera et al., 2008).

2.4.2 Banking institutions

The current Namibian banking system comprises of the Bank of Namibia (regulator), Bank Windhoek Limited, EBank Limited, First National Bank Namibia Limited, Nedbank Namibia Limited, Standard Bank Namibia Limited, SME Bank Limited, Trustco Bank Namibia Limited, Banco Atlantico (branch of foreign banking institution), Bank BIC Namibia Limited, Letshego Bank Namibia Limited and the the Development Bank of Namibia. (BoN, 2016).

2.4.3 Private equity firms

Two private equity firms are operating in the country, namely Stimulus and Oshipe Development Fund. Stimulus' investments are focused in well-established and successful Namibian companies and typically in the form of expansion capital and funding of management buy-outs or empowerment buy-ins. The size of investments which Stimulus undertakes, ranges between N$ 5 million and N$ 30 million, although at times they are guided by the nature of the transactions as

they have also made investments within the N $ 1- 2 million ranges. Stimulus is represented on all of the Boards of their investee companies as well as the Board Sub-committees, if any. The types of projects Stimulus has invested in have ranged between aviation, office automation, hospitality, broadcasting and retail (Nakusera et al., 2008).

The Oshipe Development Fund promotes entrepreneurship and SME development through investment in commercially viable business ventures in Namibia. Since its inception in 2006, Oshipe has invested in about 7 SMEs with a combined value of about N$ 5 million, creating jobs for more than 70 Namibians. Most of the businesses which Oshipe has invested in so far are in the manufacturing industry; however its scope is not limited to the manufacturing sector only. The target investment range is between N$ 500 000 to N$ 1 million. The shareholding of Oshipe in a company ranges between 26 percent (26%) to 49 percent (49%), with a representative on the Board. Loans are repayable over 3-5 years. Owners should, however, contribute 25 percent (25%) to the business capital requirement. Upon self-sustainability and adequate skills transfer of the business, Oshipe ends its involvement in the company, offering its shares to the business owners at fair value (Nakusera et al., 2008).

2.4.4 Micro lenders

There are two types of specialized micro lending institutions in Namibia, namely, term lenders and cash lenders. The term lenders offer term loans of up to a maximum of 36 months, while cash lenders extend credit for a period of only 30 days, with some giving 60 days to creditworthy clients (Nakusera et al., 2008).

Micro lenders require no collateral from borrowers. They, however, use payroll deduction in the case of term lenders and the retention of Automatic teller Machine (ATM) cards and pins in the

case of cash lenders as security for the loans. The maximum loans which the term lenders are allowed to offer are N$ 20 000, whereas the cash lenders are allowed to provide clients with up to 50 percent (50%) of their take home salary after deductions. Term borrowers are allowed to apply financial charges up to a usury ceiling of twice the prevailing prime rate, reflecting risks involved in their lending. To remain financially sustainable, however, cash lenders charge between 25-30 percent per month (Nakusera et al., 2008).

2.5 Challenges faced by SMEs in accessing credit

Kongolo (2010) argues that SMEs have played a vital role in contributing to economic development of many countries around the world, however they faced many challenges which hampers their impact on the development of a country. These challenges inter alia include lack of management skills, finance, access to credit, access to markets, appropriate technology, low production capacity, lack of interest, long bureaucracy processes and support for role to be played by SME in economic development.

Based on the abovementioned view of Kongolo (2010), there are many challenges facing SMEs in countries around the world, with challenges differing from country to country. However for the purpose of the study, the focus is mainly on one of the main challenges facing SME's all over the world namely, finance and access to credit.

This view was supported by Levitsky (1996), who highlighted in particular lack of access to finance as one of the more pervasive problems faced by SMEs in both developed and developing countries. He argues that the lack of access to finance affects the firm's ability to grow, upgrade its technology, expand its markets, improve its management capabilities, raise productivity, or simply to survive.

The challenges facing SMEs access to financial services in Namibia include, but not limited to: high transaction/information costs, unmitigated risk, e.g., risk of default by borrowers; lack of appropriate collaterals; regulation, e.g., laws that does not allow financial institutions to offer certain products: oligopolistic bank market structure that prohibits innovation due to limited competitive pressure; and land tenure system that does not recognize assets such as houses in rural areas to be offered as collateral (BoN, 2011).

2.6 Factors affecting SMEs' access to finance

In a study conducted by the National Credit Regulator (NCR) in South Africa revealed that there are several internal and external factors which hamper SMEs access to finance. A comprehensive understanding of these factors is very important as it ultimately relates to the theoretical framework model which was used to underpin this study (Mahembe, 2011).

These factors include, but are not limited to:

2.6.1 Internal factors (SME – specific characteristics)

- **The size of the firm**

The study revealed that SMEs around the world are perceived to have less access to finance than larger firms. The SMEs that do apply for funding tend to seek finance for relatively small amounts. The negative side of this is that it is costly to assess and monitor these small loans for commercial banks that they charge high fees to provide funds to SME's.

This view was supported by Beck (2007) who claimed to have evidence indicating that small and medium enterprises (SMEs) are more constrained by financing and other institutional obstacles than larger enterprises, exacerbated by the weaknesses in the financial systems of many

developing countries. The author argues that obstacles such as collateral requirements, bank paperwork, interest rate payments, as well as lack of access to specific forms of financing such as export, leasing and long-term finance are significantly more constraining for small firms' growth than for large firms.

- **Demand for loans**

SMEs tend to not apply for financing from financial institutions mainly due to the high perception of possible rejection. Several reasons however have also been highlighted as to why never applied for a bank loans is because:

- Procedures for applying for a loan were unknown.
- lack of knowledge about the available funding options from banks
- interest rates too high and,
- SMEs don't need funding as they have their own capital to start and run their businesses. (Mahembe, 2011)

- **Loan application rejections**

With reference to loan applications, Mahembe (2011) suggested that of all SMEs that applies for an unsecured loan at bank, only 25% succeed and of those that are successful only 85% accept the loan and in the end only 18% finally get the loan, as the stringent terms and conditions make it impossible for the applicant to comply.

In addition to the above, Mahembe (2011) believes that other reasons for applications to be rejected include 1) lack of collateral, 2) lack of a financial deposit, 3) poor business plan or non-viable business ideas. Bad credit histories were also cited as a main reason for applications being rejected. SMEs with poor credit histories are listed by the Credit Bureau with the information accessible to all people linked to the bureau.

- **Experience and Ownership of Small business owner**

Banks are perceived to place more reliance on businesses with more experience owners who display effective managerial competencies and subsequently are more likely to obtain finance from a financial institution.

- **Availability of information**

SMEs in general are struggling to provide good quality information which leads to information asymmetry resulting in banks declining applications off hand. Kitindi, Magembe and Sethibe (2007) as referred to by Mahembe (2011) concluded that creditors, banks and other lenders use business information provided by firms to analyze their present performance and predict future performance.

- **Registration and legal formality**

The registration of firms appears to have a significant impact on its ability to access finance. Formal registration of firms enables business owners to separate business finances from personal finance and the study by National Credit Regulator in South Africa (Mahembe, 2011) revealed that SMEs that are formally registered have a higher success rate to obtain finance compared to those not formally registered.

- **The age of the SMEs**

Young SME's without a proper track record face more problems accessing credit as these firms are less transparent and as less information about their credit history is available about them to the banks. These firms are therefore regarded as more risky and are more likely refused credit (Mahembe, 2011).

2.6.2 External Factors

- **The phenomenon of "informality"**

The phenomenon of informality refers to SMEs operating outside the formal system mostly to benefit from not being regulated, having to pay tax etc. (Mahembe, 2011).

- **Inefficient legal systems**

Market imperfections such as those caused by inefficient legal systems can constrain the ability of firms to access external funds. The reason for this is the in cases of default by SMEs the providers of finance are not able to recover their funds in a timely manner, if at all, making them more reluctant to deal with those sectors where default rate is perceived as very high (Mahembe, 2011).

- **Sources of Finance available to SMEs**

The success of Small and Medium Enterprises depends largely on their ability to obtain finance which would enable them grow and compete to an extent where they are able to sustain themselves. They can obtain financing from two sources namely internal financing and external financing (Mahembe, 2011).

- **Internal financing**

According to Ahlberg and Anderson (2012), internal financing refers to internally generated capital within the firm, with profit achieved as the main source. Internal funds are normally generated funds such as capital from owners, family and friends, business associates and other personal contacts, due to the relatively low issuing- and information costs.

- **External Financing**

Ayyagari, Demirguc-Kunt and Maskimovic (2006) as referred to by Mahembe (2011) indicated that there are two primary sources of external finance for new SMEs, namely equity and debt. They argue that external equity in the form of venture capital or the stock exchange is usually not available for new SMEs, primarily due to relatively small amount of financing desired by a new

SME. Ahlberg and Anderson (2012) also supports this view by arguing that equity financing is limited for small firms compared to larger firms, when most firms is privately held and cannot issue shares on the public market and they also have difficulties meeting the criteria for venture capitalists as their projects are often small in scale. This resulted in SMEs having to turn to debt financing and in particular bank financing (Jauch, 2010).

Jauch (2010) believes that bank financing remains by and large the most important source of external finance to SMEs. He further stated that banks finance a significant proportion of companies' investment finance needs and are also the major provider of financing for working capital. The same author also believes that SMEs need a variety of additional financial services that only commercial banks are well positioned to provide. These services include cash management, insurance, transfers, and other transactional products.

2.7 The SME Financing Gap

With access to finance highlighted as one of the main contributors to SME success and growth, it is essential that we look at the condition normally referred to as the "Financing Gap" which is commonly highlighted as the reason for SME failure.

Park, Lim and Koo (2008) define a financing gap as the "difference between the demand for funds by SMEs and the supply of funds for SMEs." Some scholars also argue that the fundamental reasons behind SMEs' lack of funds can be found in their peculiar characteristics, such as information asymmetry and economic uncertainty. Others argue that SMEs suffer from financing gaps because of market imperfections on the Supply side; either with the channel of

financing being nonexistent, or there is a shortage of funds in that segment of the market (Park et al., 2008).

From an African perspective, Tadesse (2009) believes that SMEs financing gaps can be explained by three factors, namely:

- Many SMEs lack the requisite collateral and other risk protection in order to effectively access available loans at competitive prices,
- The lack of management and absorptive capacities on the part of African SMEs to profitably utilize available capital.
- There are extraneous factors that tend to discriminate against SMEs with certain attributes, the main factors being the gender of owners (women-owned entrepreneurs are typically disadvantaged), the age of the firms (newer SMEs with no track record receive little or no financing), the location of the firms (rural enterprises for example, have restricted access to financing), and lack of political (patronage) connections. (Tadesse, 2009).

The fundamental problem however in dealing with an SME Financing Gap is the lack of information that exists to determine whether a Financing Gap exists and also how big this Financing Gap is. The existence of a finance gap is merely based on formal/informal complaints especially on the demand side where SMEs who might be unsuccessful in obtaining finance, “cries foul” that Commercial Banks are either unable or unwilling to provide finance.

In a study conducted on SME access to finance and whether there still exists a finance gap, significant evidence that both the demand and supply side of SME finance contributed to the

existence of an SME finance gap and based on the information gathered suggested some possible solutions to close the financing gap (North, Baldock, Deakins & Whittam, 2008).

2.7.1 Demand Side of the Financing gap

The demand side of the financing gap tends to focus primarily on the SMEs difficulty in accessing finance they require for their business and also how they perceive banks dealing with their requests. In comparison the supply side tend to focus on issues related to the lending practices of financial institutions like commercial banks attending to applications for finance from SMEs through their applicable selection criteria. We will therefore look at different studies conducted by different scholars in all parts of the globe that either makes a case for SMEs or for banks or make suggestions on both sides (North et al., 2008).

SMEs are perceived to lack the understanding of the potential benefits to their business of raising finance or their likely chance of success in gaining finance, which resulted in them not to apply for finance. Further evidence also suggests that a significant number of SMEs are discouraged from applying for finance due to the fear of being rejected. This view was supported by a study conducted by CPA (2006) in Australia; several reasons were highlighted as to why SMEs do not apply for bank funding. These include:

- The firm had sufficient funds under its existing arrangement.
- The firm did not need additional funds
- Procedures to obtain funding from a financial institution are too complicated.
- Interest rates were too high
- It was unlikely the institution would provide the full amount

- A previous loan was rejected

North et al. (2008) suggests that there is enough evidence that indicates that dissatisfaction on availability of loan finance and overdraft finance lies primarily with the youngest and smallest firms and also that young businesses (1 – 3 years) are less likely to use bank overdrafts and retained profits and are more likely to use own savings, family, personal credit card and second mortgage. They further concluded that compared to men, women entrepreneurs are less inclined to use their own house as collateral (Carter, Lam, Shaw & Wilson, 2007). In addition to the above, literature also suggests some SMEs in rural areas tend to experience more failures in bank financing.

2.7.2 Supply Side of the financing gap.

Commercial Bank Financing of SMEs are in many countries perceived as the main source of financing, especially in developing countries where Government Intervention is limited to the extend where they only provide the necessary platform for the SME sector to operate in and to flourish. Information on the lending practices of commercial banks is very limited mainly because of access problems related to information and breach of confidentiality.

Tadesse (2009) also argues that the financial sector of most African economies is characterized by very low levels of financial intermediation and weak capital markets which cannot effectively supply the financial resources and other products needed by SMEs in particular, which generally lacks the scale, collateral and relationships for formal financing. The author believes that lending to SMEs is hampered by the lack of knowledge of the sector, high transaction costs, limited staff

capacity in financial institutions, poor credit culture amongst some target SMEs, as well as underdeveloped tools to identify and mitigate risks associated with lending to SMEs.

Additional supply side studies by (Lean and Tucker, 2000) and (North et al., 2008) supported the view that many commercial banks have little or no knowledge about the nature of a client's business on the one hand and many business owners lack the understanding about the lending criteria and procedures of banks on the other. They further suggested that trends in the banking sector such as market concentration and centralization have compounded the problem of information asymmetry.

2.7.3 Possible ways of reducing debt financing gaps

North et al. (2008) suggests several measures that can be used by banks to try and reduce debt finance gaps. They suggest that:

- Banks have to find ways whereby decision-making processes regarding finance of SMEs are speed up.
- Policy makers should consider implementing additional training and focused support programs with SME owners on the ways to approach banks, informational requirements and also work closely with banks to provide additional advice and support to SMEs
- Banks need to develop close relationships with SME owner / organizations.

2.8 Recent trends on SME development and financing in Namibia.

As outlined in BoN (2012), the importance of the SME sector in Namibia was again highlighted with the launch of the new Namibia Financial Sector Strategy 2011-2021, which is a 10 year strategy by the Namibian Government to enable the country's financial sector to transform and

contribute more meaningfully to the socio-economic objectives amongst others, poverty reduction and wealth creation as contained in various development plans (NDPs and Vision 2030). According to the Monetary Policies Statement by BoN (2012), the following strategies are necessary for SMEs to have greater access to financial services:

- Consideration to be given as to whether there is a need to revise the 1997 SME Development Policy; so as to strengthen implementation and enforcement and to ensure improvement in SMEs access to finance.
- A study will be undertaken to determine the viability of a Credit Guarantee Scheme in Namibia.
- There shall be a legislation created to enable the establishment of a credit bureau.
- A specialized SMEs bank shall be created to cater for the financial needs of viable SME projects/businesses
- Investigation to be launched as to how best the existing various initiatives (such as existence of fund programs, which are housed under several ministries aimed at assisting small entrepreneurs (micro, small and medium enterprises (MSMEs), can be coordinated so as to yield optimum results.
- All Credit providing entities such as DBN and commercial banks, as well as other financial institutions shall be encouraged to provide SME advisory services (BoN, 2012).

Heita (2012), states that the strategy aims to "facilitate greater excess to financial services for many Namibians, who still find it difficult or are completely unable to access financial services." The strategy also aims to address specific weaknesses within the financial system, that when implemented, will enable the country's financial sector to transform and contribute meaningfully

to the development objectives of the government. The weaknesses include a shallow financial market, limited competition, limited financial safety nets, low financial literacy and lack of consumer protection, the absence of activism, limited skills and low participation by Namibians and the dominance of foreign ownership.

SMEs access to finance was one of the main areas targeted to be addressed, with problems of SMEs identified were two-fold: "They are considered too small for lending by the commercial banks in the sense of their ability to repay back the money borrowed and two large for lending by micro – lenders, in the sense that the amount required often exceeds the available credit limits." The expected outcome for SMEs based on the strategies to be implemented will be: "Namibia shall have effective institutions in place that will provide sufficient support to SMEs and offer adequate products, services and knowledge to increase access to finance."(Heita, 2012)

2.9 Financial services offered

It is argued that an increase in financial services offered by formal financial institutions will contribute towards alleviating the plight of savers and borrowers in marginalized areas. Many surveys that focus on small and medium enterprises continue to report that access to financial services is a constraining factor inhibiting their development or growth (International Congress on Environmental Geotechnics [ICEG], 1999). This has led to efforts to address the gap that exists between the supply and demand of financing small and medium enterprises in most developing countries. This perceived gap in financing this sector can be due to issues arising on the supply or demand side.

On the demand side, some argue that SMEs are not financially sophisticated enough to participate in the formal financial sector or cannot afford market interest rates and therefore require government or donor funded credit subsidies. On the supply side, some argue that profitable provision is not possible due to high transaction costs and institutional risks arising from asymmetric information between borrowers and lenders; the inability of the SMEs clientele to generate sufficient volume of business to attract formal financial institutions; sparsely distributed populations or inadequate enabling infrastructure in rural areas. Whether valid or invalid, these are some of the reasons why a gap continues to exist in the provision of finance providers and SMEs (Thomas, 2005).

In Africa, SMEs are weak because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes (Kauffmann, 2005). According to Katswara (2005), insufficient administrative and managerial capacity of SMEs, and the investment cost of projects, constituted some of the major reasons why financial institutions are reluctant to invest in SMEs.

Flexibility as well as low start-up and operating costs have enabled SMEs to spring up, to reposition and adjust themselves quickly in response to market and economic changes. Moreover, they easily expand or contract in a short time. SMEs have not only survived the impact of big enterprises and the law of economies of scale but have carved out niches for themselves, which enable them to coexist with big enterprises (Harvie and Lee, 2005). However, the most common problems for SMEs are the lack of access to market information and technology, the low quality of human resources and the lack of access to capital (Paliwal, 2008).

Access to and cost of finance is often ranked as one of most constraining feature of the business environment by SMEs. According to a study by Ayyagari, Demirguc-Kunt & Maksimovic, (2006) the cost of finance is rated by over 35% of SMEs as major growth constraints in a sample of 71, mostly developing countries. In their study, Beck, Demirguc-Kunt and Levine (2005) found that empirical evidence exists that financing constraints and access to external finance are inversely correlated with firm size and that fixed transaction costs and information asymmetries and the resulting agency problems form basis for financial market frictions.

Funding Small and Medium Enterprises is a major function of the general business finance market in which capital for firms of types is supplied and priced. Capital is supplied through the business finance market in the forms of e.g., bank loans and overdrafts, leasing and hire-purchase arrangements, equity and corporate bond issues, venture capital or private equity and asset-based finance such as factoring and invoice discounting (Namibia Economic Policy Research Unit [NEPRU], 2005)

OECD (2006b) recognizes that these actors in the economy may be underserved, especially in terms of finance. This has led to significant debate on the best methods to serve this sector. Financing is necessary to help SMEs set up and expand their operations, develop new products, and invest in new staff and production facilities, but many SMEs find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit (OECD, 2006b)

There have been numerous schemes and programmes in markedly different economic environments. However, there are a number of distinctive recurring approaches to SME finance (Berger & Udell, 2005). Collateral based lending offered by traditional banks and finance

companies is usually made up of a combination of asset-based finance, contribution based finance, and factoring based finance, using reliable debtors or contracts.

Information based lending usually incorporates financial statements lending, credit scoring and relationship lending. Viability based lending is especially associated with venture capital.

Despite efforts by financial institutions and public sector bodies to close funding gap, SMEs continue to experience difficulty in obtaining risk capital. The difficulties that SMEs encounter when trying to access financing can be due to an incomplete range of financial products and services, regulatory rigidness or gaps in the legal framework, lack of information on both the banks and SMEs side (OEDC, 2006c).

A substantial portion of the SMEs sector may not have the security required for conventional collateral based bank lending, nor high enough returns to attract formal venture capitalists and other risk investors. In addition, markets may be characterized by deficient information, limiting the effectiveness of financial statement-based lending and credit scoring. This has led to claims of an SME finance gap particularly in emerging economies (Newberry, 2006).

According to Kamanyi (2003) there are two distinctive approaches to overcome the so-called SME finance gap. The first is to broaden the collateral based approach by encouraging bank lenders to finance SMEs with insufficient collateral. This might be done through an external party providing the collateral or guarantees required. The second is to broaden the viability based approach, since the viability based approach is concerned with the business itself, the aim has been to provide better general business development assistance to reduce risk and increase returns.

According to Hoffman, Kurt, Jarvis & Westley (2005), the common aim or feature of the viability based approach is the provision of appropriate finance that is tailored to the cash flows of the SME. Although the returns regenerated by this approach in less developed countries may never be attractive to Western venture capitalists, they can be significantly better than conventional collateral based lending, whilst at the same time being less risky than the typical capitalist project. Some investors have promoted this approach as a means of achieving wider social benefits, while others have been interested in developing it largely in order to generate better financial-economic returns for shareholders, other investors, employees, and clients.

Recent and ongoing developments in the banking sector (The European Association of Craft, Small and Medium-sized Enterprises [UEAPME], 2004) add to the concerns of SMEs and will further endanger their access to finance. The main changes in the banking sector which influence SME finance gap are:

- Globalization and internationalization have increased the competition and the profit orientation in the sector;
- Worsening of the economic situations in some institutes strengthen the focus on profitability further;
- Mergers and restructuring created larger structures and many local branches, which had direct and personalized contacts with small enterprises, were closed;
- Up-coming implementation of new capital adequacy rules will change SME business of the credit sector and will increase its administrative costs

Many theories have raised the issue on the financing gap for small and medium enterprises (SMEs), meaning that there are a good number of SMEs when given access to credit could use it profitably to grow their businesses but cannot obtain credit from the formal financial system (the

banks), because of the inability of the SMEs to meet the stringent requirement of these financial institutions. The issue of lack of credit to SMEs can be looked at from two fronts: the financial institutions (banks) and the SMEs operators.

2.10 The Financial Institutions (Banks)

Most literature states that the differences in the financial institution structure and lending infrastructure affect the availability of funds to SMEs (Berger & Udell, 2005). These differences may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions may employ the different lending technologies in which they have comparative advantage to provide funds to different businesses. Transaction lending technologies are primarily based on “hard” quantitative data such as financial ratios calculated from certified audited financial statements among others. Relationship lending on the other hand is based on “soft” qualitative information gathered through contact over time with SMEs. This soft information may include the character and reliability of the SMEs owner based on direct contact over time by the financial institution.

Also by lending infrastructure, they were talking about the rules and conditions set up mostly by governments that affect financial institutions and their abilities to lend to different potential borrowers.

2.11 Conclusion

This chapter focused on the discussion of the challenges faced by SMEs, with access to finance identified as the main challenge in many developed and developing countries. The chapter looked that the sources of finance available to SMEs, with emphasis on debt financing and in particular bank financing. The chapter also presented the underlying factors affecting SMEs

access to finance. Furthermore, the chapter looked at the banking sector in Namibia. The chapter also provides an insight at current trends in SME financing. The chapter furthermore covers the aspects pertaining to the SME financing gap from a demand and supply perspective and suggests possible way of reducing the financing gap.

In the following chapter, the research focuses at the research design, as well as the methodology used to conduct the study that will provide possible answer to the research questions. The theoretical framework will also be addressed in more detail to highlight the significance of choosing that particular model to underpin the study.

CHAPTER 3

Research Methodology

3.1 Introduction

This study is focused on analyzing the factors that hinders SMEs from acquiring finances from financial institutions and also to analyze the possible financing gap that exists in the four main industrial zones of Windhoek namely, Northern Industrial Zone, Southern Industrial Zone, Prosperita Industrial Zone and Central Business District, Khomas Region, Namibia. This chapter outlines the research design, population of the study, sampling methods and frame, methods of data collection, data analysis techniques, and ethical considerations.

3.2 Research Design

Saunders, Lewis and Thornhill (2012, p.159) define research design as the general plan of how the researcher answers the research questions. It contains clear objectives derived from research questions, specify the sources from which data is collected, how you propose to collect and analyze data; and, discuss critical issues and constraints that the researcher inevitably encounter.

This study is a quantitative research which analyses the factors that hinders SMEs from acquiring finances from financial institutions and also to analyze the possible financing gap that exists between the SME owners and the suppliers of funds situated in Windhoek's CBD in Khomas Region, Namibia. The positivist research strategy was used and the research is descriptive in nature. Walliman (2009, p.247) states that the quantitative approach begins with concepts and theories and tests them in a rigorous, structured fashion with the result that they are either supported, amended or rejected.

By using descriptive research strategy, the researcher described and interpreted the characteristics of the existing phenomenon on the financial constraints faced by SMEs in Khomas region, Namibia. Saunders, Lewis and Thornhill (2012, p.97) indicate that the object of descriptive research is to portray an accurate profile of persons, events or situations. Thus, the methodology help to gain a greater understanding of the relationships between the factors that influence the financing challenges faced by SMEs.

3.3 Population of the study

The research population is the entire group of persons or set of objects and events of interest to the researcher. Blanche, Blanche, Durrheim and Painte (2006) conclude that the population selected should be those to whom the research question applies. The population of this study constitutes all SME enterprises situated in Windhoek's four main industrial zones, namely CBD industrial zone, Southern industrial zone, Northern industrial zone and Prosperita industrial zone. There is an estimated 2157 SMEs registered across Windhoek (MTI, 2013).

SMEs are scattered across the length and breadth of the country with most of them located in Windhoek, Walvis Bay, Oshakati and Ondangwa (MTI, 2013) these cities and towns were identified to have high concentration of SMEs. In adopting a case study method in a research, the selection of the research site is most important (Yong, 1994). With this in mind, Windhoek city was selected for the following reasons:

1. Firstly, most of the SMEs are located in this city. With the objective of the study in mind, selecting this city afforded the researcher the opportunity to contact SMEs operators who have made numerous contacts with different banks for financial support and therefore have a lot of experience to share.

2. Secondly, it was easier for the researcher to approach these SMEs operators since the researcher is also located in the same city. Choosing any other city/ or town would mean travelling a long distance just to make contact with the SMEs operators, which would have been very difficult considering the time frame of this thesis.

3.4 The Sample Size

The sample size is generally determined by the population of the research subjects to be surveyed. This study used simple random sampling technique. Kothari (2011) argues that simple random sampling ensures the law of Statistical Regularity which states that if on average the sample chosen is a random one, the sample will have the same composition and characteristics as the universe. This is the reason why the researcher opted for random sampling design over the other sampling techniques.

The procedure used in selecting one industrial area from the industrial zones under simple random sampling design was that, all possible sample names were put on a paper-slip and put in a box. The samples were mixed thoroughly and drawn from the box (without looking) the required number of slips for the sample. All the industrial area zones had equal chance of being selected. The CBD was picked from the box by the researcher without looking. The selected sample was a true representative of the industrial zones.

The sample frame had 115 respondents representing all the identified four industrial zones in Khomas region. The respondents represented the SMEs which participated in this research. According to Parkin (2003) and De Paulo (2000), as a rough rule of thumb, your sample should be about 10% of your universe but not smaller than 30 and not greater than 350. Furthermore, Saunders et al., (2009) state that statisticians regards a sample size of 30 or more to be

considered large enough to result in a sampling distribution at the average that is close to the normal distribution.

It was important to take a sample from the targeted population given that the SMEs operate in one geographic area, Khomas Region and share almost similar characteristics. The results obtained from the sample frame can be extrapolated to the whole population. The sample size was calculated as follows:

The sampling procedure used was a simple random sampling, in which a sample of 115 SMEs was drawn from a population total of $N = 2157$. The sample size of n =115 was determined using the following steps. First, an initial infinite sample was derived as:

$$m = \frac{Z_{\alpha}^{2}.p(1-p)}{E^{2}}=100$$

where Z_{α}^{2} is the precision, and we assumed a 95% confidence, leading to$Z_{\alpha}^{2} = 1.96$;

p is the proportion in the population still facing financial assistance challenges? We assumed that about half of the sampled SMEs will report having challenges (p=0.5).

E is the margin of error between the sampled proportion and the population proportion. It is assumed that a margin of error of $E = 10\%$.

Second, the sample was adjusted for 20% non-response, giving $= 100 * 1.2 = 120$.

Third, we considered the total population size to give : $n = \frac{m}{1+\frac{m}{N}}$ = 115.

3.5 The Research Instrument

Self-administered structured questionnaires were used to collect data. The questionnaires were administered to the respondents to gather as much information as possible. Maree (2007, p.157)

emphasises that questionnaires allow many respondents to complete the questionnaire in a short space of time. This has an advantage since the research used a relatively large sample size. The research instrument was designed using the Likert Scale Model and Check List Format. These are universally accepted scientific models used to construct questions for eliciting data.

3.6 Questionnaire Construction

The questionnaire used for this research consisted of structured questions. The questionnaire consisted of 29 questions divided into three sections as follows:

- Section A: Biographical and personal data for SME owner/ manager;
- Section B: Business Characteristics; and
- Section C: Factors deterring the acquisition of finance for SMEs.

The type of questions allowed easy computer analysis of data using IBM SPSS 20 software packages. Since the research is based on the opinions of the SME business owner/ manager, the researcher found it necessary to use the Likert-type scale in the questionnaire. Leedy and Ormrund (2010, p.189) also supported the rating scale as more useful tool when behaviour, attitude or other phenomenon needs to be evaluated on a continuum basis.

3.7 Data Collection

The data for this study were gathered through the use of primary and secondary sources. The primary data source for this study involved the use of questionnaires. The questionnaires were distributed to 115 SMEs owners situated in Windhoek's CBD industrial zone in order to collect first-hand information for processing towards answering the research questions.The researcher collected the questionnaires from the respondents at least one day after being handed over. A checklist was used to make sure that all questionnaires handed over were collected. The primary

data formed the crux of this study because it afforded the opportunity in obtaining first hand and relevant responses from the SMEs operators and /or owners.

The secondary data were obtained from reviewing journals and literature relevant to the subject matter of this research. Newspaper sources and official policy documents of the Government of Namibia with relevance to the topic were also consulted

3.8 Data Analysis

The collected quantitative data was organized and summarized by using descriptive statistical methods such as averages, charts, tables and percentages (Waigama, 2008). The collected data was coded and inputted into IBM SPSS 20 software package. The inputted data was analyzed through descriptive statistics to create frequencies. One Way ANOVA was computed at significance level of 0.05. The variables identified by the study to be critical, through SPSS analysis were: purpose of loan, bank information, lending rate, maturity period of the loan, percentage interest charged and rejected credit application.

All independent variables that were identified at below 0.05 were interpreted against the dependent variable. The independent variables explained the relationship to the dependent variable and how they influence it to change. The analysis provided an explanation as to how the independent variables influenced the financing of SMEs in the Central Business District in Khomas Region in Namibia. To provide a clear explanation of the discussion, tables and figures were also used to facilitate interpretation of findings.

3.9 Reliability and Validity

Two experts were identified and asked to rate the reliability of the questionnaire. The degree of agreement of the two experts determined the reliability of the questionnaire. Welman et al.

(2011, p.142) stated that if the research finding can be repeated, it is reliable. On the other hand, Maree (2009, p.215) described reliability as the extent to which a measuring instrument is repeatable and consistent. The inter-rater reliability was used to rate uniformity of the questionnaire.

Maree (2009, p.216) defines content validity as the extent to which the instrument covers the complete content of the particular construct that it is set out to measure. Face validity and content validity are the two forms of validity that were used to measure what was to be set out in the questionnaire. The questionnaire was empirically tested for validity and reliability purposes through IBM SPSS 20 software package. A Cronbach's Alpha test was performed in order to test the reliability and validity of the questionnaire. The results depicted on table 3.1 showed that the reliability test was at coefficient value of .74 which means that the research instrument was 74% reliable.

Table 3.1 Cronbach Alpha test results

Case Processing Summary			
		N	%
Cases	Valid	23	100.0
	Excluded[a]	0	.0
	Total	23	100.0
a. Listwise deletion based on all variables in the procedure.			

Reliability Statistics	
Cronbach's Alpha[a]	N of Items
.742	23

Source: Survey Data

3.10 Ethical Considerations

Welman, Kruger and Mitchell (2011, p.181) stated that ethical behavior is important in research, as in any other field of human activity. Welman et al. (2011, p. 181) further explained that principles underlying 'research ethics' are universal and concern issues such as honesty and respect for the rights of individuals. In respect of this study, the researcher observed the research ethics throughout the study. Leedy and Ormrod (2010, p.101) also stated that researchers should not expose research participants to unnecessary physical or psychological harm. Furthermore, Leedy and Ormrod (2010, p.102) argued that researchers must keep the nature and quality of participants' performance strictly confidential. In this context ethical issues of participants' rights and privacy were considered in this research. The researcher ensured that information gathered in the study remained confidential and identity anonymous. The researcher sought permission from the relevant respondents to conduct the study and obtained such approval before the study was conducted. The respondents were asked to fill in a consent form as an acknowledgement that they agree to participate in the study at their own will.

CHAPTER 4

Data presentation, analysis and discussion of findings

4.1 Introduction

This study focused on factors that influence the financing of SMEs in Namibia particularly, the Central Business District (CBD) in, Windhoek, Khomas Region, Namibia. The independent variables identified by the study to be critical, through SPSS analysis were:-

- Purpose of loan
- Bank information
- Maturity period of the loan
- Percentage interest charged
- Rejected credit application

This chapter focuses on the presentation, analysis and discussion of data collected on the above stated independent variables. In discussing the research findings, a comparison of the results obtained during the study to the literature reviewed in Chapter 2, was also undertaken with a view to identify similarities and departures from the knowledge gained from other authors.

The objectives of the study were to critically evaluate the status of SMEs in Namibia regarding access to formal credit facilities. The research further sought to document the difficulties that SMEs have in getting finances and identify the reasons thereof. The secondary objectives were to assess the financing gap that exists between fund providers and SMEs and how it can be narrowed. The final objective was to suggest a few measures that can ensure easy availability of

financial products for SMEs to increase their competitiveness. In view of the broad objective stated above, the study attempted to find answers to the following questions.

1. Are SMEs still facing financial assistance challenges, despite considerable efforts by government and other stakeholders to help SMEs develop?
2. How can the financing gap that exists between finance providers and SMEs be narrowed?

The aim of collecting primary data was to establish the respondents' views on factors that affects accessing of financing of SMEs in Namibia particularly, the Central Business District (CBD) in Windhoek, Khomas Region. Capturing of the data was done using the IBM SPSS 20 statistical computer package.

Generally, Questionnaires are one of the most popular methods of conducting research, but are also commonly criticized to yield a low response rate and being misinterpreted (Philips, 1941), a critic that the researcher also agrees with. A response rate of 20% achieved or 23 of the 115 questionnaires was received back from the respondents.

4.2 Data collection and analysis

The data for this study were gathered through the use of primary and secondary sources. The primary data source for this study involved the use of questionnaires. The questionnaires were distributed to 115 SMEs owners situated in Windhoek's CBD industrial zone in order to collect first-hand information for processing towards answering the research questions. The questionnaires were collected from the respondents at least one day after being handed over. A checklist was used to make sure that all questionnaires handed over were collected. The primary data formed the crux of this study because it afforded the opportunity in obtaining first hand and relevant responses from the SMEs operators and /or owners.

The secondary data were obtained from reviewing journals and literature relevant to the subject matter of this research. Newspaper sources and official policy documents of the Government of Namibia with relevance to the topic were also consulted.

The collected quantitative data was organized and summarized by using descriptive statistical methods such as averages, charts, tables and percentages (Waigama, 2008). The collected data was coded and inputted into IBM SPSS 20 software package. The inputted data was analyzed through descriptive statistics to create frequencies. Through compare means, One Way ANOVA was computed at significance level of .05. The independent variables identified by the study to be critical, through SPSS analysis were: purpose of loan, bank information, lending rate, maturity period of the loan, percentage interest charged and rejected credit application, whereas the dependent variable was identified to be the factors that deter the financing for SMEs.

All independent variables that were identified at below 0.05 were interpreted against the dependent variable. The independent variables explained the relationship to the dependent variable and how they influence it to change. The analysis provided an explanation as to how the independent variables influenced the financing of SMEs in the Central Business District in Khomas Region in Namibia. To provide a clear explanation of the discussion, tables and figures were also used to interpret frequencies.

4.3 Survey findings, data analysis and presentation

4.3.1 Profile of the SME respondents

Table 4.1 Nature of organization that participated in the survey.

Nature of organization	Frequency	Percent (%)	Cumulative percent
Private company	9	39.1	39.1
Close corporation	14	60.9	100.0
Total	23	100.0	

Source: Survey Data

Table 1 above reflects the organizations that participated in this survey and were categorized as private companies constitute 39% of the respondents. The remaining organizations were close corporations and they constituted 61% of the total respondents.

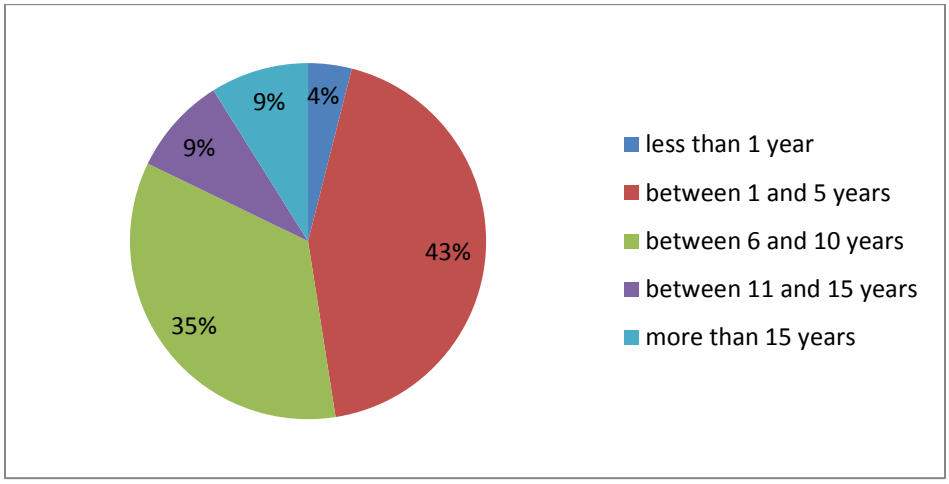
Table 4.2 Various sectors in which SME respondents are operating

Name of sector	**Frequency**	**Percent (%)**	**Cumulative percent**
Retail	8	34.8	34.8
Service	2	8.7	43.5
Manufacturing	7	30.4	73.9
Construction	4	17.4	91.3
Other	2	8.7	100.0
Total	23	100.0	

Source: Survey data

The results depicted in Table 2 above shows that 35% reflects the retail industry whilst 30% reflects the manufacturing industry. The results also show that the companies that participated in this survey come from the construction industry with 17%. Service industry is represented with 9% and the remaining 9% reflects other businesses that were not named. The results show that the study covered all the major industries/sectors in the Central Business District in Khomas Region.

Figure 4.1 Number of years in operation



Source: Survey data

Young SMEs without a proper track record face more problems accessing credit as these firms are less transparent and as less information about their credit history is available to the banks. These firms are therefore regarded as more risky and are more likely to fail. This finding conforms to that of Mahembe (2011).

Figure 4.1 above represents the period of operation for the 23 respondents. 43% of the respondents were in business for more than one year but less than five years, with 35% of the respondents being in business for more than five years, but less than 10 years, 9% of the respondents were in business for more than 10 years but less than 15 years, another 9% were in

business for more than 15 years respectively while 4% of the respondents had just started business for less than a year. This concludes that more than half of the respondents were in business for at least five years.

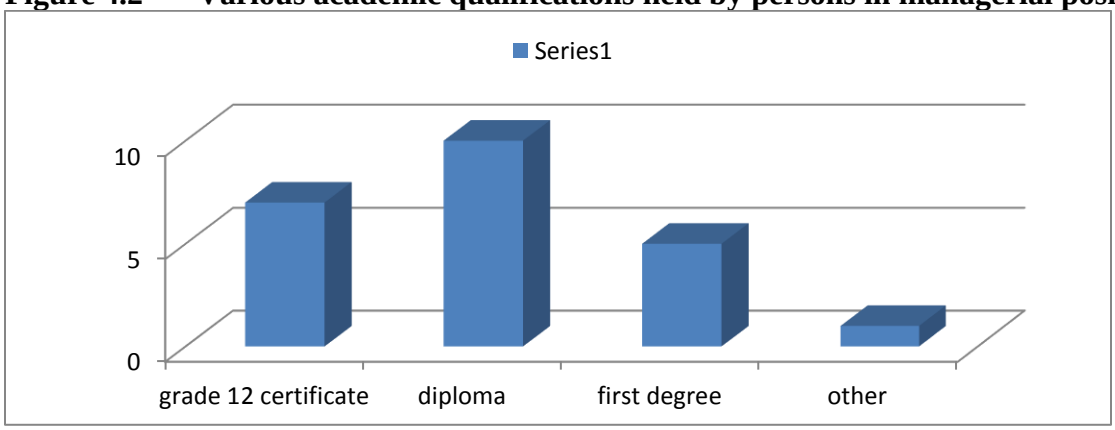
Table 4.3 Educational qualifications of persons in managerial positions

Professionals in managerial positions	Frequency	Percent	Cumulative percent
Yes	19	82.6	82.6
No	4	17.4	100.00
Total	23	100.0	

Source: Survey data

Table 3 shows that the majority (83%) of the SME entities that participated in the survey is managed by a person who holds an educational qualification and only 17% of the respondents occupying managerial positions are without educational qualifications.

Figure 4.2 Various academic qualifications held by persons in managerial position.

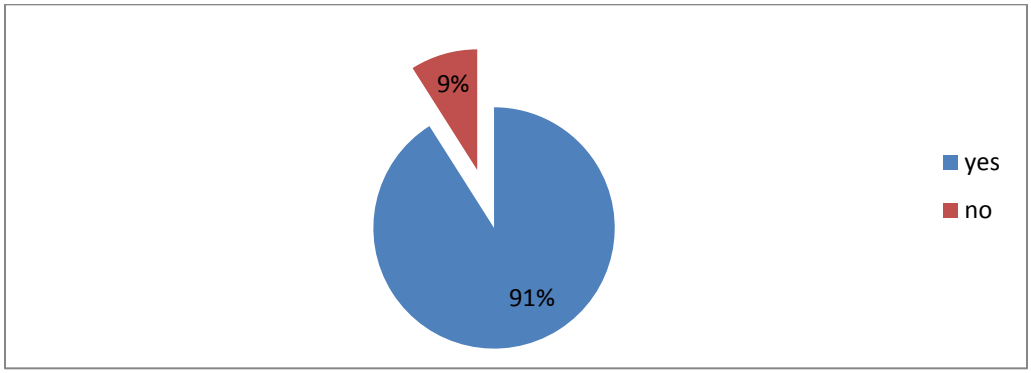


Source: Survey data

The responses from the survey indicated that 43, 5% of the SMEs are managed or owned by a person holding a diploma. According to literature, Mahembe (2010) in his study found that banks are perceived to place more reliance on businesses with more experienced owners who display

effective managerial competencies and subsequently are more likely to obtain finance from a financial institution. Further, 30.4% accounted for SMEs managed or owned by person holding s Grade 12 certificate, 21.7% are managed or owned by person holding a degree and the remainder 4.3% are by persons holding any other qualification. The responses to this study has indicated that at least 65.2% (diploma, 43.5 and first degree 21.7%) of the respondents hold a post-matric qualification, which implies vast business knowledge and skill to manage their respective entities effectively.

Figure 4.3 Respondent SMEs with an existing business plan.



Source: Survey data

The responses from the survey indicated that 91% of the respondents have an existing business plan as opposed to the 9% who did not have a business plan.

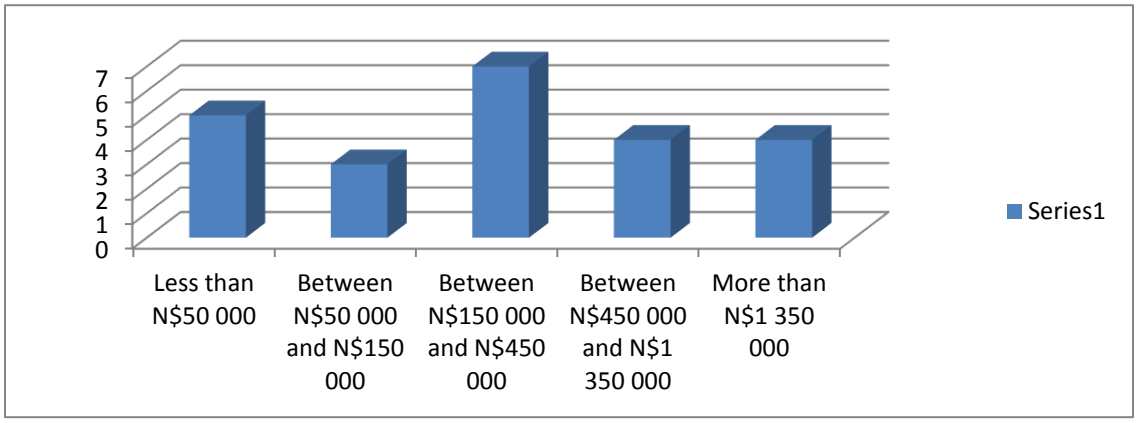
Literature reviewed show that other reasons for applications to be rejected include 1) lack of collateral, 2) lack of a financial deposit, 3) poor business plan or non- viable business ideas (Mahembe2011). Business plan is very important for any business entity as it is considered one of the requirements by financing institution when making decisions to grant loans to SMEs.

Table 4.4 Average monthly turnover of the respondent SMEs.

Average monthly turnover	Frequency	Percent	Cumulative percent
Less than N$50 000	5	21.7	21.7
Between N$50 000 and N$150 000	3	13.0	34.7
Between N$150 000 and N$450 000	7	30.4	65.1
Between N$450 000 and N$1 350 000	4	17.4	82.6
More than N$1 350 000	4	17.4	100.0
Total	23	100.0	

Source: Survey data

Figure 4.4 Average monthly turnover of the respondent SMEs.



Source: Survey data

From the table and figure above, which represents the average monthly turnover for the 23 respondents, 5 of them recorded an average turnover of less than N$ 50 000. This gave us in terms of percentage 22% of the total responses. 13% of the respondents recorded an average monthly turnover between of N$ 50 000 and N$ 150 000 with 31% recording an average turnover of N$ 150 000 and N$ 450 000 and 17% was recorded for both respondents who made

an average monthly turnover of between N$ 450 000 and N$ 1 350 000 and those that recorded more than N$ 1 350 000 per month respectively.

There is no unique definition of a small business or enterprise, since this definition take into account the legal, social and economic environments of different countries. The most common criteria used to arrive at such a definition would include the number of employees, the turnover and the capital employed. According to (MTI, 2014), a small business is defined as an enterprise that makes an annual turnover of up to N$ 1 million per annum and a medium enterprise is defined as an enterprises that makes above N$ 1 million and up to N$ 10 million per annum. Any enterprise that makes more than N$ 10 million per annum is regarded as a corporate entity.

From the above, there is no doubt that the respondents were all SMEs as supported by the definition presented above.

4.4 Factors that constraints the financing of SMEs and the financing gap

Literature review shows that the unavailability of finance is regarded as a key constraint to the development of the SME sector world-wide. In Namibia the problem is more pronounced. Formal financial institutions in Namibia, especially commercial banks, are reluctant to lend to the SME sector. Reluctance by these institutions can be attributed to the lack of collateral and the perception that small businesses are high risk and also to the fact that the costs of administering small loans are relatively high (Erastus-Sacharia et al, 1999). However it should be noted that not all business finance is externally or commercially supplied through the market. Much finance is internally generated by business out of their own earnings and or supplied informally as trade credit.

Through compare means, One Way ANOVA was computed at significance level of .05. The independent variables identified by the study, as presented in Table 5 below, to be critical, through SPSS analysis were: purpose of loan, bank information, lending rate, maturity period of the loan, percentage interest charged and rejected credit application, whereas the dependent variable was identified to be the factors that constraints financing for SMEs.

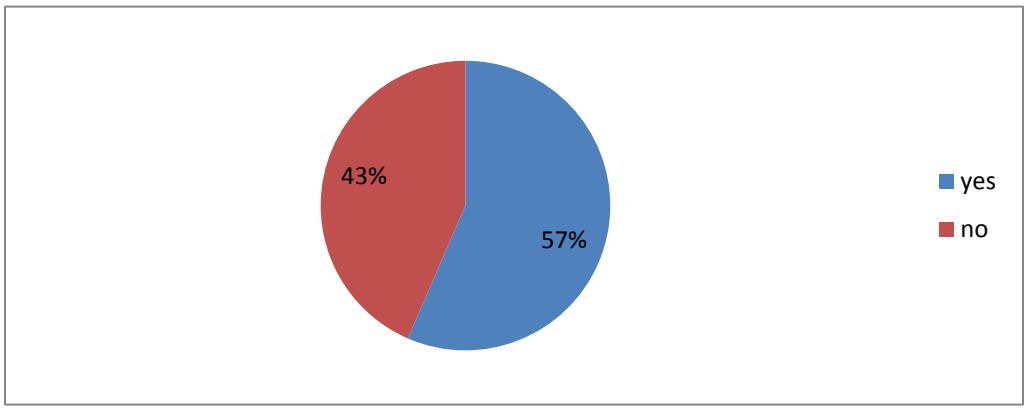
Table 4.5 One Way ANOVAs Statistical Results

Parameter	Sum of Squares	degree of freedom	Mean Square	F-test	Significance level
Purpose of loan	26.883	2	13.442	17.527	.000
Bank information	10.104	2	5.052	3.527	.050
Lending rate	4.058	2	2.029	5.344	.014
Maturity of period of loan	8.701	2	4.351	8.208	.003
Percentage interest charged	8.026	2	4.013	11.005	.001
Rejected credit application	47.435	2	23.718	485.297	.000

Source: Survey Data

All independent variables that were identified at below .05 were interpreted against the dependent variable. The independent variables explained the relationship to the dependent variable and how they influence it to change. The analysis provided an explanation as to how the independent variables influenced the financing of SMEs in the Central Business District in Khomas Region in Namibia.

Figure 4.5 SME respondents who applied for a loan.



Source: Survey data

From the data presented above, which represents the application for credit by the respondents, 57% responded that they have applied for credit and 43% said they have never applied for credit.

Table 4.6 Reasons for not applying for a loan

Reason for not applying for loan	**Frequency**	**Percent**	**Cumulative percent**
Do not like bank loans	6	60	60
Interest rate is to high	1	10	70
Loan application procedures are too complicated	1	10	80
No collateral to pledge	2	20	100
Total	10	100.0	

Source: Survey data

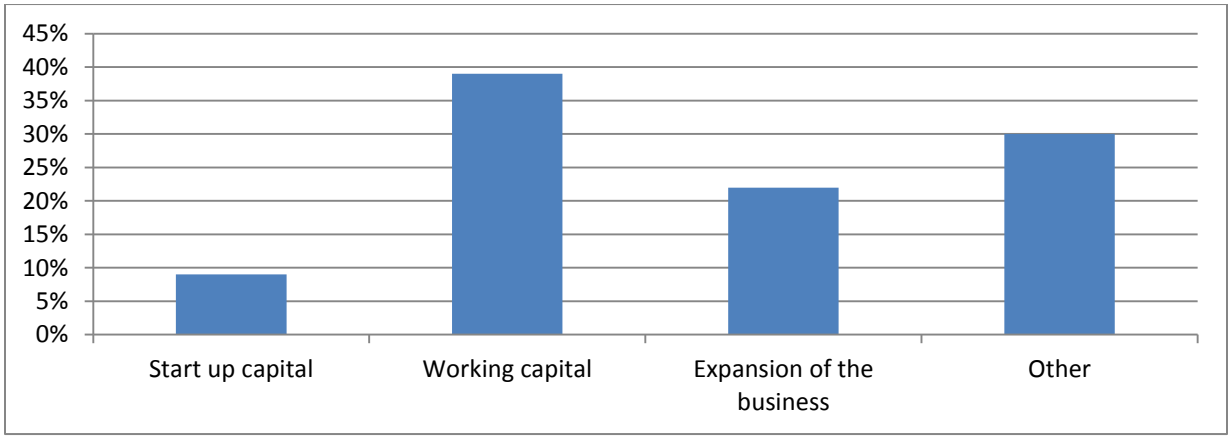
Of the 10 of the respondents that did not apply for loans, as indicated in Table 6, 60% of the respondents indicated that they do not like banks loans, 10% indicated that the interest rate is too

high, another 10% indicated that the loan application procedures are too complicated and 20% indicated that they did not have any collateral to pledge.

Literature review shows that SMEs tend to not apply for financing from financial institutions mainly due to the high perception of possible rejection. Several reasons however have also been highlighted as to why never applied for a bank loans is because:

- Procedures for applying for a loan were unknown.
- lack of knowledge about the available funding options from banks
- interest rates too high and,
- SME's don't need funding as they have their own capital to start and run their businesses. (Mahembe, 2011)

Figure 4.6 Purposes of applying for a loan



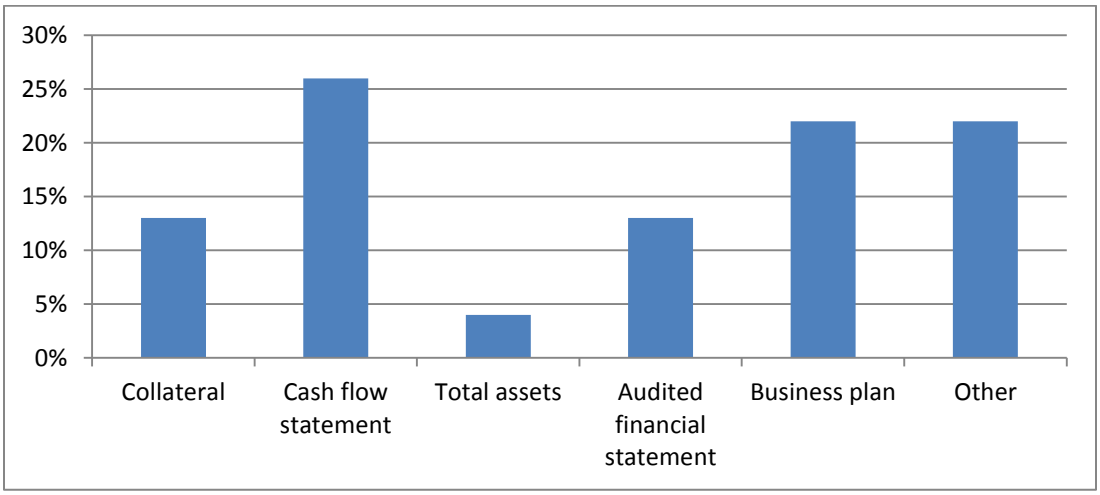
Source: Survey Data

The results depicted in figure 4.6 above show that 39% of the respondents who participated in this research said that they took loan for the purpose of increasing their working capital. The other 21.7% of the respondents took bank loan for the purpose of expanding their businesses. Only 8.7% of the respondents took loan as startup capital. The remaining 30.4% of the

respondents took loans for other reasons not specified. Loans play a major role as they constitute a form of debt finance that builds the business.

The One- Way ANOVA results indicated that purpose of loan is very important to the study at a significant level of .000. Since the significant level is below the critical value of 5%, this implies that the variable is critical to the study. Figure 4.4 state that 39% of the respondents took the loan in order to increase their working capital. Working capital is critical to any business operation.

Figure 4.7 Information requirements by banks, when applying for a loan.



Source: Survey Data

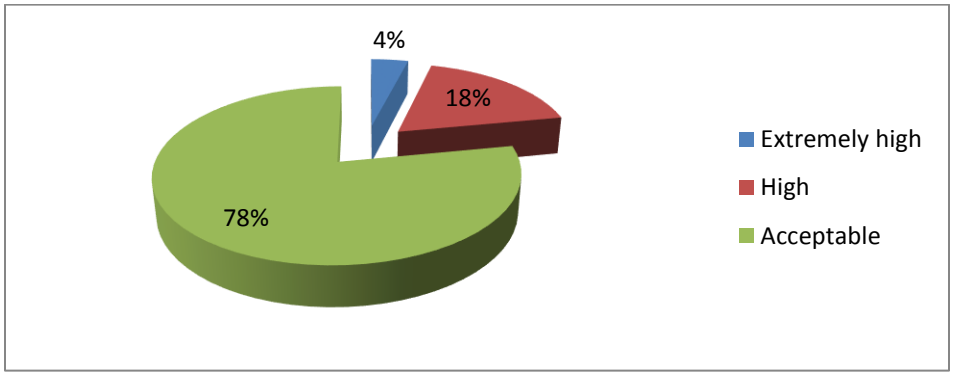
The One- Way ANOVA results indicated that the type of information requested by the bank is very important to the study at a significance level of .050. Figure 4.4 state that 26.1% of the respondents agreed that cash flow statement is important in determining loan approval for entrepreneurs in Namibia. Cash flow statements reflect cash inflows and out flows of the business. It is used by the bank or financial house to determine viability of the project. The bank uses the statement to approve or reject the application. 13% of the respondents agreed that

collateral is important when applying for a loan, 4.3% of the respondent agreed that total assets is also important information for the bank when applying for a loan. 13% of the respondents in the study agreed that audited financial statements are required by the banks when applying for a loan and 21.7% responded to business plan to be very important information required by banks when applying for a loan. Lastly 21, 7% of the respondents agreed to other information that is also important information required by banks when applying for a loan.

Literature reviewed supports that, with reference to loan applications, of all SME's that applies for an unsecured loan at bank, only 25% will be successful and of those that are successful only 85% will accept the loan and in the end only 18% will finally get the loan, as the stringent terms and conditions will make it impossible for the applicant to comply (Mahembe, 2011).

In addition to the above, Mahembe believes that other reasons for loan applications being rejected include 1) lack of collateral, 2) lack of a financial deposit, 3) poor business plan non-viable business ideas. Bad credit histories were also cited as a main reason for applications being rejected and cash flow statement. SME's with poor credit histories are listed by the Credit Buro's with the information accessible to all people linked to the buro.

Figure 4.8 Respondents' opinions about interest rates charged by banks



Source: Survey Data

The One- Way ANOVA results indicated that lending rate is very important to the study at a significant level of .014. Since the significant level is below the critical value of 5%, this implies that the variable is critical to the study. Figure 4.6 state that 78% of the respondents agreed that lending rate is currently acceptable in Namibia. This means that it is attractive to entrepreneurs to borrow money for business from the financial institutions like banks.

Literature reviewed in this study shows that in the past commercial banks were either reluctant or unwilling to provide access to finance to SME's. Levitsky (1996) supports this view by highlighting several elements pertaining to SMEs which make it difficult for commercial banks to finance SMEs. According to Levitsky:

- SME lending is perceived as risky.
- The mortality rate of SME's is high.
- There is reluctance on the part of SMEs to borrow from formal banks due to administrative and costly formalities.
- Banks maintain an institutional bias towards lending to the large corporate sector due to close links.
- The administrative costs of SME lending are high.
- SMEs are either unable or unwilling to present the full accounting records demanded by banks.
- SMEs are usually unable to provide collateral security.

As results, the banking sector in Namibia came under severe scrutiny in 2010 at the 12th Annual Symposium of the Bank of Namibia where the main focus was on the Namibian SME sector. The symposium highlighted the Namibian Government's recognition of the importance of the

SME sector in Namibia and Government's aim to have a flourishing SME by the year 2030 in line with the country's national vision. The need for the establishment for an appropriate financial model for SMEs was suggested, with commercial banks highlighted as stakeholder to ensure that this come to the fore.

In order to fulfill Government's aim regarding the provision of access to finance to SMEs, several banks have initiated efforts to assists address the lack of access to finance, by establishing specialized branches dedicated to SME lending and have also initiated mentoring programs in order to assist SMEs (MTI, 2011). SME Bank was founded by the Government of Namibia following the dissolution of the Small Business Credit Guarantee Trust (SBCGT) that was transformed into a fully-fledged Commercial Banking Institution. SME Bank provides special attention to projects of Small and Medium Size Enterprises (SMEs), and those catering to Rural Communities, Micro Enterprises and Previously Disadvantaged Individuals (PDIs). The bank offers favourable lending rates to SMEs which differs from those of other banks.

The results suggest that if the lending rate is not favorable, very few entrepreneurs will be attempted to borrow money from the financial institutions. Literature reviewed reflects that the government supports the funding of SMEs in Namibia and that they have engaged the banks in terms of providing favorable lending rate.

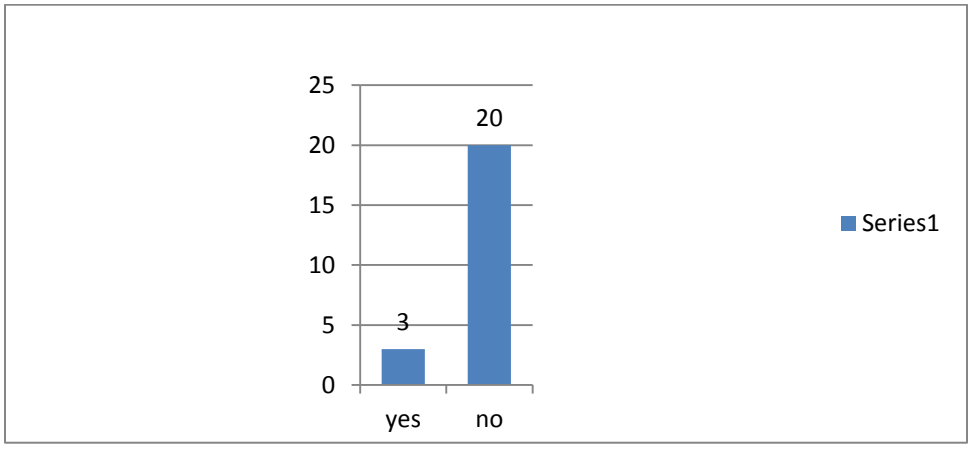
Table 4.7 Interest rates charged on loans acquired by respondents

		Frequency	Percent	Cumulative Percent
Valid	Less than 10%	13	56.5	56.5
	11% - 20%	10	43.5	100.0
	Total	23	100.0	

Source: Survey Data

The One- Way ANOVA results indicated that percentage of interest charged is very important to the study at a significant level of .001. Since the significant level is below the critical value of 5%, this implies that the variable is critical to the study. Figure 4.8 shows that 57% of the respondents who participated in this research agreed that the level of interest charged during on borrowed money for business matters. If the interest is low, it means that more SME owners will borrow more money for business and that if the interest is high, few SME owners will borrow money for business. In this research, the respondents indicated that the interest rate is less at lower than 10% lending rate and it is attractive for borrowers to borrow money.

Figure 4.9 Problems experienced when repaying bank loans



Source: Survey data

87% of the responses received from the survey participants said that they never had problem repaying their bank loan and 13% of the participants said they had problems repaying their bank loans. This is very positive observation, as the majority of the participants are not experiencing problems in repaying their loans, which can be a positive indicator to the banks when lending money to the SME owners.

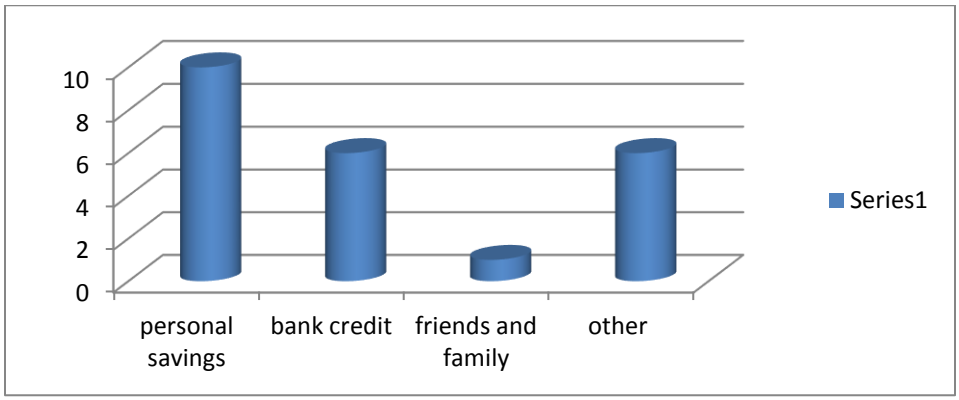
Table 4.8 Types of problems experienced when repaying bank loans

		Frequency	Percent %	Cumulative Percent
Valid	Short duration	2	50	50
	High monthly repayment amount	1	25	75
	Low turnover	1	25	100
	Other	0	0	100.0
	Total	4	100.0	

Source: Survey data

50% of the respondents stated that duration of the repaying the loans was too short. 25% stated that the monthly repayment amount was too high and the other 25% stated that their monthly turnover was too low to honor their loan commitments.

Figure 4.10 Various sources available to SMEs as start-up capital.



Source: Survey data

The above table shows the distribution of SMEs sources of funding in establishing their businesses. It is clear from the table that 44% and 4% of the funds are generated from personal savings and relatives and friends respectively with 6% of the SMEs start-ups getting their finances from the banks. The remainder 26% gets their funds from other sources not mentioned. This finding conforms to Mahembe (2011) which was found that the success of Small and Medium Enterprises depends largely on their ability to obtain finance which would enable them grow and compete to an extent where they are able to sustain themselves.

On the contrary to responses from the study, Ramsden (2010) believes that bank financing remains by and large the most important source of external finance to SME's. He further stated that banks finance a significant proportion of companies' investment finance needs and are also the major provider of financing for working capital. The same author also believes that SME's need a variety of additional financial services that only commercial banks are well positioned to provide. These services include cash management, insurance, transfers, and other transactional products.

Table 4.9 Duration of SME operators' engagement in loan commitment

Period of loan maturity	Frequency	Percent	Valid percent	Cumulative percent
Up to 1 year	16	69.6	69.6	69.6
Between 1 and 3 years	3	13.0	13.0	82.6
Between 3 and 5 years	2	8.7	8.7	91.3
More than 5 years	2	8.7	8.7	100.00
Total	23	100.0	100.0	

Source: Survey data

The One- Way ANOVAs results indicated that maturity period for the loan is very important to the study at a significant level of .003. Since the significant level is below the critical value of 5%, this implies that the variable is critical to the study. Figure 4.7 shows that 78% of the respondents who participated in this research agreed that period of loan maturity matters most since it determines the period in which SME owners will be engaged in loan repayment.

Table 4.10 Refusal or denied credit from banks

Refusal or denied credit from bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	23	100.0	100.0	100.0

Source: Survey Data

The One- Way ANOVA results indicated that the respondent were never denied credit application and is very important to the study at a significant level of .000. Since the significant level is below the critical value of 5%, this implies that the variable is critical to the study.

Figure 4.9 shows that 100% of the respondents who participated in this research agreed, that they were never denied credit application by the funding institutions or banks. The results show a positive indication in terms of funding towards SME funding.

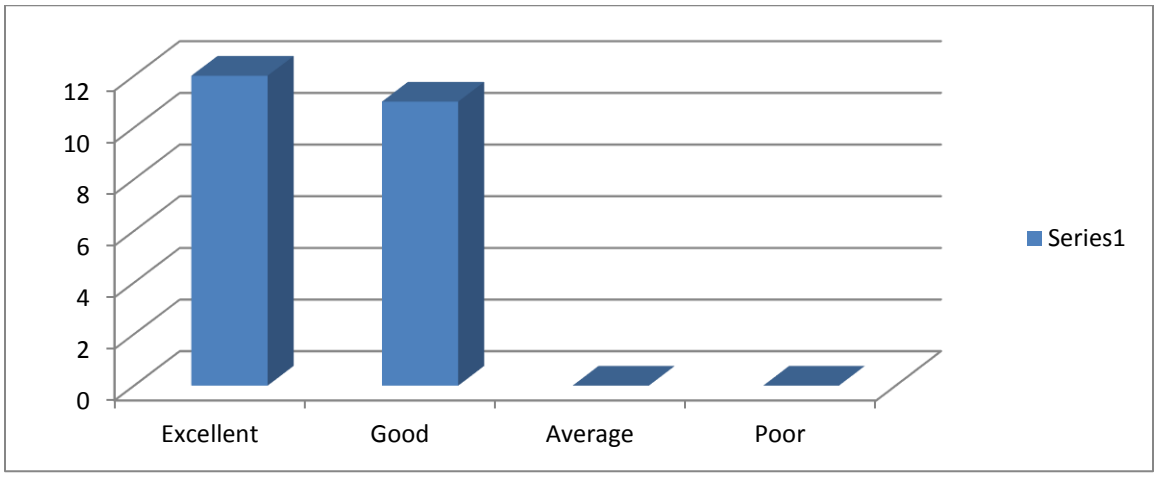
Table 4.11 Major problems facing the growth of SMEs businesses.

		Frequency	Percent	Cumulative Percent
	Lack of finance	1	4.3	4.3
	Competition	4	17.4	21.7
	High interest rate on bank loan	2	8.7	30.4
	Taxes	7	30.4	60.9
	Equity base is too small	3	13.0	73.9
	Other	6	26.1	100.0
	Total	23	100.0	

Source: Survey data

The above table shows participants rankings of the major problems facing the growth of their businesses. 30% of the respondents ranked taxes as the major constraints to the growth of their businesses followed by other (26%) factors not mentioned, followed by competition which recorded 17%. Equity base being too small was ranked fourth with 13% followed by high interest rates which recorded 9% and lastly with the lowest ranking was lack of finance with 4%

Figure 4.11 Bank services provision rated by SME respondents



Source: Survey data

52% of the participants responded that they have an excellent relationship with their respective banks, while 48% of the participants rated the relationships with their banks to be good. No responses were received from poor or average. The responses created a very positive picture of the relationships between SMEs operators and their bank. This result links in perfect with the findings that are recorded in figure 4.9 above.

4.5 Summary and conclusion

This chapter presented the analysis and discussion of information drawn from both the primary and secondary sources. A questionnaire was used as an instrument to collect data from SMEs owners in the Windhoek's CBD district. 115 questionnaires were administered to 115 SME owners in the Central business district of Windhoek. The data from the instrument was analysed to capture the opinions and responses from the participants.

The theme of this study which is “Constraints of financing Small and Medium Enterprises in Namibia” sought to highlight the difficulties faced by SMEs in accessing credit from the financial institutions to increase competiveness, operate and grow their businesses. In achieving this, the study sort to answer the following questions:

1. Are SMEs still facing financial assistance challenges, despite considerable efforts by government and other stakeholders to help SMEs develop?
2. How can the financial gap that exists between finance providers and SMEs be narrowed?

In conclusion, the findings from the study suggest that SMEs are not financially constraint and have adequate financial resources to start up their businesses.

In Chapter 5 we are going to look at the summary, conclusion and recommendations.

CHAPTER 5

Summary, conclusion and recommendations

5.0 Introduction

The essence of this final chapter is to re-cap stages taken in carrying out this study. The aim of the study was to assess the factors that constraint SMEs from obtaining financing from financial institutions in Namibia particularly in Windhoek's four main industrial zones, that is the Northern and Southern industrial zones, the CBD and the Prosperita industrial zone, the Central Business District (CBD) in Khomas Region, Windhoek, Namibia. However, this study was restricted to only one of the main industrial zones, namely the CBD.

The study further looks at the summary, conclusions arrived at and the recommendations based on the findings of the study. The sample size comprised of 115 respondents at the Central Business District in Khomas Region. Empirical statistics reflects the critical independent variables identified in that study as follows:-

- Purpose of loan
- Bank information
- Maturity of period of the loan
- Percentage interest charged
- Rejected credit application

5.1 Objectives Recapped

The objectives of the study were to critically evaluate the status of SMEs in Namibia regarding access to formal credit facilities. The research further seeks to document the difficulties that SMEs have in getting finances and identify the reasons thereof. The final objective was to suggest a few measures that can ensure easy availability of financial products for SMEs to increase their competitiveness operate and grow. In view of the broad objective stated above, the study attempted to find answers to the following questions.

1 Are SMEs still facing financial assistance challenges, despite considerable efforts by government and other stakeholders to help SMEs develop?

2 How can the financial gap that exists between finance providers and SMEs be narrowed?

5.2 Summary of Major Findings

There is much that needs to be done by the Government in terms of support, if the SMEs have to realize adequate growth. Although the Government is trying its best to support the SMEs, the SME owner managers also need to take a step by ascertaining that they get enough business training, and do strategic planning activities that will help to grow and consolidate the growth and achieved in their businesses.

5.2.1 The major findings are that:

- 61% of the institutions that participated in this research were classified as close corporations.
- 35% of the respondents reflect that the categories of companies that participated in this research as being in retail industry whilst 30% reflects the manufacturing industry.

- 44% of the companies which participated in this research had between 1 and 5 years period of operation.
- 83% of the SMEs companies who participated in the survey are managed by a person who holds an educational qualifications
- The responses from the survey indicated that 44% of the SMEs are managed or owned by a person holding a diploma.
- The responses from the survey indicated that 91% of the respondents have an existing business plan
- 39% of the respondents who participated in this research said that they took loan for the purpose of increasing their working capital.
- 26% of the respondents agreed that cash flow statement is important in determining loan approval for entrepreneurs in Namibia.
- 78% of the respondents agreed that lending rate is currently acceptable in Namibia.
- 78% of the respondents who participated in this research agreed that period of loan maturity matters most since it determines the period in which SME owners will be engaged in loan repayment.
- 57% of the respondents who participated in this research agreed that the level of interest charged during on borrowed money for business does matter.
- 100% of the respondents who participated in this research agreed indicated that they were never denied credit application by the funding institutions or banks.
- 52% of the participants responded that they have an excellent relationship with their respective banks.
- 44% of the respondents started their businesses with their own savings.

- 87% of the responses received from the survey participants said that they never had problem repaying their bank loan.
- Of the 13% who experienced problems in repaying their loans, 50% of the respondents stated that duration of repaying the loans was too short
- 30% of the respondents ranked taxes as the major constraints to the growth of their businesses

5.3 Conclusions

The conclusions based on the research study findings are:

5.3.1 Purpose of Loan

Purpose of loan is vital towards SME owners acquiring financing. Informed decisions are usually easily done by the owners who appreciate the purpose of loan. If they fail to appreciate the purpose of loan, the likely hood of abuse becomes huge. The SME owner managers need to use borrowed money for the purpose of business and not luxury activities. Such appreciation will spearhead the success of their business ventures.

5.3.2 Lending Rate

Lending rate plays an important role in determining the inspiration of SME owners to make loan applications. If the lending rate is high, it will deter the applicants from applying.

The level of interest charged during on borrowed money for business matters. If the interest is low, it means that more SME owners will borrow more money for business and that if the interest is high, few SME owners will borrow money for business. In this research, the respondents indicated that the interest rate is less at lower than 10% lending rate and it is attractive for borrowers to borrow money

5.3.3 Period of the loan

Period of loan maturity matters most since it determines the period in which SME owners will be committed in loan repayment.

5.3.4 Bank information

The type of information requested by the bank is very important, particularly cash flow information, and is very important to the banks in approving loan applications by SME owners. It is used by the bank or financial house to determine viability of the project. The bank uses the statement to approve or reject the application.

5.3.5 Rejected credit application

100% of the participants (of those who applied for loan) agreed, that they were never denied credit application by the funding institutions or banks. The results show a positive indication in terms of funding towards SME and the study can concludes that there's no financing gap in Namibia

5.3.6 Sources of funding available to start business

The results from the survey indicated that 44% and 4% of the funds are generated from personal savings and relatives and friends respectively with 6% of the SMEs start-ups getting their finances from the banks. The remainder 26% acquired their funds from other sources not mentioned. It is clear from the results that a majority of the respondents highly depend on their own savings and only a small fraction acquired financing from the banks. The study concluded that new business are likely to start business using their own savings or borrowing from a friend, than applying for a loan from the banks.

5.3.7 Problems experienced in repaying loans

50% of the respondents stated that duration of the repaying the loans was too short. 25% stated that the monthly repayment amount was too high and the other 25% stated that their monthly turnover was too low to honor their loan commitments

5.3.8 Have the SMEs respondents ever applied for loans, if not explain?

57% of the SME participants responded that they have applied for credit and 43% said they have never applied for credit. Of the 43% that never applied for credit, 60% indicated that they do not like banks loans, 10% indicated that the interest rate is too high; another 10% indicated that the loan application procedures are too complicated and 20% indicated that they did not have any collateral to pledge.

5.3.9 Major constraints to growth

30% of the respondents ranked taxes as the major constraints to the growth of their businesses followed by other (26%) factors not mentioned, followed by competition which recorded 17%. Equity base being too small was ranked fourth with 13% followed by high interest rates which recorded 9% and lastly with the lowest ranking was lack of finance with 4%

5.3.10 SMEs operators relationships with their respective banks

52% of the participants responded that they have an excellent relationship with their respective banks, while 48% of the participants rated the relationships with their banks to be good. No responses were received from poor or average. The responses created a very positive picture of the relationships between SMEs operators and their bank. This result links in perfectly with the findings that are recorded in point 5.3.6 above.

5.4 Research questions

The theme of this study which is "Constraints of financing Small and Medium Enterprises in Namibia" sought to highlight the difficulties faced by SMEs in accessing credit from the financial institutions to increase competiveness, operate and grow their businesses. In achieving this, the study sort to answer the following questions:

1. **Are SMEs still facing financial assistance challenges, despite considerable efforts by government and other stakeholders to help SMEs develop?**

Based on the responses received through the questionnaires circulated, it became evident that SMEs in Windhoek, Namibia, unlike SMEs in other countries are not faced with financing as a constraint to access credit from the bank and this finding contradicts findings of previous studies as follows:

1.1 Majority of the respondents have been in business for at least five years

Young SME's without a proper track record face more problems accessing credit as these firms are less transparent and as less information about their credit history is available about them to the banks. These firms are therefore regarded as more risky and are more likely to fail (Mahembe, 2011).

Previous studies that revealed that there is a correlation between firm age and access to credit. Being in the business for many years suggests that the firms are at least competitive on average. It can be argued that being an older firm means there is lower informational opacity. The reason is information required by the lenders to evaluate and process applications is readily available because these businesses have an established reputation or track record. On the other hand, the new firms are not likely to meet the

collateral requirements of the banks since they have not accumulated sufficient assets. Combined with the absence of information on their financial records, this makes it difficult to lenders to assess lending proposals submitted by new firms.

The studies conducted in the past have found that the financing constraints are particularly severe in start-up enterprises and relatively young firms (three years old or less). For example, Aryeetey (1994) conducted a survey of 133 firms, of which 76 had less than 10 workers, in various industries in Ghana in the early 1990s. They found that only 10 percent of start- up firms in Ghana could obtain bank loans but medium size enterprises and older firms are provided with credit three times more often than their smaller counterparts.

1.2 Majority of the SME operators are owned or managed by a person who holds an educational qualification.

Literature review revealed that banks are perceived to place more reliance on businesses with more experience owners who display effective managerial competencies and subsequently are more likely to obtain finance from a financial institution.

Previous research, in particular has explored how the managerial education affects the access to credit. For example, Kumar & Fransico (2005), found a strong education effect in explaining access to financial services in Brazil. The most recent research done by Irwin and Scott (2010) using a telephone survey of 400 SMEs in the UK also found that graduates had the least difficulties raising finance from banks. The researchers have given three interpretations for this finding. Firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less

educated entrepreneurs. Secondly, the educated managers/owners have the skills to manage the other functions of the business such as finance, marketing, human resources and these skills results to high performance of the business to helps those firms to access finance without any difficulty. The third reason stems from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion (Irwin and Scott, 2010).

1.3 SMEs operators provided reliable, strong and adequate banking information to the fund providers

Baas & Schrooten (2005) concluded that the lack of reliable information leads to comparably high interest rates even if a long term relationship between borrower and bank exists. In a situation like this, having audited financial statements play a major role. Audited financial statements, business plans and cash flow information are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. For example, Levy (1993) found that lenders in the UK pay much attention to accounting information in order to deal with the loan applications of small firms. Given the reduced information risk arising from audited financial statements, potential lending institutions may offer low interest rates as well. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders.

2. **How can the financial gap that exists between finance providers and SMEs be narrowed**?

The majority of the respondents rated the relationships with their respective banks to be good and excellent respectively and they also agreed that the lending rates in Namibia are acceptable.

The Government has put in place an SME framework, this framework is being continuously developed in order to create a good atmosphere and well balanced legal framework for the institution to operate on. The establishment of the SME bank is one of government initiatives to assist SMEs in assessing finances whereby SMEs will not be required to pledge any collateral when applying for loans. SME Bank was founded by the Government of Namibia following the dissolution of the Small Business Credit Guarantee Trust (SBCGT) that was transformed into a fully-fledged Commercial Banking Institution.

5.5 Recommendations

Based on the findings the following are recommended:

1) The positive SME-Bank relationship could become an incentive for SMEs to stay in the SME sector if this is coupled with improved service delivery and better lending rates.
2) The issues of local value-addition and unfair competition faced by SMEs require particular attention. The policy space must be kept open for developmental interventions by the state, including measures to encourage and protect local processing, establishing linkages between state institutions and SME suppliers as well as SME linkages with larger private firms. Chinese, European and other imports have added pressure on SMEs. As a policy recommendation, government should guard against the creation of an environment in which small operators are pushed out of business by transnational

corporations who tend to repatriate their profits. Nurturing small operators is desirable in that they are labor intensive and thus may create and sustain more jobs than larger business sector. Government, however, still has a larger responsibility and role to play in regulating the macro-economic environment

3) Demand side remedy programmes like training and capacity building, should be strengthened. Where feasible, the issue of land tenure could also be investigated by the government. Institutions such like Development Bank should continue to foster relationships with non-financial support service providers like the Polytechnic of Namibia, UNAM, SMEs Compete, IMLT and other relevant parties. It is also important that initiatives like the Namibia Business Innovation Centre of the Polytechnic of Namibia that seek to encourage innovation in enterprise development, are supported. It is through innovation that SMEs can make a difference in terms of value add and provision of goods and services to society.
4) Supply- side interventions could include the proposed SME Fund through the DBN referred to above. Private Banks could use their SME databases to foster closer ties with the sector and learn how to use the information in the development and design of SME lending. These banks could also investigate aspects of promoting new lending technologies, credit assessment skills, the diversification potential of SME lending (where loans can be bundled with other products) in order to enhance their margins from SME lending. Capacity building programmes for commercial banks should be fostered and utilized to accommodate SME lending. The Development Bank, in partnership with the central bank could continue to research appropriate products to serve the sector. The SME financing offering in Namibia is shallow and needs to be deepened. There are

opportunities to plug the gaps in the form of financing for micro entrepreneurs in general and women in particular. This may require a special funding mechanism from government to provide seed capital towards micro-finance service providers. The micro enterprise sector is an important source for formal SMEs. There is, furthermore, an opportunity for specialized financing to cater for the unique needs of different entrepreneurs through venture capital facilities, among others. In light of this, it is pleasing to see the emergence of innovative initiatives, like those adopted by Kongalend and the Microfinance Bank, Fides.

5) It is imperative for government to prepare a policy-based lending strategy to direct SME finance through institutions like the Development Bank of Namibia. The DBN's Special Development Fund is one of the vehicles appropriate for such an approach. This strategy should also deal with issues of interest rates; support to priority sector SMEs; and cultivation of backward and forward linkages between priority sector SMEs and public procurement.

6) The government and the central bank should encourage - and help in – designing the development of an SME lending database by both private and public banks. Such data will be useful for the establishment of a national credit bureau, but could be used for information sharing in the meantime. The central bank could ensure that the database also includes an overall macro analysis pertaining to banking or lending statistics on SMEs in terms of sector or industry; financial products; non-performing ratios and financial statements to ensure the effectiveness of SME policy designs and interventions. It would also be useful if the central bank could design a minimum acceptable standard for accounting reporting on the SME sector.

7) Personal savings should be encouraged to the extent that they become the major source of capital.
8) SMEs owners should be encouraged to participate in training of small and medium business operators to make them better qualified for financing and to assist them in responding to markets.
9) Strong, reliable and adequate bank information is a very important element in the demand for credit among SMEs; therefore the Government and the fund providers should provide training to the SME operators to assist them to be fully equipped with information required by banks when applying for loans.

5.5 Directions for Future Research

It is recommended that further research be carried as research is a continuous process. An enlargement of the population size .e.g expanding to other regions, is highly recommended and also to explore ways to improve the response rate to the survey.

5.6 Conclusion

This study had a worthwhile cause since it had a meaningful contribution to SME institutions and policy makers. The study will provide a basis of guidelines to the SMEs owners and managers and help the business acquire financial resources to catalyze business growth and make them to achieve their business objectives.

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APPENDIX 1: RESEARCH QUESTIONNAIRE

QUESTIONNAIRE ON CONSTRAINTS FACED BY SME's TO ACCESS FINANCING

Dear respondent,

My name is Hilja Iyaloo Haufiku, a Master of Science in Accounting and Finance student at the University of Namibia, Windhoek. I am conducting a case study on constraints faced by SME's in accessing finance from financial institutions in the Central Business District, Windhoek. The study is aimed at identifying and collecting data about the challenges faced by SME's in accessing finance from financial institutions

Your participation in this survey is voluntary. Your kind and objective response will significantly highlight these challenges from your perspective and contribute to finding practical solutions to this problem.

This is a purely academic exercise and any information given will be treated with confidentiality and only used purely for academic purposes !!!!!!

Kindly complete the attached questionnaire to assist me in my study.

Kind regards,

Hilja I Haufiku

QUESTIONNAIRE ON CONSTRAINTS FACED BY SME's TO ACCESS FINANCING

Instruction:

1. **Where applicable, please indicate your choice by ticking (√) in the appropriate cell**

SECTION A (GENERAL)

General information of the company

1. **Name of the organization?**

   ……

2. **Nature of the organization. (Please tick (√) as appropriate)**

2.1	Private Company	
2.2	Public Company	
2.3	Close Corporation	
2.4	Sole Trader	
2.5	Other (please specify)	

3. **Name of the sector in which your business operates. (Please tick (√) as appropriate)**

3.1	Retail	
3.2	Service	
3.3	Real Estate	
3.4	Manufacturing	
3.5	Construction	
3.6	Other (please specify)	

4. **For how long has your company been in operation? (Please tick (√) as appropriate)**

4.1	Less than one (1) year	
4.2	Between 1 and 5 years	
4.3	Between 6 and 10 years	
4.4	Between 11 and 15 years	
4.5	More than 15 years	

5. **How many people are employed by your company? Indicate number in the box below.**

6. **Do you have professions in Managerial positions in your company? (Please tick (√) as appropriate).**

6.1	Yes	
6.2	No	

7. **What is the qualification of your management team? (Please tick (√) as appropriate)**

7.1	Grade 12 certificate	
7.2	Diploma	
7.3	First degree	
7.4	MBA	
7.5	Other please specify	

8. **Does your organization have an existing business plan? (Please tick (√) as appropriate)**

8.1	Yes	
8.2	No	

9. **What is the average monthly turnover of your business? (Please tick (√) as appropriate).**

9.1	Less than N$50 000	
9.2	Between N$50 000 and N$150 000	
9.3	Between N$150 000 and N$450 000	
9.4	Between N$450 000 and N$1 350 000	
9.5	More than N$1 350 000	

SECTION B (FINANCING)

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

10. **Has your company ever applied for credit from a bank? (Please tick (√) as appropriate).**

10.1	Yes	
10.2	No	

11. **If no, why not? (Please tick (√) as appropriate)**

11.1	Do not like bank loans	
11.2	Interest rate is too high	
11.3	No collateral to pledge	
11.4	Loan application procedures are too complicated	
11.5	Banks are too far	

11.6	Other (please specify)	

12. How do you rate your relationship with your bankers? (Please tick (√) as appropriate)

12.1	Excellent	
12.2	Good	
12.3	Average	
12.4	Poor	

13. Have your ever been refused or denied credit from the bank?

13.1	Yes	
13.2	No	

14. What was the main reason why your bank refused you credit/ a bank loan? (Please tick (√) as appropriate)

14.1	Default on previous loan	
14.2	No security to pledge	
14.3	Equity base is too small	
14.4	Lack of experienced management	
14.5	Inadequate business plan	
14.6	Inadequate information provided	
14.7	Business not registered	
14.8	Lack of track record or trade reference	
14.9	Others (please specify)	

15. What was the highest amount your company ever borrowed from a bank? (Please tick (√) as appropriate).

15.1	Less than N$50 000	
15.2	Between N$50 000 and N$200 000	
15.3	Between N$200 000 and N$500 000	
15.4	Between N$500 000 and N$1 million	
15.6	More than N$1 million	

16. What was the purpose of the loan? (Please tick (√) as appropriate)

16.1	Start-up capital	
16.2	Working capital	
16.3	Expansion of the business	
16.4	Other (please specify)	

17. What information did your bank asked for? (Please tick (√) as appropriate).

17.1	Collateral	
17.2	Cash flow statement	
17.3	Total assets	
17.4	Audited financial statements	
17.5	Business plan	
17.6	Other (please specify)	

18. Have you ever had problems repaying a bank loan? (Please tick (√) as appropriate)

18.1	Yes	
18.2	No	

19. If yes, what created the problem? (Please tick (√) as appropriate)

19.1	Short duration	
19.2	High monthly repayment amount	
19.3	High interest rate	
19.4	Low turnover	
19.5	Others (please specify)	

20. What was the maturity period of the loan? (Please tick (√) as appropriate)

20.1	Up to 1 year	
20.2	Between 1 and 3 years	
20.3	Between 3 and 5 years	
20.4	More than 5 years	

21. How did you find the lending rate? (Please tick (√) as appropriate)

21.1	Extremely high	
21.2	High	
21.3	Acceptable	
21.4	Low	

22. What percentage of interest was on the loan? (Please tick (√) as appropriate)

22.1	Less than 10%	
22.2	11% - 20%	
22.3	21% - 30%	
22.4	More than 30%	

23. How did you finance the start-up capital of your business? (Please tick (√) all that is appropriate)

23.1	Personal savings	
23.2	Bank credit	
23.3	Friends and family	
23.4	Others (please specify)	

24. What are the sources of funding for the business? (Please tick (√) all that apply)

24.1	Bank loan	
24.2	Personal savings	
24.3	Retained profits	
24.4	Family and friends	
24.5	Trade credit	
24.6	Others (please specify)	

25. **In your opinion, what are the major constraints to the growth of your company? (Please tick (√) all that apply)**

25.1	Lack of finance	
25.2	Competition	
25.3	High interest rate on bank loan	
25.4	Taxes	
25.5	Equity base is too small	
25.6	Others (please specify)	

26. Have you ever accessed credit from other institutions other than the Bank?

26.1	Yes	
26.2	No	

27. If yes, Where?

27.1		

28. Would you say that the nature of the requirements demanded by these institutions is less stringent?

28.1	Yes	
28.2	No	

29. What information was requested? (Please tick (√) all that apply)

29.1	Collateral	
29.2	Cash flow statement	
29.3	Total assets	
29.4	Audited financial statements	
29.5	Business plan	
29.6	Other (please specify)	