INVESTMENT POLICY AND THE ROLE OF THE BANKING SECTOR IN FINANCING SMALL AND MEDIUM ENTERPRISES

A THESIS SUBMITTED IN PARTIAL FULFILMENT

OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

OF

THE UNIVERSITY OF NAMIBIA

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April 2014

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ABSTRACT

The aim of this thesis is to review the investment policy of the banking sector and the ease of SME access to bank finance. Secondly, to determine the extent to which bank finance contributes to the success of SMEs.

This study used both qualitative and quantitative methods. In order to test the extent to which bank finance contributes to the success of SMEs the study used the Ordinary Least Square (OLS) regression method to analyze cross-sectional data. Whereas under qualitative method, descriptive research design was used; in addition both secondary and primary data was generated through face to face interviews and survey questionnaire.

This study found that the most important source of money to start-up a small business is from own savings and loans borrowed from banks. Contrary to the study by (Migiro, 2005; De la Torre, MartinezPería & Schmukler, 2010; Ramsdem, 2010; Su & Sun, 2011) the evidence in this thesis indicate that access to finance is a minor obstacle in financing SMEs. However, SMEs unable to obtain access to finance cited a lack of collateral, high interest rates and loan application procedures being complicated as the main reasons. Among the ways in which SMEs could succeed are: tax relief and mentoring services. Moreover, the empirical test found that the amount of bank approved loans has a positive effect on the performance of SMEs as measured by ROA.

ACKNOWLEDGEMENTS

Firstly, glory and honor be "*Now unto him that is able to do exceeding abundantly above all that we ask or think, according to the power that worketh in us, unto him be glory in the church by Christ Jesus throughout all ages, world without end. Amen (**Ephesians 3:20, 21)"***. I thank God for giving me the strength, knowledge, wisdom, health, and time to complete this thesis. Without God's Blessings none of this would have been possible.

I wish to express my sincere appreciation and gratitude to the following people for their valuable support, guidance and encouragement during the years of my study.

- My wife for the support and granting me study leave from our marriage, sweet heart I love you for that & I know you experienced loneliness during my studies
- Ngenda Mufaya for helping me send out the questionnaires during the data collection of this study
- Fabian Kapepiso for always been on standby to lend me books from your library
- Evangelist Ponga Ponga, Pastor Nicholas, Jackie Chiwele, Winnie Kandandu, my family & friends for the reminders to complete my studies and encouragement
- Professor K.R. Sharma for the guidance at the early writings stage of this thesis
- A very special thanks to Professor Udai Paliwal for his guidance, support and encouragement. More so for believing in me to go through the writing of this

thesis, for your keen interest in my work, valued comments and supervision were a great source of my success

- To various institutions and SMEs who participated in the survey
- To the Namibia Tourism Board for the financial support

DEDICATION

Dedicated to my lovely wife Lydia Nzila Poniso, to my son Micah Muhau Kapepiso and to my Father Lucious Kapepiso

DECLARATION

I, Felis Muhau Kapepiso, declare hereby that this study **Investment policy and the role of the banking sector in financing Small and Medium enterprises** 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.

I, Felis Muhau Kapepiso, grant The University of Namibia the right to reproduce this thesis in whole or in part, in any manner or format, which The University of Namibia may deem fit, for any person or institution requiring it for study and research; provided that The University of Namibia shall waive this right if the whole thesis has been or is being published in a manner satisfactory to the University.

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LIST OF ABBREVIATIONS

CSR	: Corporate Social Responsibility
DBN	: Development Bank of Namibia
EU	: European Union
GDP	: Gross Domestic Product
IFC	: International Finance Corporation
LOs	: Lending Officers
MSMEs	: Micro, Small and Medium Enterprises
MTI	: Ministry of Trade and Industry
NFSS	: Namibia Financial Sector Strategy
NDP	: National Development Plan
NTB	: Namibia Tourism Board
OLS	: Ordinary Least Square
ROA	: Return on Assets
SARB	: South African Reserve Bank
SME	: Small and Medium Enterprises
SSC	: Social Security Commission

CHAPTER ONE

INTRODUCTION AND OVERVIEW OF THE STUDY

1.1. Background to the Research Problem

Since independence, the Namibian government has adopted planning as a management tool to ensure effective decision-making. Five-year development plans were adopted, beginning with the National Development Plan one (NDP1) for the period 1995-2000. In January 1998, His Excellency the former President of Namibia, Dr. Sam Nujoma made a presidential call on cabinet to deliberate on its vision for Namibia. This process led to the formulation of Vision 2030, which provides a broad future development framework for Namibia (Republic of Namibia, 2004).

Both Vision 2030 and NDPs specifically recognize the role of financial institutions as one of the key drivers of the envisioned development course. Vision 2030 sets a target that by 2030 Namibia should operate as an open, dynamic, competitive and diversified economy that in return provides sustained economic growth. This is envisaged to be the basis for availing resources for the fulfilment of major national objectives such as poverty reduction, human resource development, employment creation, access to finance for private as well as small and medium-sized enterprises and the provision of adequate social services and infrastructural facilities (Republic of Namibia, 2004). The Namibia Financial Sector Strategy (NFSS) points out that although Namibia's financial system is sound and functioning well , weaknesses such as limited access to financial services for individuals and SMEs have also been identified (Republic of Namibia, 2012).

Moreover, Governments across the world have realised the important role of the SME sector in the overall economic development process and thus have devised policies and programmes to support SMEs. The Namibian government is no exception in this regards (Arnold, Grossmann, Mwatotele, Stork & Tobias, 2005). Angula (2011) and Arnold et al. (2005) found that financial support to small businesses in Namibia is primarily driven by the government development budget and government financial institutions or donor funded initiatives with only few private providers in the microfinance field.

In the sub-section chapter that follows the thesis provides background information about the Namibian financial system, an overview of the SME sector in Namibia, challenges faced by SMEs in developed countries, challenges faced by SMEs in other African countries, and finally, the challenges faced by SMEs in Namibia.

1.1.1. Overview of the Financial Structure in Namibia

Similar to most other developing economies, Namibia inherited a dual financial system comprising of the formal and the informal sector upon the country's independence in 1990. The formal sector comprises the Bank of Namibia as the central bank, five commercial banks, a number of other banking institutions, a range of non-banking financial institutions such as insurance companies and pension funds, smaller financial intermediaries in the form of stockbrokers and money market funds, and the Namibian Stock Exchange. The informal sector comprises cash loan operators, money lenders, pawn brokers and others. In addition, there are a number of development finance institutions in Namibia e.g. Namibia Development Bank etc. (Mushendami, 2007; Republic of Namibia, 2012).

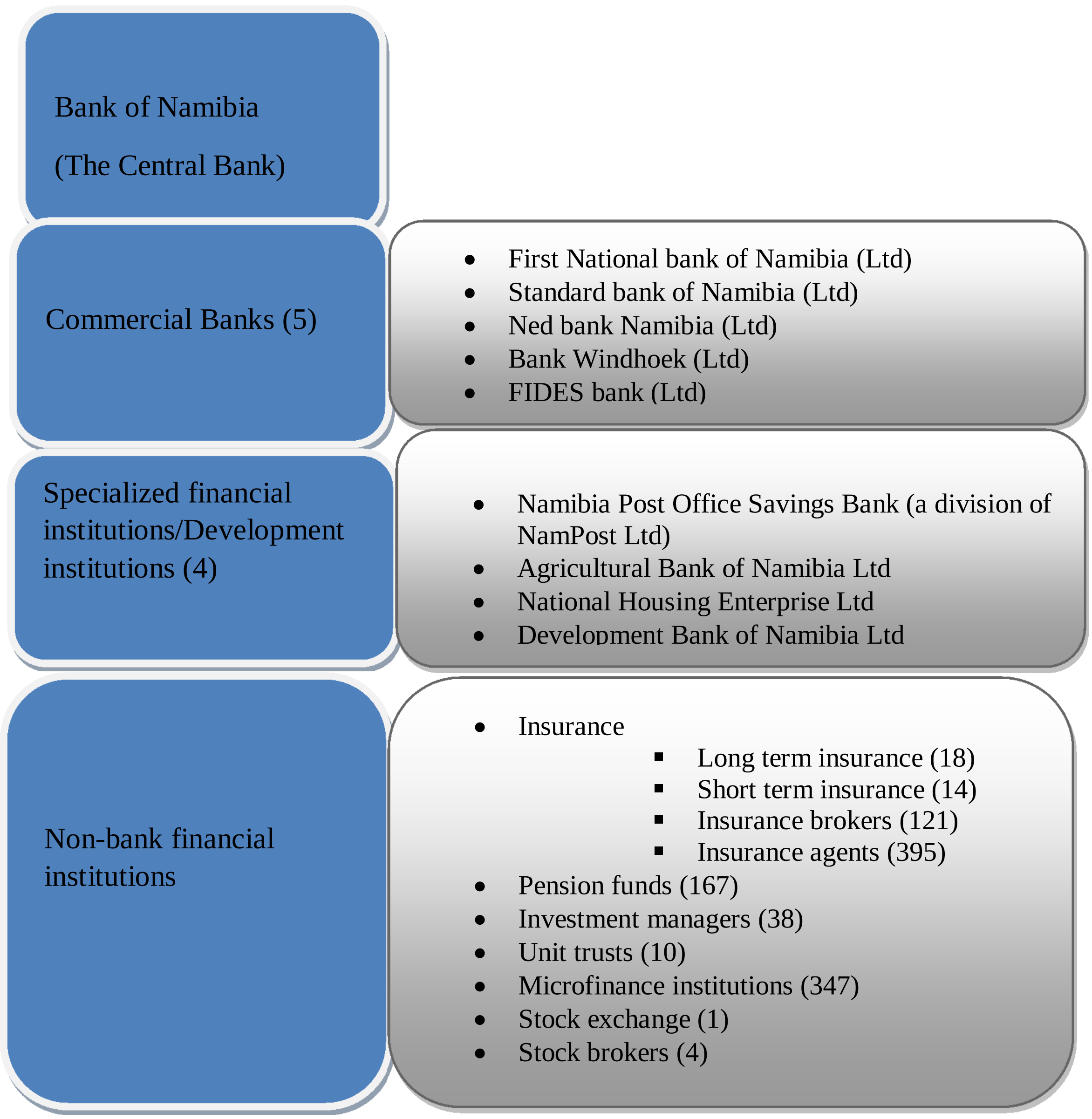
Before Namibia's political independence (1990), Namibia had no central bank of its own. The central banking functions were performed by the South African Reserve Bank (SARB). This was as a result of South Africa's occupation of the then South West Africa (Namibia) after the First World War which culminated in Namibia's integration into the South African monetary system. From 1961, SARB operated a branch in Windhoek, whose functions were very restricted and concentrated on: the distribution of SARB issued currency; administering of exchange control; clearing facilities to commercial banks, and serving as a banker to commercial banks. The Bank of Namibia was only established in 1990, by section 2 of the Bank of Namibia Act, 1990 (Act No.8 of 1990) (Sindano, 2009).

The main objectives of the Bank of Namibia are to promote and maintain a sound monetary, credit and financial system in Namibia and sustain the liquidity, solvency and functioning of the system; to promote and maintain internal and external monetary stability and an efficient payment mechanism, to foster monetary, credit and financial conditions conducive to the orderly, balanced and sustained economic development of

Namibia; to serve as the government's banker, financial advisor and fiscal agent. Moreover, it also serves as the regulator of commercial banks. Following the establishment of the Bank of Namibia, the country's own currency the Namibia Dollar was introduced in 1993 (Sindano, 2009).

The financial system in Namibia is dominated by the commercial banking sector and plays a clear intermediary role than any other type of financial institution. There are no formal barriers to entry into the banking sector but high initial capital lay-out required might serve as a barrier to entry. Before independence there were seven banks operating in Namibia, namely SWABank, Trust Bank, Bank Windhoek, Boland Bank, Ned Bank, Standard Bank and Barclays Bank, Ikhide and Fitchat (as cited in Sindano, 2009). Currently there are five commercial banks (Bank Windhoek, Standard Bank, Ned Bank, First National Bank and FIDES Bank (Ltd.) in the country with total assets valued at N$ 52,501,025.00, total deposits amounting to N$ 44,583,831.00, total loans N$ 38,725,170.00 as at 31 December 2010 (Republic of Namibia, 2012). The commercial banking system has strong links to the South African system and this is reflected by the strong South African shareholding in the Namibian commercial banks. Namibia's financial sector structure is presented in Figure 1.

Figure 1: Structure of the Namibian financial sector



Source: Author's own computations from NFSS, 2012

1.1.2. Overview of the SME Sector in Namibia

The SMEs sector in Namibia can be classified under formal or informal sector; however the sector is very diverse. According to April (2005), he observes that the majority of the small enterprises in Namibia are operating in the semi-formal or informal sector.

Stork (2010) points out that the informal sector is different from the formal sector in that the laws and regulations that govern SMEs are only been partly followed if at all adhered to. Employees usually do not have an employment contract; they have no leave, no social security, and no medical aid and are usually family members or friends. Informal businesses usually do not pay taxes, keep receipts or conduct bookkeeping. Mostly the informal sector is for those who cannot thrive in the formal sector and are struggling to make a living.

SMEs in Namibia are believed to contribute about 12 per cent to the country's GDP and employ about 20 per cent of the country's work force. The current and potential contributions that SMEs can make to the Namibian economy namely, employment and income opportunities, alleviating poverty, reducing gender based income gaps, driving technological innovation and diversification of production processes call for greater government support and a more conducive environment in which they can operate (Republic of Namibia, 2012).

1.1.3. Challenges faced by SMEs in Developed Countries

Although the contribution of small businesses to development is generally acknowledged, entrepreneurs are faced with many obstacles that limit growth and survival of SMEs. SMEs in developed countries face similar challenges as in other parts of the world. Orser et al. (as cited in Gill & Biger (2012) in their study surveyed 1,004 small- and medium-sized Canadian businesses and found that the severity of the problems varied by firm attributes, including firm size. Also their results showed that micro operations were more likely to encounter problems of demand, the availability of alternative sources of finance, a lack of information about financing options, and a lack of financial expertise. In addition, they pointed out that the intensity of several problems faced by small firms differed by sector, gender of owner, size of the business, legal structure, and age of the firm. Gill and Biger (2012) agrees with the findings of previous research that, market challenges, lack of financing and regulatory issues are chief barriers to small business growth in Canada.

Smith and Beasley (2011) investigated the factors that influenced seven graduates in the creative and digital industries to start their own small businesses in Barnsley, South Yorkshire, UK. The research study identified constraining factors to graduate business start-up to be the slow growth of the economy, lack of business acumen, contradictory and poor advisory support from external agencies, lack of sector-specific mentors and advisory support, lack of finance and experience of familial entrepreneurship.

Chu, Kara, Zhu and Gok (2011) found that problems encountered by Chinese entrepreneurs, which are most critical are, undependable/ unreliable employees, competition, lack of management training, lack of marketing knowledge and inability to maintain accounting records. Again, the study found that female and male entrepreneurs differed in the most significant problems encountered: lack of management training for female and undependable/ unreliable employees for male entrepreneurs.

1.1.4. Challenges faced by SMEs in other African countries

It is equally important to understand the problems faced by small businesses in Africa as they may be different and unique from those being faced in developed countries. Problems facing the growth and survival of SMEs in Africa can be generally classified into four broad categories: (1) administrative (2) operating (3) strategic; and (4) exogenous problem (Okpara, 2011).

However, this background information is not meant to cover in-depth all challenges faced by SMEs in Africa but partially highlight the challenges they face in an African perspective. The focus will be only on three African countries chosen randomly, namely Kenya, Nigeria and South Africa. Below is the discussion of the major challenges facing the SME sector in the above mentioned African countries.

Kenya: Migiro (2005) concluded that SMEs in Kenya face financial challenges, the majority of SMEs are not aware of the existence of certain sources of finance. Thus, SMEs are credit-constrained as a result of a number of factors acting together. Iarossi

(2009) points out that more than 80% of informal microenterprises rank access to finance to be a major constraint, compared with 55% of formal micro enterprises. Microenterprises, both formal and informal, rely significantly more on internal funds and retained earnings to finance their working capital and investment than do firms in the formal sector.

Furthermore, the investment climate survey showed that access to land is also ranked as a bigger problem by informal firms, compared with formal microenterprises. Most micro firms, both informal and formal, do not own land. Beside access to finance and land, other problems for both the informal and the formal micro firms include transport, electricity and formal registration, for micro firms, these find the burden of tax administration and regulatory requirements to be a major constraint. Tax obstacles could drive the choice of informality over formality in Kenya; one of the main benefits of informality is the ability to avoid taxation (Iarossi, 2009).

Nigeria: According to Okpara (2011) there are several factors responsible for hindering small business growth and survival in Nigeria. Among these are financial constraints, management problems, corruption and lack of infrastructure.

Lack of capital and complexities of obtaining loans from financial institutions and government development agencies are the major hindrances to small business development. Lack of management skills is another hindrance to small business development as many business owners have little or no management skills or experience before starting their business. Corruption is a major constraint to business development and survival in Nigeria because of bribery and political connections. Lack of essential infrastructure is another obstacle to business development. Key infrastructure and services such as roads and bridges, water, electricity, a reliable telephone and other telecommunication system that could facilitate business success are not adequately available.

South Africa: In the case of South Africa, there are also similar factors that contribute to the poor growth of small business as in other African countries.

According to Mbonyane and Ladzani (2011) the government does not give enough support to the small business sector in terms of legal issues for business registration to ensure the success of SME's. There is also poor communication between the government and small business owners. Small businesses also face lack of financial management to run their businesses; hence they are not trusted by financial institutions. They do not have a reliable track record and they fail to grasp the importance of correct budgeting. Lack of training is also another factor; the government does not have enough support mechanisms available to ensure that small business owners and their employees receive the training that would enable them to run the business successfully. Crime is another factor hindering small business growth, as crime is more often committed because of the large size of the building structure that needs to be secured. Crimes are committed by employees because they do not earn enough money too.

1.1.5. Challenges faced by SMEs in Namibia

The economic importance and the contribution of SMEs in Namibia as mentioned earlier is very positive, however the sector still faces many challenges that hamper the SME sector development. The main challenge facing SME development in Namibia has been singled out as lack of access to finance to start up a business and for expansion.

Financing: Namibia is struggling with access to formal financial services for its citizens and the informal sector. Access to and cost of capital remains the biggest obstacles to business performance and further investment (53%). Family and friends remain the main source for business loans in the informal and/or micro business sector. In addition risk-averse bankers, unsuitable financial products and high bank charges have also been blamed for this state of affairs. Poor people with irregular income and informal businesses often have no choice but to make use of informal financial services, which are much expensive more expensive than formal ones. Formal financial services are usually only extended to those with a regular income or collateral (Stork, 2010).

Nuyoma (2010) argues that more than 40 per cent of Micro, Small and Medium Enterprises (MSMEs) in the country identify access to finance as the most serious obstacle to growth. Paliwal and Kandjaba (2009) believe that access to, and the cost of credit, both feature prominently as challenges faced by the sector. Stringent collateral requirements are a big obstacle among medium to large enterprises; followed by cost of credit. Kakwambi (2012) concluded that the lack of collateral, as well as difficulties in dealing with banking procedures and regulations, are the main factors impeding the access of SMEs to formal credit. Lack of start-up or working capital to expand existing businesses is cited as being the most pressing factor for SME operators. The lack of access to such capital is a reflection of the inflexibility of the financial institutions concerned.

Lack of entrepreneurial skills: According to April (2005) in any small business it is important that the entrepreneurial skills of the business manager have to be constantly expanded or improved. Lack of entrepreneurial skills can lead to the business to collapse or fail to succeed due to mismanagement of the SME operations. The Bank of Namibia (2010) symposium noted that there is still shortage of skills and capacity in the SME sector; hence Government was called upon to ensure the provision of skills and capacity.

Unfair competition: Other challenges faced by the SME sector include the supply constraints, fierce competition from Chinese traders and South African retail chains, demand-side constraints whereby locals are said to prefer buying foreign supplied goods and services, lack of appropriate institutions and legal instruments to protect patents, and lack of transparency in procurement, amongst others. The symposium notes that the lack of local SMEs protection from unfair foreign competition compromises the growth and development of the sector (Bank of Namibia, 2010).

Information asymmetry: Stork (2010) explains that a critical issue to overcome is that of asymmetrical information. A person without a bank account approaching a bank for a loan is likely to be rejected unless collateral is at hand. The bank has no transaction history for this person or informal business and hence does not know anything about the applicant’s creditworthiness.

As a result SMEs are faced with lack of information keeping about the business; they do not keep receipts or do bookkeeping. There is no information also on the business performance which makes it so difficult for lenders to consider lending to them.

1.2. Statement of the research problem

SMEs are universally recognized as a key force in driving forward the economic development (Migiro, 2005; Ramsden, 2010). Hence, the role of SMEs in the development process continues to be high on the agenda of policy makers and researchers. However, Namibia is struggling with access to formal financial services for its citizens especially the SMEs and the informal sector. Family and friends remain the main source for business loan in the informal and / or micro business sector (Stork, 2010). Many challenges and weaknesses have been identified by policy makers in Namibia within the financial sector (Republic of Namibia, 2012). SMEs in Namibia lack access to finance especially during start-up phase (Ramsden, 2010).

Previous studies on SMEs in Namibia have focused mainly on the whole financial system; therefore this study focused on the investment policy and the role of the banking sector in financing SMEs because the Namibian financial system is dominated by the banking sector. The primary purpose of this study was to investigate the relationship between bank finance and SMEs success.

1.3. Research objectives

While attempting to explore and describe the investment policy and the role of the banking sector in financing SMEs, the following specific objectives guided the study:

- To review the investment policy of the banking sector and the ease of SMEs access to bank finance.
- To determine the extent to which bank finance contributes to the success of SMEs.

1.4. Significance of the research

This study contributes to the field of finance, research and practice regarding the analysis of SME finance. Several studies have, so far, been conducted in Namibia regarding the development of the SME sector, but no research was conducted to analyze the role that the banking sector plays in proving funds to the SME sector and their contribution to SMEs success. The major contribution of this research to existing literature is to fill this gap by proving data on SME financing trend. Furthermore, the findings of this study are expected to be useful to the government of Namibia and other national institutions including banks to revisit their policies and regulations, if necessary to ensure that they achieve the intended national objectives. This study is of contemporary relevance and it sets out the path for future research, as there has been little research in this area in Namibia.

1.5. Limitations of the research

This study only focused on the banking sector given the limited time that was available to conduct this research. Moreover, this study covered a period of fifteen years only from 1997 to 2012, a period extending from the launch of the SME development policy. This period is in line with the National Development Plans two, three and four through which the National development agenda is being monitored. Other limitations include data limitations available on SMEs and lack of financial support as the demand for travelling was high in seeking information from respondents.

1.6. Definitions of key terms

For the purpose of this study, the following terms have been used in the sense defined below:

Access to finance - Access to finance is hereby defined as access to financial services and products as well access to financial service infrastructure which enables consumers to gain access to financial services and products. Generally, access to finance commonly refers to the availability of supply of quality financial services at reasonable costs.

Investment policy –refers to a policy or regulations on spending that result in economic growth or policy on spending on real/ financial assets rather than the funding of consumption.

SME finance – refers to financing or funding of small and medium enterprises and can be in the form of loans, bank overdrafts and provision of working capital credits, in order to support and promote the development of the SME sector.

Success–for the purpose of this study success is measured by return on assets. According to Simpson, Padmore and Newman (2011) SME success is closely linked to small business performance. Success in business is a matter of opinion and may be related to the degree to which objectives are met or exceeded, some of which may be critical for success. Wickham as cited in April (2005) sets out that success is achieved if an organization uses its performance to meet or to exceed the financial growth expectations.

1.7. Ethical considerations

Ethics are norms or standards of behaviour that guide moral choices about our behaviour and our relationships with others. The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. The upholding of ethical guidelines refers to whether a researcher demonstrates competency, maintains honesty in the management of the resources, acknowledges sources and the inputs of supporters during the study, and presents an accurate report of the findings. The researcher observed the following ethical protocols.

- The researcher requested and obtained permission to conduct the study from the bank officials, business owners and the Ministry of Trade & Industry.

- The participants were informed of the objectives and benefits of the study before administering the questionnaire and interview schedule.
- The participants were informed of their rights and data were handled by the researcher himself and information loaded onto a computer with password protection
- The researcher obtained a written and signed consent form from participants.
- The researcher ensured full privacy by giving assurance of confidentiality of information shared and giving participants number codes to ensure that they remain anonymous.
- No harm was caused because the subjects were not manipulated in any way.

1.8. Organisation of the study

The remainder of the thesis proceeds as follows: chapter two gives an overview of the theories and literature concerning the investment policy and the role of banking sector in financing Small and Medium Enterprises (SMEs). Chapter three presents the research methodology, chapter four reports on the findings by focusing on data presentation, analysis and interpretation of findings. Finally, chapter five entails the conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This literature review examines the main issues surrounding investment policy and the role of banking sector in support of Small and Medium-sized Enterprises (SMEs) financing. The study within this review of literature focuses on objectives 1 and 2 as set out in sub-section 1.3 of the introductory chapter:

- To review the investment policy of the banking sector and the ease of SME access to bank finance.
- To determine the extent to which bank finance contributes to the success of SMEs.

By exploring the above areas of literature, a significant contribution will be made to this research. The literature review will be divided into appropriate headings and subheadings outlining a comprehensive theoretical approach to the research. First, the role of banks will be examined in a general way and second with specific emphasis to SME financing such as the role of banks in SME financing, the economic importance of banks, the drivers of bank’s involvement with SMEs and the lending technologies used by banks. In addition, this study will examine the impact of policy on SME financing, SME access to bank finance, importance of SME in economic growth, bank finance contribution to the SME sector in Namibia. In effect, the value of studying the aforementioned literature will be to provide a meaningful discussion and analysis of the role of banks in support of SME financing, in a structured way to facilitate a critical understanding of the study.

According to Biggam (2011) a good literature review is characterized by the following features:

- It lays out what research has been done by others relevant to your research aims or objectives.
- It presents the work of others in a clear, interesting and progressive manner (to build up a coherent/ logical picture).
- It provides evidence of in-depth critical evaluation (i.e. to show that you can give an opinion and support it with arguments/ evidence).
- It highlights pertinent/emerging issues.
- It cites a variety of relevant sources properly.

The bibliography of this thesis shows that a wide range of search engines was used to conduct Internet/World Wide Web (www) searches. The researcher utilized full-text Web searches of the databases of journal articles and also made extensive use of the popular meta-searcher Google to initiate many online searches. The initial date range that qualified for examination was 2003 - 2013. The effect of this was to guarantee that the information that was collected and reviewed for the research would be both relevant and up to date. Although the search was restricted to the English-language texts, the literature that was examined describes the most recent findings and conclusions on bank financing to SMEs.

At the end of this major section it is expected that a critical understanding of key issues is exhibited, that the reader will be better informed in these areas and that there will emerge a clear focus, and justification, for empirical research in the field of bank financing to SMEs. In the first instance, a sensible starting point is to understand what is meant by the term SME.

2.2. Defining SME

Defining Small and Medium-sized Enterprise (SME) is difficult and therefore, there are different perspectives of defining SMEs according to suitable environments in different countries and may also vary by industry or sector. The term ‘small and medium-sized enterprise’ typically encompasses a broad spectrum of definitions across countries and regions. Many countries and international organizations set their own guidelines, which are often based on the number of employees, sales, or assets concerned, for defining SMEs (IFC, 2010).

Many researchers agree that at present there is no universally agreed definition of SMEs, (Castel-Branco cited in Kakwambi, 2012; Kapoor cited in Kutazo, 2008; Simpson, Padmore& Newman, 2011). Moreover, the definitional issue is further complicated by the fact that individual banks in the same country use different definitions of SMEs for their own strategic and risk management purposes. Some of the commonly used criteria for defining SMEs are the number of employees, value of assets, value of sales and size of capital; however the most common definitional basis used is employees because of the comparative ease of collecting this information. For example, the European Union (EU) defines SMEs as firms with 10 to 250 employees, with less than Euro 50 million in turnover, or less than Euro 43 million in the balance sheet total. This definition explicitly distinguishes between micro-firms and SMEs (IFC, 2010).

The definition of SMEs also plays a major role in understanding the sector. Currently in Namibia, there are several names and definitions given to the SME sector which overlaps to a significant extent with the informal sector. The multitude of definitions to define SMEs should not be seen as a problem, but rather as an indication of the challenges regarding the lack of clarity and consistency faced by all when dealing with this sector (April, 2005; Jauch, 2010). A widely used definition of the SME sector in Namibia is the one of the Ministry of Trade and Industry (MTI) (see table 1 below) and therefore, in this research an SME is defined according to the definition adopted by the Namibian Ministry of Trade and Industry.

Table 1: Definition of SMEs in Namibia

Sector	**Employment**	**Turnover (N$)**	**Capital Employed (N$)**
Manufacturing	Fewer than 10 persons	1,000,000	500,000
All other businesses	Fewer than 5 persons	250,000	100,000

Source: MTI, 1997

The definition of SMEs, according to Table 1, has some limitations. Measuring capital investment, as suggested by the above definition is problematic because of the difficulty of achieving accurate measurement and also because of the impact of inflation on capital investment. The employee characteristic is simple to verify and remains a valid criteria (Jauch, 2010; White (as cited in April, 2005). Moreover, the current definition of SMEs as used by MTI does not provide the basis for distinguishing micro-entrepreneurs from small entrepreneurs and small entrepreneurs from medium-sized entrepreneurs. Therefore, the literature suggests that the current definition be reviewed in light of international definitions on the SME sector in order to allow comparisons (Jauch, 2010; Republic of Namibia, 2012). It should be noted that Namibia's definition of the SME sector differs from the EU's definition of SMEs, because the EU thresholds are very high compared to most developing countries.

2.3. The role of banks

Financial systems consist of a set of financial markets and institutions and the people who use them. The ultimate lender and borrowers of the banking system are an example of such financial system (Howells & Bain; 2008). Therefore, understanding the role that banks play in the financial system is important and forms part of the fundamental theory both in economics and finance.

According to Falkena, Kok and Van Der Merwe (1992) the main functions of banks are as follows:

- *Accepting deposits, notably cheque deposits*. Banks accept deposits to fund their loan activities; they accept deposits from the public directly redeemable deposits on current accounts that can be drawn by means of cheques. In addition they also accept notice, term and saving deposits.

- *The making available of credit, mainly in the form of overdrawn accounts.* Through this process the banks create funds that flow back to the banking system as money. As a result of the ability of banks to create money, their activities may have a significant impact on macro-economic variables such as consumption expenditure, investment, and prices. Commercial banks offer acceptance and bill financing, as well as advances on credit card accounts.

- *Payments and collections by means of the clearing system.* The clearing system is the bank's operating payment mechanism to perform the clearing mainly of cheques, notes, postal and money order, electronic transfer, standing orders and debit orders.

- *The rendering of financial services.* Banking services have evolved to provide many financial services such as electronic banking, credit cards, providing investment advice, cash management services for corporate clients, insurance services and keeping of valuable money in safe custody on behalf of clients in return for certain fees.

- *Acting as authorized currency dealers.* Banks do not only arrange various forms of transfers, but they also arrange foreign financing and provide advice on exchange rates and foreign financial market conditions.

The other role of banks include risk sharing, through financial intermediation in order to reduce the risk by way of diversification and by building up a relationship with the borrower over a long period. Banking systems also uphold corporate discipline through corporate governance (Howells & Bain; 2008). Having described the role of banks, the next sub-section of this chapter explores and examines the specific role of banks in SME financing.

2.3.1. The role of banks in SME financing

Small and medium-sized enterprises (SMEs) are highly bank dependable firms worldwide for their external funding (Gama & Geraldes, 2012; Kundid & Ercegovac, 2011). Heavy reliance on debt financing, precisely bank loans has always been one of the most important external financing sources of SMEs. However, credit availability and affordability to SMEs varies due to banking industry consolidation, large corporate clients' orientation, financial distress, foreign ownership presence, SMEs' financial capacity, investment potential and other "soft" or borrower-specific information (Kundid & Ercegovac, 2011).

According to Kundid and Ercegovac (2011) banks assess risk when dealing with the SMEs, because SMEs are considered as being an information opaque sector. That is why this sector is coping with significant difficulties in external financing. Gama and

Geraldes (2012) stress that credit risk forecasting has become a primary issue for modern finance, especially with the passage of bank regulations, the new *Basel capital accord* that entail additional external and internal credit ratings. Kundid and Ercegovac (2011) credit risk have always been the central risk in banking financial intermediation. Credit or default risk refers to the uncertainty associated with borrowers' repayment of their loans, Sinkey (as cited in Kundid & Ercegovac, 2011). It represents a potential loss that may occur for creditors as a result of borrowers' non-payment for matured liabilities. SMEs are subject to more frequent credit rationing than large enterprises, due to, among other reasons, their public closure and thus increased information asymmetry. Building on credit risk assessment research, Fletcher; Zambaldi et al. (as cited in Nilsson & Öhman, 2012) add that it is part of bank routines that a Lending Officers (LOs) initial assessment of a loan application is conveyed to a credit committee, which makes the decision to approve or reject the loan application. The information that LOs collect, process and transmit about existing and potential clients can be divided in two categories: hard, quantitative information and soft, qualitative information. For business owners and managers seeking bank financing, it would seem to be highly important to back up a loan application with financial "facts" that can be processed internally by a bank and presented to its credit committee in order to obtain a loan approval (Nilsson & Öhman, 2012).

Binks et al. (as cited in Lindstrand & Lindbergh, 2011) argues that, banks have a critical role to play – not only as partners that can provide capital but also as partners that can increase the financial knowledge of firms by providing advice pertaining to investments and continued growth. Studies of bank relationships with corporate customers have shown that banks can make their customers conduct business more efficiently, not only by offering services but also by teaching their customers to think rationally with regard to financial matters, Uzzi and Gillespie (as cited in Lindstrand & Lindbergh, 2011). The provision of financial education to SMEs is important since many small business owners lack educational qualifications and operate in the informal sector. However, these studies are silent on how banks could assist SMEs to experience continued growth.

From the perspective of the SMEs, they perceive that bankers are good at giving advice that is closely related to bank financing but are not as good at giving advice concerning wider issues with a strong impact on the SMEs' core businesses. The bankers are also perceived as not being active enough in the relationship. The rigidity and slowness in the bank's decision-making process is another issue that the SME customers do not appreciate. As a result, the SME customers perceive banks as an important capital supplier. However, the adoption of relationship marketing strategies can consequently increase customers' positive feelings toward their bank. Therefore, when interacting with SMEs, banks should not place an emphasis on selling the product of the day; instead, banks should be concerned with meeting the SME customers' specific needs. Banks that wish to develop a favorable image consequently need to consider how to satisfy those needs (Vegholm, 2011).

Mäenpää and Voutilainen (2011) found that there is a shift in how banks offer financial services, from independent provision of non-related products towards consideration of hybrid products in the SME customer segment. According to Voutilainen (as cited in Mäenpää & Voutilainen, 2011) a hybrid product is a cross-sector product combination composing of banking and an insurance component, where the banking component and the insurance component are closely interrelated and strongly dependent on each other. Banks nowadays are able to offer insurance products and banking services to SMEs at the same time, for example, a car loan combined with a vehicle insurance and a mortgage combined with home insurance, Lymberopoulos et al. (as cited in Mäenpää & Voutilainen, 2011). Moreover, banks can finance credit loan and at the same time sell credit protection insurance, without buying a separate insurance product from the insurance company. By focusing on hybrid products, banks aim to satisfy customer needs.

Finally, Condosta (2012) pointed out that banks are also working in the Corporate Social Responsibility (CSR) field, not only with a compliance approach, but trying to support local economies where they operate. The most critical issues for banks in corporate social responsibility are the following: access to saving; transparency in policies; financial inclusion; financial education; and ethical investments. This shows that banks are not only obliged to fulfill certain rules, but are voluntarily engaged in social activities and recognize that they have an important role to help the SMEs with their daily activities. Through CSR banks can contribute to SMEs by organizing activities on their behalf such as fundraising and marketing to enhance the image of these small businesses.

CSR can be considered as an umbrella, covering many concepts, from business ethics to environmental protection, financial performance, social impact of activities and corporate governance, Harley and Warburton (as cited in Condosta, 2012). However, reinforcement of reputation is the main driver of ordinary banks while reinforcing relationships with the contexts and improve financial situation of their members are the motivations of cooperative banks (Condosta, 2012).

2.3.2. Economic importance of banks

Many studies have investigated the relationship between the financial sector and economic growth and found that the impact of the financial sector especially banks on the economy is very positive. Aurangzeb (2012) empirically investigated the contributions of the banking sector on economic growth of Pakistan, using data collected from10 banks for the period of 1981 to 2010. The following method was used; ordinary least square regression method and the regression results indicated that deposits, investments, advances, profitability and interest earnings have significant positive impact on economic growth of Pakistan.

Burzynska (2009) pointed out that modern economies in the world have developed primarily by making best use of the credit available in their systems. An efficient banking system must cater for the needs of high end investors by making available high amounts of capital for big projects in the industrial, infrastructure and service sectors. At the same time, the medium and small ventures must also have credit available to them for new investment and expansion of the existing units.

According to Zeinab (as cited in Khatri, Aryal & Sapkota, 2008) he emphasized that financial markets play a key role in the development of a country. They are the intermediary link in facilitating the flow of funds from domestic savings into productive investment, which ultimately helps to lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by commercial banks and other non-bank entities. Nowadays, the crucial importance of financial intermediation in economic development has come under increasing scrutiny by both economists and policy makers in developing countries. However, financial development in many developing economies is still faced by a number of obstacles such as macroeconomic instability, the fragility of stock markets, the limitation of capital markets, and the inefficiency of development and specialized banks. Despite some of these limitations, banking systems in undeveloped countries remain integral components of the general economic systems and they can be seen as a key element in any development effort. Levine (2011) also argues that financial markets and intermediaries provide five critical services: they mobilize savings, choose where to allocate those savings, monitor the use of those funds by firms and individuals, provide mechanisms for pooling and diversifying risk, including liquidity risk, and ease the exchange of goods and services. Financial systems that perform these functions well promote growth. On the other hand, financial systems that perform these functions poorly hinder economic growth. The operation of the financial system can also influence the distribution of income in a variety of ways, some of which disproportionately help the poor and others primarily boosting the income of the rich.

Abor and Biekpe (2007) investigated the economic importance of banks in financing SMEs in Ghana using a panel regression model to estimate the relation between the determinants and the bank-debt ratio. Their results suggest that SMEs that have long-term business relationships with banks, and SMEs with adequate collateral, tend to access bank sources of finance more easily. SME entrepreneurs and managers should seek to develop and improve their information management practices by keeping proper and accurate records of firm operations, which could reduce banks' perception of risk and facilitate easier access to financing to SMEs' on favorable terms of credit. To expand SME lending, banks also need to develop alternatives ways as collateral to secure loans. Personal guarantees and sales contracts on equipment could be explored. Banks could also collaborate with informal finance providers to grant credit, taking advantage of informal finance lenders' superior information on small clients and their relatively low cost of frequent small transactions. Ghanaian banks are encouraged to set up departments that concentrate solely on granting credit to the SME sector.

2.3.3. Drivers for bank involvement with SMEs

The ‘‘conventional wisdom” on SME finance argues that ‘‘supply- side” factors are at the root of the inadequate financing of SMEs. In particular, the way in which financial institutions operate is biased against offering SME financing. Thus, many banks and other financial institutions are not interested in servicing SMEs. One of the main factors often cited that hampers SME financing is ‘‘opaqueness” i.e. the difficulty to ascertain if SMEs or firms have the capacity to pay back (have viable projects) and/or the willingness to pay back (due to moral hazard) (De la Torre, MartinezPería & Schmukler, 2010). Berger and Black (2011) found that small banks are more prone to financing SMEs because they are better suited to engage in “relationship lending”, a type of financing based primarily on “soft” information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community in which they operate, to mitigate opacity problems. However, some studies (Berger & Udell, 2006; De la Torre, MartinezPería, Politi, Schmukler & Vanosco, 2008; De la Torre, MartinezPería & Schmukler, 2010) have disputed this conventional wisdom and argued that large banks, relative to other institutions, can have a comparative advantage at financing SMEs through arms-length lending technologies.

Therefore, understanding how banks serve SMEs and addressing factors that drive the banks’ desire to become involved with SMEs is important. For example, studies by (Beck, Demiurgic-Kunt & MartinezPería, 2008; De la Torre et al, 2008; De la Torre, MartinezPería & Schmukler, 2010) show that the most important driver for the banks’ involvement with SMEs is the perception of high profitability for the sector. This means that profits in the SME sector might not be attractive, but importantly that they can be given loans because there are alternatives of controlling the risk. They also found that there are some differences across bank ownership types such as private and foreign-owned banks regarding the profitability of the segment as the key driver, while government-owned banks are less driven by the profitability of the market.

Other factors driving banks to become involved with SMEs are the following:

- Their relations with large corporate clients and the fact that SMEs are a strategic sector for growth in their economies. These factors are partially linked. First, large banks use (to the extent possible) their relations with large firms to try to identify the SMEs that are worth approaching. Significant dealings with the corporate sector allow banks to go downstream, partly using ‘‘chain” relations, which includes, SMEs that act as suppliers or outsourcers to large corporations. The large corporations might gain a steady supply of materials from SMEs thus they ensure that these SMEs with which they work are offered more financial products and services and, thus, operate more efficiently. In turn, banks benefit from the knowledge embodied in large corporations about the quality of SMEs, as this knowledge can help reduce substantially the problem of information asymmetry that banks are faced with when approaching new SMEs (Beck, Demiurgic-Kunt & MartinezPería, 2008; De la Torre et al, 2008; De la Torre, MartinezPería & Schmukler, 2010).

- Banks perceive the SME segment to be big and with good prospects, therefore they are adapting their business model to serve SMEs by setting up separate units with new strategies to approach and serve the SME segment. Additionally, to serve SMEs, banks are continuously developing new technologies, and risk management systems. Lending is only a fraction of what banks offer to SMEs, as banks try to serve SMEs in a holistic way through a wide range of products and services, with fee-based products rising in importance.

Moreover, the literature shows that banks have changed their organizational structure to incorporate SMEs among their clientele. It has become common that among their employees they have a relationship manager to serve the SMEs and to look for new clients and also prepare the information on each SME. Therefore, through relationship lending banks are able to serve the SMEs and overcome the problem of information opaqueness (Beck, Demiurgic-Kunt & MartínezPería, 2008; De la Torre et al, 2008; De la Torre, MartínezPería & Schmukler, 2010).

2.3.4. Lending technologies used by banks in SME financing

Banks play an essential role in financing firms, especially small and medium-sized enterprises (SMEs) since they have more difficulty accessing equity capital markets. The process used by banks to decide whether and how much to lend relies on different lending technologies and banks usually tend to use more than one technology at a time

(Berger & Udell, 2006). The lending technologies are simply the strategies that banks use to evaluate the information of each potential SME borrower, before approving the loan in order to address the opacity problem.

According to Berger and Udell (as cited in Shen, Shen, Xu & Bai, 2009) they categorize small business lending by financial intermediaries into four main distinct technologies, such as, financial statement lending, asset-based lending, credit scoring, and relationship lending. However, current studies have identified more technologies used by the banks in lending to SMEs. Building on their earlier studies, Berger and Udell (2006) identified eight different technologies, they are: financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, leasing, relationship lending, and trade credit – each involves a different combination of primary information source, screening and underwriting policies/ procedures, loan contract structure, and monitoring strategies/mechanisms. The choice of lending technology for a specific creditworthy SME depends on the sources of information available for that firm, as well as the adaptability and appropriateness of the various screening, underwriting, contracting, and monitoring techniques dealing with the firm in its environment.

These lending technologies can be divided into two groups, firstly as transaction technologies and secondly as relationship technologies. Transaction technologies are designed to use hard quantitative information, where hard information is always recorded as numbers. This means that hard information can be collected, stored, and transmitted with relatively low cost. Whilst, relationship technologies are designed to use soft qualitative information’s often communicated in text (Berger & Udell, 2006; Nilsson & Öhman, 2012; Shen, Shen, Xu & Bai, 2009). The first six technologies are usually referred to as transaction-based lending, which are based more on ‘‘hard” information than on ‘‘soft” information gathered over the course of a relationship with the borrower, the seventh technology is the relationship-based lending and finally, the eighth technology can be classified as either transaction or relationship-based lending .

2.4. The impact of Government Policy on SME Financing

The legal and regulatory framework plays a critical role in improving the SME Finance landscape, while preserving financial stability. For example, banking regulations that allow entry of sound and efficient banks and promote market competition may reduce margins in traditional business lines and induce banks to develop SME banking. Legislation that promotes leasing and factoring also promotes access to finance for SMEs, especially in environments where financial infrastructure remains deficient. One regulatory framework widely discussed in the context of SME finance is the Basel II framework, which seeks to align banks’ capital allocations with the risk characteristics of their loan portfolio (IFC, 2010).

A similar view is expressed by Ramsden (2010) who argues that legal and regulatory framework plays a critical role in improving the land scape in which SMEs are able to grow and develop. Moreover, government plays a fundamental role in ensuring an enabling environment and expanding the frontier for SME finance. The regulatory implications are twofold. First, regulations that impede sound financial innovations could slow, or even prevent, technological innovations and sustained improvements in living standards. Second, regulations that create incentives for financial system to use financial instruments will impede economic progress (Levine, 2011). Saidenburg and Schuermann (as cited in Adongo, Stork & Deen-Swarray, 2005) argue that regulation determines a bank's choice of investment portfolios, which has implications on its efficiency.

Berger and Udell (2006) there is a causal chain in which the lending technologies provides a crucial link between government policies and financial structures on the one hand and SME credit availability on the other hand. Where, as government policies affect a nation's financial institution structure and lending infrastructure. That is, policies help influence the market shares and competitive conditions for large versus small, foreign versus domestic, and state-owned versus private financial institutions (financial institution structure), and the information, legal, judicial, bankruptcy, social, tax, and regulatory environments in which these institutions operate (lending infrastructure). These financial structures then help determine the feasibility and profitability with which the different lending technologies can be deployed to fund SMEs.

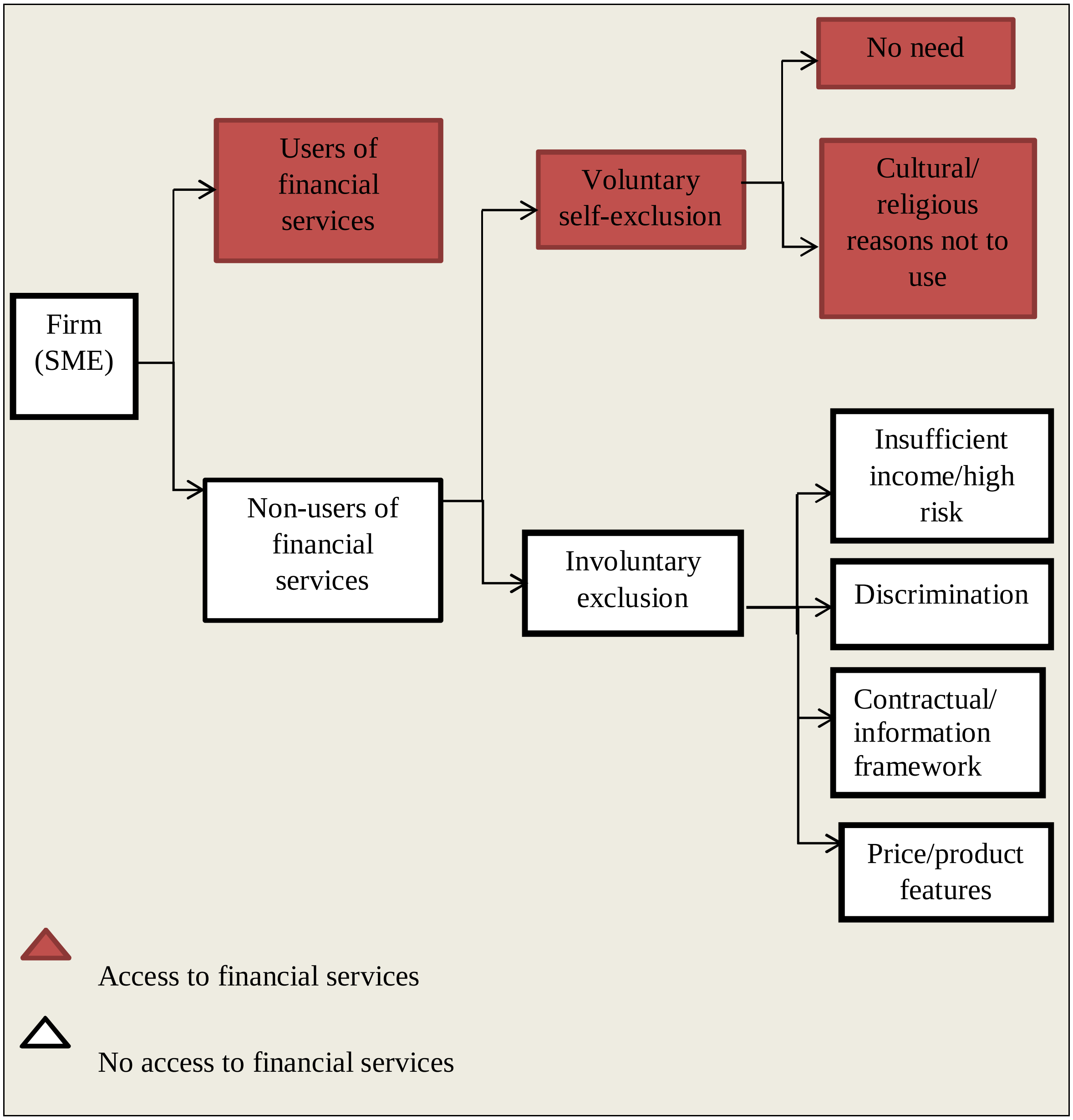
Demiurgic-Kunt and Levine (as cited in Burzynska, 2009) maintain that it is government that has major influence on the way the financial system in each country operates, moreover it determines the extent to which large parts of the financial system has access to financial services. The degree of political and economic stability as well as the functioning of legal, regulatory and information frameworks depend immensely on the government's actions and they all influence the performance of the financial system.

2.5. SME access to Bank Finance

Sub-section 1.6 of the introductory chapter of this study defined access to finance as access to financial services and products as well access to financial service infrastructure which enables consumers to gain access to financial services and products. Generally, access to finance refers to the availability of quality financial services at reasonable costs.

Figure 2 that follow illustrate the difference between access to and the use of financial services. On the one hand are those who do not use financial services for cultural or religious reasons or because they do not see any need. These non-users include enterprises without any promising investment projects. These non-users have access, but they choose not to use financial services. From a policy maker's view point, non-users do not really constitute a problem because their lack of demand drives their non-use of financial services. On the other hand are the involuntarily excluded who, despite demanding financial services, do not have access to them. There are several different groups among the involuntarily excluded. First, there is a group of firms that are considered "un-bankable" by commercial financial institutions and markets because they do not have enough income/collateral or present too high lending risks. Second, there might be discrimination against certain groups based on social, religious, or ethnic grounds. Third, the contractual and information framework might prevent financial institutions from reaching out to certain groups of firms because the outreach is costly to be commercially viable. Finally, the price of financial services may be too high or the product features might not be appropriate for certain firms. While the first group of the involuntarily excluded cannot be a target of financial sector policy, the other three groups demand different responses from policy makers (Ganbold, 2008).

Figure 2: Access to finance and use of financial services



Source: The IBRD/ World Bank as cited in Ganbold, 2008

Access to financial services, especially by SMEs, has become critical in many developing countries. SMEs make up a large part of the emerging private sector in most countries, but are also more constrained in their access to financial services than large firms, Ayyagari, Beck and Demiurgic-Kunt; Beck, Demiurgic-Kunt and Maksimovic (as cited in Beck, Demiurgic-Kunt & Singer, 2013).

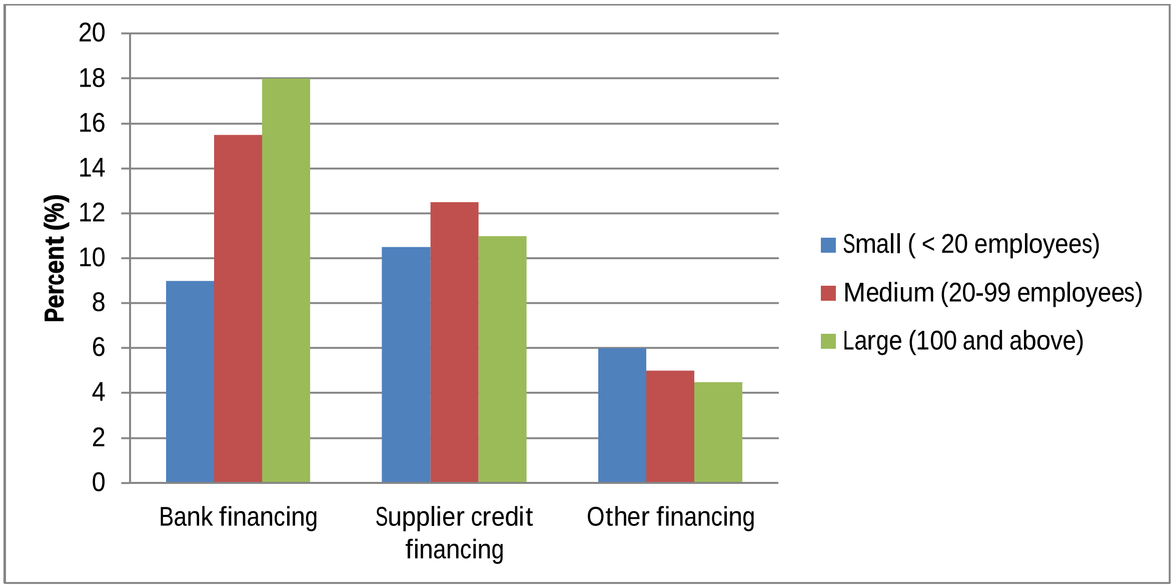
Financial access can help firms start up and expand their businesses through inter alia development of new products and production processes, and investment in human capital. A variety of financial services (credit, savings, insurance, and payment facilities) are crucial for growth in the SME life cycle. Firms often depend on informal sources of funding in the very early stages of their development. External sources, however, become more important as firms start expanding, and their availability can determine decisively the growth trajectory of SMEs. Internal financing sources typically include an entrepreneur's own savings, retained earnings, or funding through the sale of assets. The external sources of finance can be informal (family and friends or supplier finance) and formal (debt or equity) (IFC, 2010).

Lack of access to formal finance for SMEs is often cited as the greatest problem, caused by private firms being information opaque, operationally inefficient and lacking credit ratings (Migiro, 2005; Su & Sun, 2011). It is a well-known fact that small businesses have difficulty in obtaining credit. The reasons lie, at least in part, in the cost of processing small loans, the unglamorous nature of working with this client segment and the weakness of the guarantees provided. The main challenge faced by SMEs is being proactive in their management of information, not only for their own purposes but also for their stakeholders. This means that information must be structured in a coherent manner for different purposes (Levratto & Paranque, 2011).

Klonowski (2012) argues that SME firms can generate capital either internally or externally. Internally, SMEs can rely on their own financial resources. If the firm has been operating for some time and is profitable, it can support its own expansion using its own resources. If the firm is not profitable, it can manage its working capital in such a way that it is able to pay for liabilities and investments on time. External capital to the SME sector can derive from three basic sources: banks, venture capital, and the government. Commercial banks traditionally represent the most important source of SME financing, and can fulfill up to 80 per cent of SME capital needs. However, obtaining external finance from a bank can be challenging for firms operating within the SME sector.

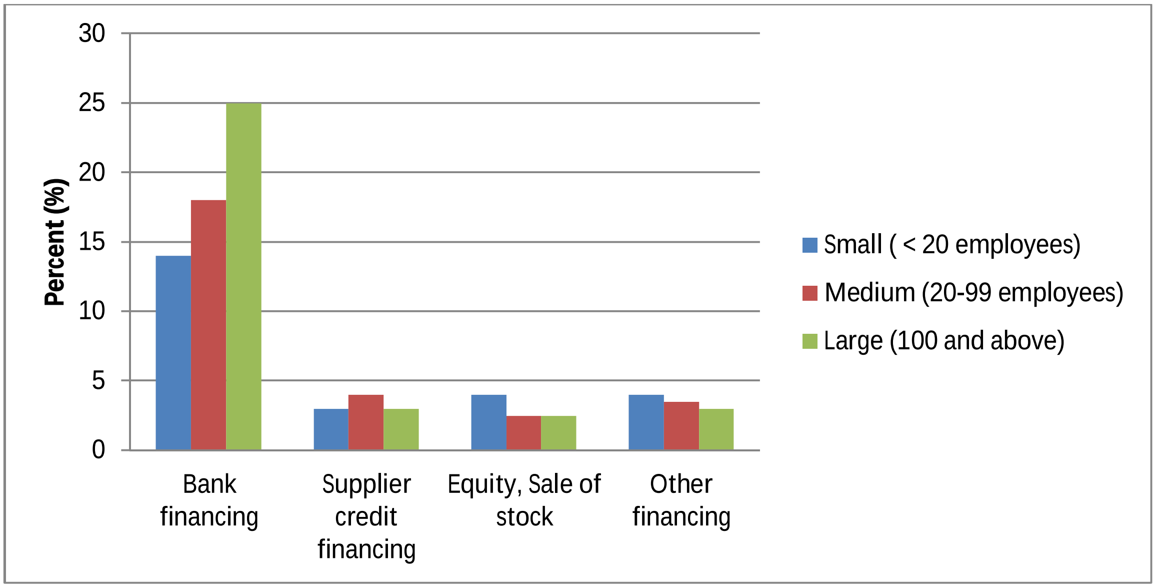
Bank financing remains by and large the most important source of external finance to SMEs (Berggren & Silver, 2010; IFC, 2010). There are various external financing sources available to SMEs, as shown in Figures 3 and 4, but banks finance a significant proportion of companies' investment finance needs and are also the major providers of financing for working capital. SMEs typically need a variety of additional financial services that only commercial banks are well-positioned to provide. These include cash management, insurance, transfers, and other transactional products (IFC, 2010). Commercial markets work extremely well in providing financial services to the SMEs. Apart from the obvious banking services, more specialist services such as long term loans, factoring, invoice financing, leasing and venture capital are offered by firms which rigorously compete with one another to maximize their profits. Also SMEs find it difficult to compete with their large counterparts and access the services on offer; this constrains their growth and survival (Naidu & Chand, 2012)

Figure 3: External financing sources for working capital needs



Source: World Bank Enterprise Survey Data (2006–09) as cited in IFC, 2010

Figure 4: External financing sources for fixed investment needs



Source: World Bank Enterprise Survey Data (2006–09) as cited in IFC, 2010

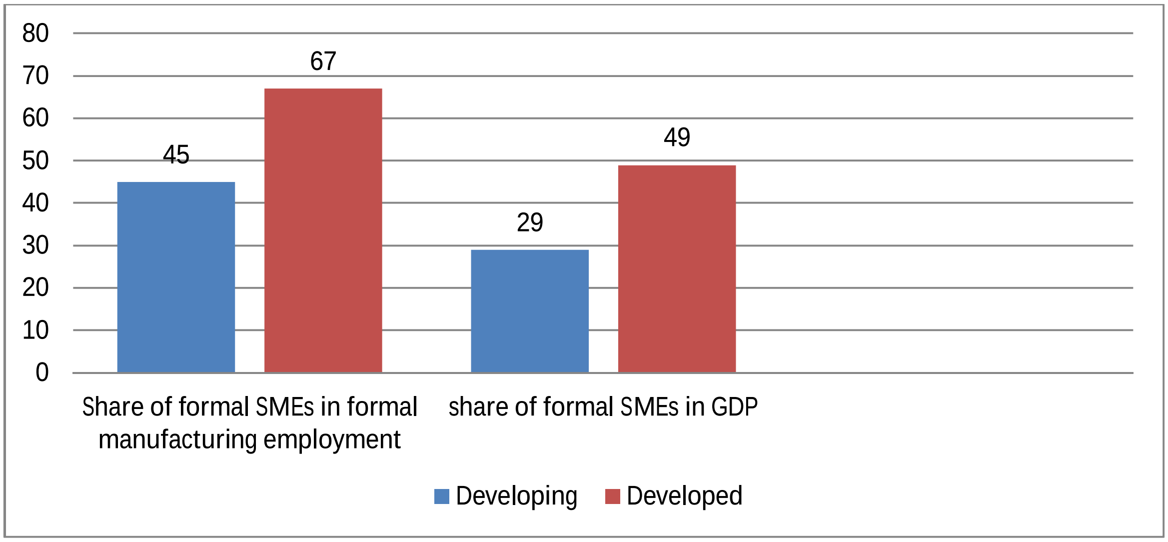
Claessens and Tzioumis (2006) suggest that one way to investigate SMEs problems in accessing finance is to investigate the firm's finances through tailored firm-level surveys directly addressing the issue of financing constraints. At the same time, when surveying firms on their ease of access to finance, one cannot avoid problems of endogeneity such as measurement of access to finance which is influenced by the definition and priority of its various dimensions. Another problem when measuring and evaluating a firm's access to finance is the absence of a unified conceptual framework for data collection. A similar view is expressed by IFC (2010) that quantifying the SME Finance Gap remains a difficult challenge, given the absence of reliable and consistently monitored sources of data on both the SME segment and SME access to financial services.

2.5.1. The importance of SME in Economic Growth

In recent years the study of small and medium-sized enterprises (SMEs) and economic growth has been attracting increasing attention. Entrepreneurship or small businesses has long been regarded as the source of job creation and an engine of economic growth. For example, according to IFC (2010) SMEs account for a significant share of employment and GDP around the world, especially when taking into account the informal sector. In developed countries, SMEs employ an average of 67 per cent of the formal employment in the manufacturing sector. In developing countries, this number is around 45 per cent. Similarly, as given in Figure 5 below, SMEs contribute a sizable share to formal GDP - 49 per cent on average in high-income countries and 29 per cent on average in low-income countries, respectively.

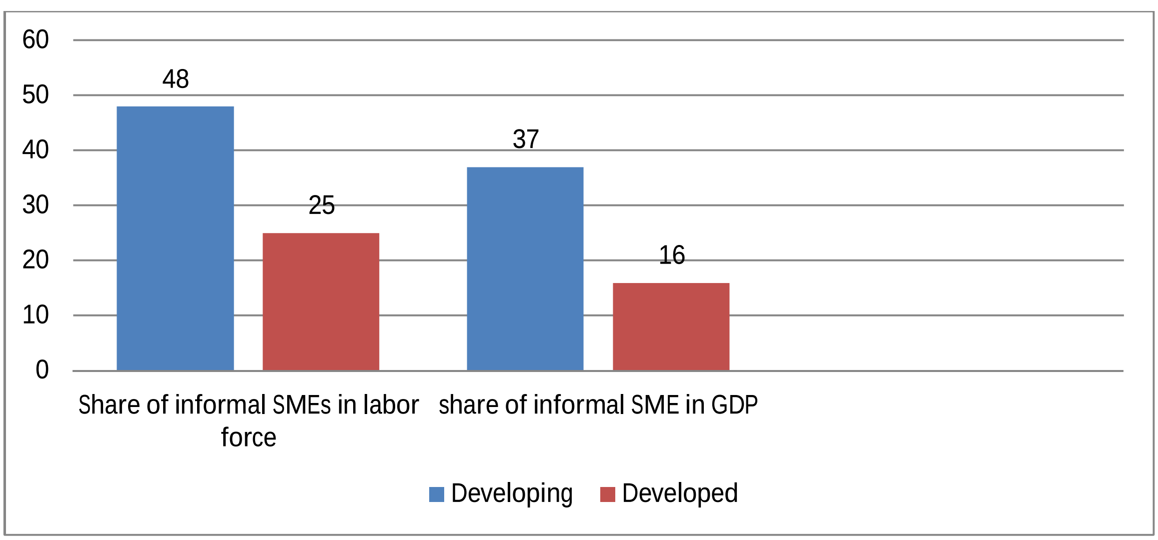
As given in Figure 6 below, the contribution of SMEs to employment and GDP in developing countries seems comparatively modest but estimates suggest that the informal sector (which consists essentially of SMEs) accounts for up to 48 per cent of the total labour force and 37 per cent of GDP in developing countries. The corresponding percentages for developed countries are much lower; at 25 of the total labour force and 16 per cent of the GDP.

Figure 5: Share of formal SMEs in formal manufacturing employment and GDP



Source: Ayyagari, Beck & Demirguc-kunt (2007) as cited in IFC (2010)

Figure 6: Share of informal SMEs in labour force and GDP



Source: Ayyagari, Beck & Demirguc-kunt (2007) as cited in IFC (2010)

Moreover, SMEs typically create more jobs than do large firms, which is especially the case for recently created companies. Several studies have found that SMEs create more jobs than large firms do, both in developed and developing countries (IFC, 2010). In addition, SME financing is important in transition countries, as small firms play an important role in the restructuring process by absorbing employees that lose their jobs in privatized or bankrupt state-owned enterprises (De Haas, Ferreira & Taci, 2010).

2.6. Bank finance contribution to SME success

Since entrepreneurs and small businesses are significant contributors to economic growth and employment creation for nations, establishment of small businesses and success of entrepreneurs are important. Gama and Geraldes (2012) argue that to achieve growth, SMEs usually need external funding. Because small firms depend so heavily on bank loans for their external finance, a lack of efficient bank lending can materially hinder the development of SMEs. In addition, this lack of credit has been identified as one of the major factors inhibiting the success of small businesses, Abdullah and Baker (as cited in Pansiri & Temtime, 2010).

Financial problems constrain the development and growth of SMEs, because many SMEs are unable to access the same kind of growth funding which is often available to large businesses. In their paper, (Migiro, 2005; Migiro & Wallis, 2006; Ramsden, 2010; Stork, 2010). Ferreira, Strydom and Nieuwenhuizen (2010) concluded that business owners should be assisted especially in finance, marketing and human resource areas, as they are seen to make significant differences to the success of SMEs (. Lack of access to financial services has potential to retard growth and development if not addressed and corrected, particularly in respect of SMEs in Namibia (Republic of Namibia, 2012).

However, the literature review shows that there is no consensus among researchers on the factors contributing to business success, but a few variables are discussed more often such as understanding customers' needs, availability of capital, and possession of business skills and support of family. According to Chu, Kara, Zhu and Gok (2011) Chinese entrepreneurs regarded reputation for honesty as the crucial factor contributing to their success. They also perceived good customer service, good general management skills, charisma, and friendliness to customers and access to capital as the leading factors to a higher level of business achievement. Building onto these studies, Indarti and Langenberg (as cited in Naidu & Chand, 2012) conducted a survey of 100 SMEs in Indonesia. This study disclosed that some of the critical success factors of SMEs in Indonesia are marketing, technology and access to capital. Out of these, the most significant factor that determines the success of small businesses in Indonesia is access to capital.

Mac an Bhaird and Lucey (2011) point that as successful firms survive nascent and start-up phases, and matures through growth stages, personal funding becomes relatively less important as investment finance is increasingly sourced from retained profits.

Furthermore, accumulation of a trading history facilitates access to increased sources and amounts of external financing, particularly bank finance and trade credit.

Contrary to these studies, Smorfitt (2010), when analyzing critical success factors for start-up and growth phases of SMEs, does not mention finance as a critical factor. Walter et al. (as cited in Simpson, Padmore & Newman, 2012) also disagrees that finance is a critical success factor but pointed out that growth or development of SMEs can depend on both financial and non-financial factors.

2.7. SME sector in Namibia

The SME sector in Namibia can be classified as formal or informal sector; however the sector is very diverse. April (2005) observes that the majority of the small enterprises in Namibia are operating in the semi-formal or informal sector. This section of the study will be divided in sub-sections, in order to facilitate the discussion of SME sector in Namibia.

2.7.1. The role of the SME sector in Namibia

The private sector is the engine for sustainable economic growth. The role of the public sector is to create an enabling environment in which entrepreneurs can explore opportunities and thus increase productivity, contribute to economic growth and create jobs. 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 the Namibian society and substantiates the rationale for programs aiming to promote the growth and development of small and micro enterprises. In Namibia, as in any country, a small business may be an 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 (Tonin, Dieci, Ricoveri, Foresi & Hansohm, 1998).

Ramsden (2010) points out that in Namibia SMEs account for 20% of employment, and contribute 12% to GDP. In addition, the government's 'Vision 2030' clearly states that SMEs should act as the locomotive that drives the economy forward to achieve '….human development, equitable and balanced growth, with a growing industrial sector and modernized agriculture….'). According to Kakwambi (2012) SME sector contributes notably towards poverty reduction and allows the majority of poor people to become self-employed and to start meaningful production activities on a small scale, thus serving as important avenues to generate incomes and generally as a way of reducing poverty.

Namibia's principal sectorial sources of growth and sustained income are industry and services. Large and medium-sized industries are mainly foreign in terms of ownership and investment and enjoy good access to financial services from the formal banking sector. Small enterprises, including the micro businesses, are locally owned and, as of now, hardly have access to bank credit, nor to other support services, such as training, business counseling, adequate purchasing facilities, etc. (Zehender, 2000). According to White (as cited in April, 2005) the role and the significance of the SME sector were neglected in Namibia prior to independence. Priority was only given to the large businesses, which were regarded as the stimulus for economic growth. Although potential small businesses operated successfully, they were not provided with the necessary support. Small businesses operated mostly in the retail, trade and service sectors. Today, the SME sector has been identified as the priority sector for reducing unemployment as well as for its ability to reduce poverty.

2.7.2. The Role of Government in SME development

The small and micro businesses sector in Namibia has failed to generate an adequate standard of living for entrepreneurs, their dependents or their employees. Therefore, the Namibian government realized the necessity of continuously reviewing policy in order to develop measures, to overcome this shortcoming. The cabinet of the government of the Republic of Namibia in 1997 adopted the "Policy and Programme on Small Business Development". It recognizes the vital role played by the small business sector in the country's economic development and that, despite such recognition, little has, so far, been done in this direction, so that the sector is still faced with on-going challenges (Zehender, 2000; MTI (as cited in Kakwambi, 2012).

Zehender (2000) and MTI (as cited in Kakwambi, 2012) in its policy framework, stresses its determination to achieve sectorial development, which it is facilitating through the creation of a favorable, enabling environment for the sector. Through embarking on the following initiatives:

- deregulation and the offering of incentives;
- The development of proactive programmes; and
- The provision of strong institutional support.

Under incentives and de-regulation, a number of policy and legislative measures have been taken towards the creation of a more favorable regulatory environment for small businesses. The policy framework is determined in its approach to directing the government to undertake and to create a favorable environment in which small business is able to flourish. It regulates the regime so as to minimize bureaucratic obstacles to the establishment and expansion of the SME sector. Under, the pro-active programmes the policy needs to address the following areas: finance, marketing, technology transfer, purchasing, sites and premises and training (Zehender, 2000).

2.7.3. The Bank's involvement with SMEs

A lack of finance is widely believed to be the most crucial constraint to the stability and growth of small businesses in Namibia. The lack of collateral, as well as difficulties in dealing with banking procedures and regulations are the main factors impeding the access of small entrepreneurs to formal credit.

The predicaments of access to finance faced by the SMEs in Namibia are twofold: firstly, they are considered too small for lending by the commercial banks, in the sense of their ability to repay the money borrowed and secondly, they are considered too large for lending by micro-lenders, in the sense that the amount required often exceeds the available credit limits. Financial service providers (banks in particular) have initiated efforts in order to address the lack of access to finance. The Development Bank of Namibia (DBN) has been channeling funds for SME development through commercial banks. Moreover, commercial banks have established specialized branches dedicated to SME lending and have also initiated mentoring programs in order to assist SMEs (Republic of Namibia, 2012).

Adongo and Stork (2005) points out that there are four commercial banks in Namibia these are successful in both saving and lending to small business. Although Bank Windhoek is the only commercial bank with an independent small and medium enterprises (SME) branch, Ned Bank Namibia is involved in microfinance initiatives through Finance in Education Pty. Ltd., which is a micro-lender that it acquired in 2002. First National Bank Namibia has also begun to develop products that actively downstream into the microfinance sector.

2.8. Summary

The study of relevant bank financing to SMEs revealed that the term SME is a complex one. To begin with, there is no agreed definition of what an SME is. The review of literature highlighted that to define SMEs, the definition should have some of the commonly used criteria such as the number of employees, value of assets, value of sales and size of capital, however, the most common definitional basis used is the number of employees because of the comparatively ease of collecting this information. From the above discussion, the review stressed the important role of bank in SME financing and the importance of banks in economic growth.

Similarly, there were many drivers for bank involvement with SMEs identified (profitability of the SME sector, strategic sector for economic growth and SME segment is big with good prospect), also there were many lending technologies that were identified that banks use to evaluate the information's of each potential SME borrowers, before approving the loan (financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, leasing, relationship lending, and trade credit).

Other issues outlined in this chapter relate to the impact of policy on SME financing. IFC (2010) points out that the legal and regulatory framework plays a critical role in improving the SME Finance landscape, while preserving financial stability. Moreover, the role government plays is fundamental in ensuring an enabling environment and expanding the frontier for SME finance.

The review also covered the issue of SME access to bank finance and its importance in economic growth. Different scenarios of access were discussed, as well as pointing out various types of financing. Whereas, it emerged that bank financing remains by and large the most important source of external finance to SMEs. The literature also showed that measuring access to finance is difficult and there are no country specific figures on SMEs trend to bank finance.

On the other hand, the importance of SMEs in economic growth was stressed both in developed countries and developing countries. Entrepreneurship or small businesses has long been regarded as the source of job creation and an engine of economic growth. Moreover, the review discussed whether or not bank finance can contribute to SME growth; there is no consensus from the literature what contributes most to SME growth. However, many researchers cite access to capital as the most critical factor especially to start-up a business.

Finally, the review discussed in detail the SME sector in Namibia, and it emerged that this sector plays an important role in economic growth. Moreover, government policy intervention programme is highlighted to stimulate SME development. Similarly, bank's involvement in SMEs was discussed to conclude the review.

To arrive at a deeper understanding on investment policy and the role of the banking sector in financing Small and Medium Enterprises, empirical research will be implemented. The next chapter of this research gives details of the research methods to be used to capture the empirical data, including details on the research strategy to be adopted, data collection techniques, sample selection and data analysis.

Enterprises (SMEs). Chapter three presents the research methodology, chapter four reports on the findings by focusing on data presentation, analysis and interpretation of findings. Finally, chapter five entails the conclusion and recommendations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes the research methodology that supported the research process as well as the analysis and interpretation of the results. It describes the research design, the research population, the sample, the techniques that were used for sampling, the research instruments, the process of data collection and the way in which the results were analyzed. Both qualitative and quantitative methods were used for achieving the set objectives which are: to review the investment policy of the banking sector and the ease of SME access to bank finance; to determine the extent to which bank finance contributes to the success of SMEs.

3.2. Research design

This study used a mixed method design to achieve the research objectives. The rationale for using the mixed approach is that neither quantitative nor qualitative methods are sufficient by themselves to capture the trends and details of the research problem such as the issue of investment policy and the role of the banking sector in financing Small and Medium Enterprises. The use of both research methods has afforded the researcher the opportunity to collect a more holistic data set that would not have been the case if only one method was used.

Quantitative research is the precise count of some behavior, knowledge, opinion or attitude (Cooper & Schindler, 2011). A researcher isolates variables and causally relates them to determine the magnitude and frequency of relationships; in addition a researcher determines which variables to investigate and chooses instruments, which yield highly reliable and valid scores. The quantitative research design used in this study was cross-sectional research design because it meets the research objective to determine whether bank finance contributes to the success of SMEs. For this purpose, Ordinary Least Square (OLS) regression method in simple linear form was used to analyze cross-sectional data.

Qualitative research on the other hand, is an interpretive technique that seeks to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain phenomena (Cooper & Schindler, 2011). According to Denzin and Lincoln (as cited in Welman et al., 2005) the word qualitative implies an emphasis on processes and meanings that are not rigorously examined, or measured in terms of quantity, amount, intensity or frequency. In this approach the researcher presents data in language instead of numbers and makes use of a holistic approach to collect a wide array of data, for example documents, records and interviews. The qualitative research design used in this study was descriptive research design; this approach was also chosen as it allowed for an open minded and flexible approach assessment, which was necessary to fulfill the objectives of the study.

3.3. Variables in the Quantitative Analysis

This study adopted the model used by Su and Sun (2011) to test the relationship between bank finance and SME success as measured by ROA. The log-linear regression model took the following form:

$$\ln ROA = \beta_0 + \beta_1 bankl + \beta_2 over + \beta_3 (control) + \varepsilon \qquad (1)$$

Where: ln*ROA* represent the natural logarithm of return on assets and ln*ROA* is the dependent variable (DV); *bankl* is amount of bank loan in (N$'00 000); *over* is the bank overdraft which is a dummy variable which is equal to 1 if a firm takes bank overdraft and 0, otherwise; *control* represents the control variables used in this research which are leverage and company age in years; ε is the random error term which is introduced to accommodate the effect of other factors that affect SMEs performance that are not included in the model. The ROA used is the ROA measure at the end of 2012. The definitions of independent variables (IV) are in table 2.

Table 2: Definition of main regression variables

Variables	Explanation	Survey question (Appendix L)
$Bankl$	Amount of bank loan	C7
$Over$	1 with bank overdraft, 0 otherwise	B4+C10
$Leverage$	Ratio of long term debt to total asset	C4+C7
Age	Company year of history	B1

Source: Author's own computation

3.4. Population

The target population of this study consisted of 7114 SMEs registered with the Ministry of Trade and Industry (MTI) in Namibia by the end of December 2012, seven banks (both commercial banks and other banks) and the Ministry of Trade and Industry (MTI).

3.5. Sample and Sampling technique

For the purpose of this study, the sample was drawn from the target population using stratified random sampling technique. This is a probability sampling, in which the population is first divided into subgroups called strata, expected to contain relatively homogeneous units, and samples are taken independently from each stratum (Freund & Wilson, 1997). Stratified random sampling was chosen because it satisfactorily met the sampling objectives; to increase a sample's statistical efficiency, to provide adequate data for analyzing the various subpopulations or strata and to enable different research methods and procedures to be used in different strata (Cooper & Schindler, 2011).

SMEs were classified according to year of registration and regions in which they operate. Out of the 13 regions of Namibia three regions were selected at random and sample units were drawn from the selected 3 regions. Due to the relative small size of the banking sector population, data was collected from all banks and the MTI. The sample size is set at 120, out of SMEs registered with the Ministry of Trade and Industry. The distribution of sample by region is as follows; Khomas region, Windhoek is set at 60, Omaheke region, Gobabis 30 and Otjozondjupa region, Otjiwarongo 30. The distribution of the sample was out of convenience and given the fact that most businesses are operating in Khomas region, Windhoek, a big sample was chosen from it.

3.6. Pilot study

The questionnaires were tested through a pilot study done by the researcher in Windhoek with Small and Medium-sized Enterprises (SMEs). Windhoek was chosen for the pilot study for the simple reason that this is where the researcher is based. It was convenient to conduct the pilot study in Windhoek to limit on the research costs. The major aim of piloting was to improve the validity of the questionnaires and administer the instrument to a small group of respondents. These respondents had a similar profile as the respondents of this particular study in order to clarify the instructions. Based on findings of the pilot testing no significant changes were made to the original questionnaires, therefore, no post-test questionnaire was compiled.

3.7. Research instrument

According to Rajeswaran (2009) data collection tools or research instruments are devices that researchers use to collect data. Sharma (2011) points out that research instruments are designed for the collection of research information/data and therefore, research instruments are known as questionnaires and schedules.

3.7.1. SME questionnaire

Questions were formulated by the researcher in collaboration with the research supervisor. The whole questionnaire consisted of a total of 26 questions which were divided into three parts, to solicit information's on the role of banking sector in support of Small and Medium-sized Enterprises financing (see appendix L). The questionnaire covered the following headings: profile of business owner, background information on the business and finance. Questions were designed in such a way that the questions were short and precise so as to ensure accurate interpretation of the questions by the respondents. The questionnaire had both closed and open ended questions.

Seven of the questions sought data on the profile of the business owner such as gender, age, nationality, position held in the business and educational qualifications. Five of the 26 questions (for example B3, C2, C5, C10 and C11) required the respondents to circle more than one response. For example, question B3 read: with who is your business registered? (1) Ministry of Trade & Industry, (2) Ministry of Finance, (3) Not registered and (4) Other (please specify). In answering this question, respondents could circle against the provided options depending on whom their business registered with. Also, five of the questions (B1, C1, C4, C7 and C9) were straight open-ended ones and required respondents to fill in answers in spaces provided. While some of the questions required the respondent to respond to 5-point Likert type scale by circling their responses to statements provided.

3.7.2. Interview schedule questionnaire

A structured interview schedule (see appendix J and K) was used to solicit information from the banks and Ministry of Trade & Industry on the investment policy and the role of the banking sector in support of Small and Medium-sized Enterprises. The structured interview schedule was used because of the following advantages: opportunities to collect extensive data from each person interviewed; the room to focus on selected themes; any misunderstanding by both parties can be checked immediately; and that they enable the interviewee to answer the questions as he/she chooses and to motivate his/her response when required.

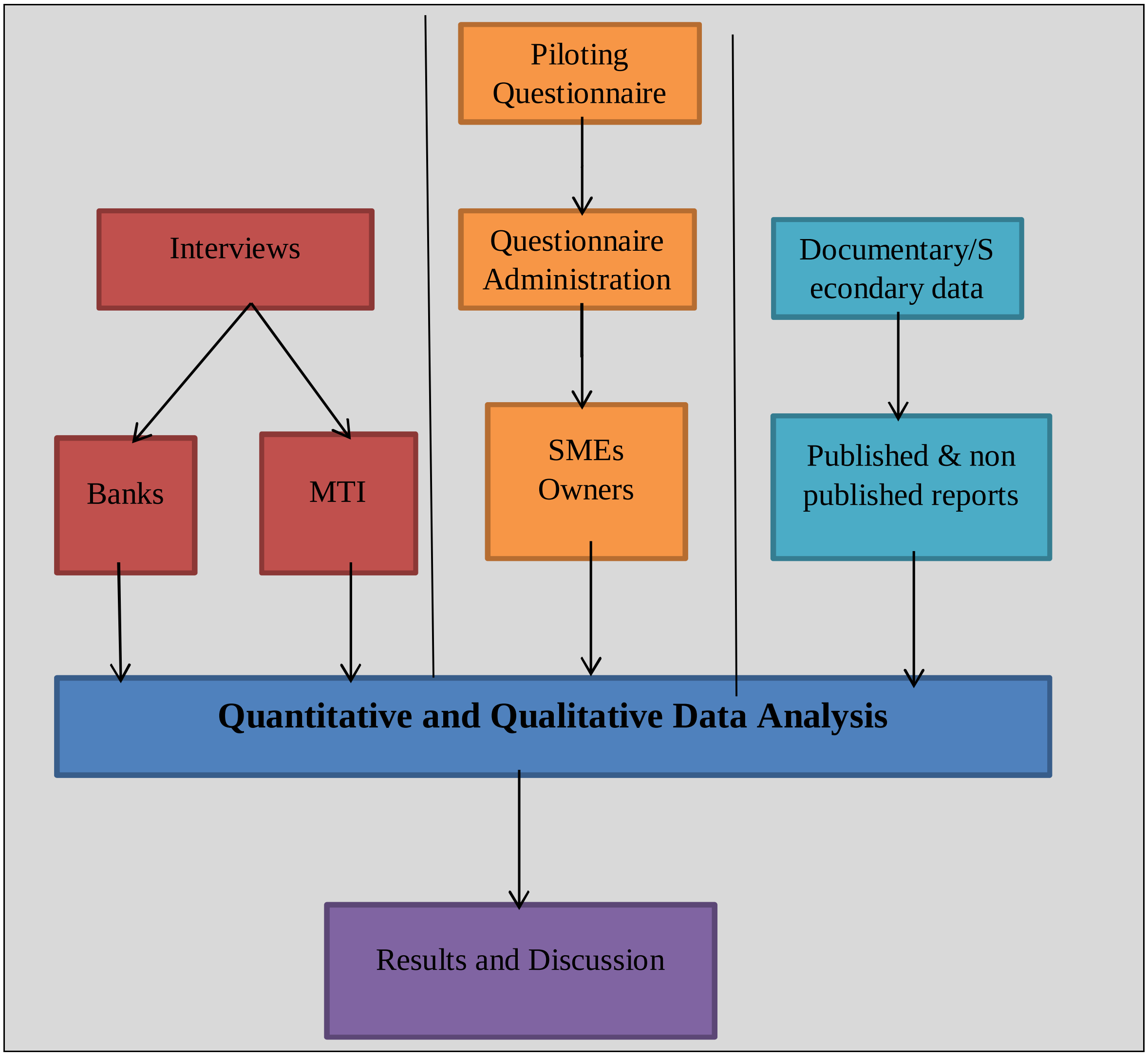
Questions for the structured interview were formulated by the researcher in collaboration with the research supervisor. The structured interview schedule for the banks had 18 questions, which sought information such as drivers for bank involvement with SMEs, lending obstacles, SME policy, criteria for loan approvals, products offered to SMEs, support services provided by the bank and bank finance contribution to SME success. The structured interview schedule for the Ministry of Trade & Industry had 12 questions, which sought similar information such as drivers for bank involvement with SMEs, lending obstacles, SME policy and support services provided by the MTI.

3.8. Data collection procedure

The data collection process for this study consisted of four stages, using the following four methods: piloting the questionnaire, face-to-face interviews, a questionnaires and documentary/secondary data (see Figure 7).

Primary and secondary data was used in order to get in-depth information and achieve the research objectives. This approach was desirable and appropriate for the study due to the availability of data from secondary sources, which made it even cheaper to conduct the study. It was also suitable due to the short duration of the study. Data from primary sources were collected from 01 - 30 November 2013. The following sub-sections present the data collection process.

Figure 7: Data collection process and methodological approach



Source: Author's own computations

3.8.1. Piloting the Questionnaire

As previously mentioned, piloting was done in Windhoek. Details about how piloting was done have already been described in section 3.8 above.

3.8.2. Conducting of interviews

Before the interviews were conducted, the researcher made an appointment with the managers from the banks and the officials from MTI. A copy of the interview schedule was supplied to each participant, after an interview date was agreed upon. During the interview, the researcher first formally introduced himself and assured the interviewee that all information collected was to be held in confidence and was to be used for research purposes only. Thereafter, the researcher went through the scheduled questions; 18 questions for bank managers and 12 questions for MTI official (see appendix F, H, J, and K). There was no probing to try and get clarification outside the scheduled questions. During the interviews the researcher took notes of the interviewee's responses.

3.8.3. Administration of Questionnaires

The sampled SMEs were each given a copy of the questionnaire and asked to complete the questionnaire in their own time. Respondents were given instructions to contact the researcher if they needed any clarification over any part of the questionnaire. Contact was to be made through telephone and when the respondent needed assistance the researcher visited the respondent. The survey questionnaire mailed to each participant was accompanied by a cover letter; a form for informed consent and a self-addressed paid stamped envelope (see Appendix G, I and L). Data for the study was collected from 01 - 30 November during 2013 and all survey questionnaires were mailed on 25 & 28

October 2013. One month was considered sufficient time to complete the questionnaire. This time frame made provision for the respondents with busy schedules.

3.8.4. Documentary/Secondary Data

Information considered useful for research was collected from secondary sources also. This was in the form of both published and non-published information about Small and Medium-sized Enterprise sector in Namibia and other countries, as well as information on government policies affecting the SME sector.

3.9. Data Analysis

The data collected from the primary sources as well as from secondary sources were checked for completeness. For the purpose of analyzing the data, some items on the questionnaire were assigned the Likert scale score. Qualitative data were coded to enable interpretation and discussion of responses. The data collected, which was mostly in written text form, such as challenges of financing and business support services were analyzed using thematic analysis. According to Ryan & Bernard (as cited in Welman et al., 2005) theme identification is one of the most fundamental tasks in qualitative research. Themes can be described as “umbrella” constructs which are usually identified by the researcher before, after and during the data collection. The process required data to be collected first, followed by familiarization with data through reading and re-reading, and coding it in a systematic manner by noting important or interesting features of the data by highlighting it and making notes. After the data was coded, a search for themes by collating all the codes and sorting them in different themes was employed. Emerging themes were condensed to key themes. The stage of reviewing and refining themes was then followed by the stage of writing up the results and relating them with the set objectives and comparing with the reviewed literature. In order to achieve the first objective, the study reviews the trend of SME access to finance by performing trend analysis on secondary data.

Quantitative data was analyzed using STATA statistical package in order to achieve the second objective. Ordinary Least Squares (OLS) regression method was utilized to test the relationship and the influence of bank finance on SME success measured as Return on Assets (ROA). The results of these tests are presented in Chapter 4. To make the presentation easier for readers to understand and conceptualize the findings of the research, presentation tools such as bar charts, line graphs and tables were used.

3.10. Summary

This chapter explored the research methodology used in conducting the present study. The study adopted both descriptive design and cross-sectional research design. Both primary data and secondary data were collected using questionnaires and interviews. The data collected from primary and secondary sources was analyzed using both qualitative and quantitative methods. The next chapter presents the findings and discussions of the study.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1. Introduction

This chapter reveals and reports the results of the descriptive research design and OLS regression model described in Chapter Three. This research focused on the investment policy and the role of the banking sector in financing SMEs. The research findings and discussions are laid out in a highly structured way. First, the findings from the structured interviews with bank managers and MTI official is presented followed by the findings from the SME respondents. This presentation is also guided by the research objectives stated in Chapter One which are: to review the investment policy of the banking sector and the ease of SME access to bank finance; and to determine the extent to which bank finance contributes to the success of SMEs.

4.2. Findings and Discussions

The structured qualitative interview responses with the bank managers and MTI officials are reported in sub-section 4.2.1 whereas, the SME questionnaire responses are reported in sub-section 4.2.2 and the regression results from the OLS are reported in sub-section 4.2.3.

4.2.1. Findings from Structured Interviews Conducted with Bank Managers and MTI officials

The qualitative data analysis led to the emergence of two themes from the structured interviews. This section presents the results obtained according to the categories or themes that were identified. The two themes identified are related to investment policy and the role of banking sector in support of SME financing as follows:

- SME financing, challenges and constraints for growth
- Policies, drivers and support services for SME financing

Theme 1: SME Financing, Challenges and Constraints for Growth

Table 3 summarizes how this theme emerged. The reasons identified by most of the respondents (90%) include lack of collateral, literacy difficulties and lack of access to banking services.

Table 3: Theme 1-SME financing, challenges and constraints for growth

Codes	**Categories**	**Theme**
• Lack of collateral • Literacy difficulties • Lack of access to banking services e.g. EFT and online banking	• Difficulty in accessing finance • Challenges to financing	• SME financing, challenges and constraints for growth

Source: Data collected through interviews, November, 2013

One of the participants said:

> *The problem to financing SMEs is that it is difficult to communicate with them in the official language and that mostly they do not understand financing contracts, therefore most of the time they prefer to use consultants.*

The provision of financial education to SMEs is important since many small business owners lack educational qualifications and operate in the informal sector. Binks et al. (as cited in Lindstrand& Lindbergh, 2011) argues that, banks have a critical role to play not only as partners that can provide capital but also as partners that can increase the financial knowledge of firms by providing advice pertaining to investments and continued growth.

Another participant said:

> *Most of the SMEs who apply for a loan for the first time lack security (collateral), which makes it very risky to lend to such customers.*

Another participant shared the following information on lack of access to banking services.

> *With modern information technology banks are moving to providing online banking but SME business owners are not utilizing these services, they perceive that online services are difficult to access.*

This study further revealed that banks are providing an avenue for assisting SMEs, by providing needed training and capacity building on a number of issues, and support services.

Theme 2: Policies, Drivers and Support Services for SME Financing

This theme emerged after considering a number of reasons identified by respondents where support is most needed for providing finances to SMEs. Table 4 summarizes how this theme emerged and areas identified include mentoring services, promotion of SME assistance with opening of a bank account, providing a letter of credit, guarantee for tendering, provision of specialized training etc.

Table 4: Theme 2- Policies, drivers and support services for SME financing

Codes	**Categories**	**Theme**
• Mentoring services • SME promotions • Opening of bank accounts • Providing a letter of credit and guarantee for tendering • Provision of specialized training	• SME development • Business support services • Areas where assistance is needed	• Policies, drivers and support services for SME financing

Source: Data collected through interviews, November, 2013

The legal and regulatory framework plays a critical role in improving the SME Finance landscape, while preserving financial stability. The government through the Ministry of Trade and Industry initiated and availed policy statements as strategy to ensure that major problems to the sector's inability to realize their social and economic powers are realized. The aim was to ensure that small businesses have access to incentives on business development. This study revealed that 40% of SMEs are aware of the government SME policy but 60% of SMEs owners are not aware of it, which makes them not to be proactive.

One of the respondents said:

> *The reason we are involved with the SMEs is we want to stimulate economic growth and help them with long-term planning.*

This statement is supported by the literature, that SMEs are generally recognized as the drivers for economic development. Burzynska (2009) pointed out that modern economies in the world have developed primarily by making best use of the credit available in their systems.

With regards to the type of support that are provided to SMEs and the contributions to the SME success. One respondent shared this information:

> *When it comes to financing, we consider each business case separately and if the business is viable we can approve the loan even if the owner does not have expertise. Approval is based on condition that the SME will*

have to open a bank account with us and agrees to be mentored as well as be trained by us.

There is room for growth and in order to reach vision 2030 SMEs need to be supported, young people should be the target and their mindset should be changed to become entrepreneurs.

Another said:

We contribute to the success of SME through Research and Development (R&D) that we provide loans to them if the business concept is viable and many of them grow to become successful businesses. We also provide SMEs with letters of credit guarantee for tendering; many of them are very successful.

In response to the question on the criteria used in loan approvals, one respondent said:

There are many factors used in approving loans. He emphasized that not only the business should be viable but the business should be able to create jobs for the jobless

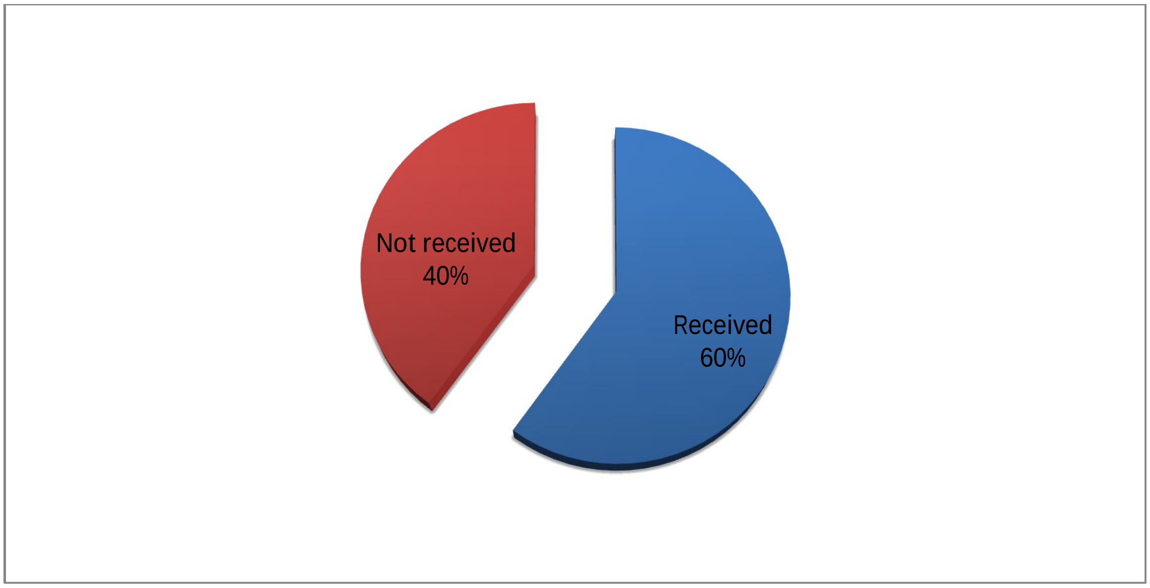
This is supported by the argument by IFC (2010) who pointed out that SMEs typically create more jobs than do large firms, which is especially the case for recently created companies. Several studies have found that SMEs create more jobs than large firms do, both in developed and developing countries.

This study also revealed that commercial banks, the Development Bank of Namibia and MTI have been providing financial assistance to SMEs, but at a slow pace. The banks that were interviewed in this study only gave the number of SMEs in general that benefited from their institutional aid. Bank Windhoek indicated that, since 2001 they have been involved with SMEs and each year between 320 - 340 SMEs benefit from them financially. Due to none responses from other banks to provide information on the number of SMEs that have benefited financially each year, this current study was unable to perform trend analysis.

4.2.2. Findings from the SMEs

The results obtained through the SME questionnaire are presented in the following section. To make the presentation easier for readers to understand and conceptualize the findings of the research, presentation tools such as bar charts, line graphs and tables were used in condensing collected data.

Figure 8: Response rate



Source: Data collected through survey, November 2013

Figure 8 above depicts the response rate of the SMEs surveyed. Of the 120 questionnaires which were sent out, 72 were returned which represents a response rate of 60%. Of those 72 questionnaires returned, 42 were from the Khomas region, 15 were from the Otjozondjupa region and 15 from the Omaheke region.

4.2.2.1. Profile of the respondents

Table 5 below summarizes the data generated via questions A2 – A7 of the questionnaires (see appendix L). The results summarized in Table 5 show that the majority (n=40; 56%) of the respondents were male. Out of the 72 respondents, twelve respondents (16.67%) were between the ages of 25 - 30, twelve respondents (16.67%)

were between the ages of 31 - 35, four respondents (5.55%) were between the ages of 36 - 40, sixteen respondents (22.22%) were between the ages of 41 - 45, eight respondents (11.11%) were between the ages of 46 – 50 and twenty respondents (27.78%) being the majority were of the age 51 and above. Majority (n=64; 88.89%) of the respondents were Namibians, while only (n=8; 11.11%) were foreigners. The result also showed that 77.78% of the respondents held the position of owner and manager, while 22.22% of the respondents held the position of employed manager. Among these twenty respondents (27.78%) had purchased the business, forty respondents (55.56%) founded the business, two respondents (2.78%) inherited the business and ten respondents (13.88%) had become business owners by other means such as being co-founder with the owner. The educational background of the respondents was predominantly those with undergraduate degree (n=24; 33.33%), twenty respondents (27.78%) were having only high school education, twenty respondents (27.78%) had obtained a certificate or diploma, eight respondents (11.11%) had obtained a Honors or Master’s degree. The question on education was asked to find out whether SME owners were well educated, especially in respect of reading information concerning contracts, SME promotion and development.

Table 5: Profile of SME respondents (N=72)

Category	Number	Percentage
Male	40	56
Female	32	44
Total	**72**	**100**
Age (Years)		
25 – 30	12	16.67
31 – 35	12	16.67
36 – 40	4	5.55
41 – 45	16	22.22
46 – 50	8	11.11
51 and above	20	27.78
Total	**72**	**100**
Nationality		
Namibian	64	88.89
Other	8	11.11
Total	**72**	**100**
Position held		
Owner and Manager	56	77.78
Employed Manager	16	22.22
Total	**72**	**100**
How you became owner of the business		
I purchased it	20	27.78
I founded it	40	55.56
I inherited it	2	2.78
Others	10	13.88
Total	**72**	**100**
Education		
Primary school	0	0
Junior school	0	0
high school	20	27.78
Certificate or Diploma	20	27.78
Undergraduate degree	24	33.33
Honors/ Master’s degree	8	11.11
Doctorates	0	0
Other	0	0
Total	**72**	**100**

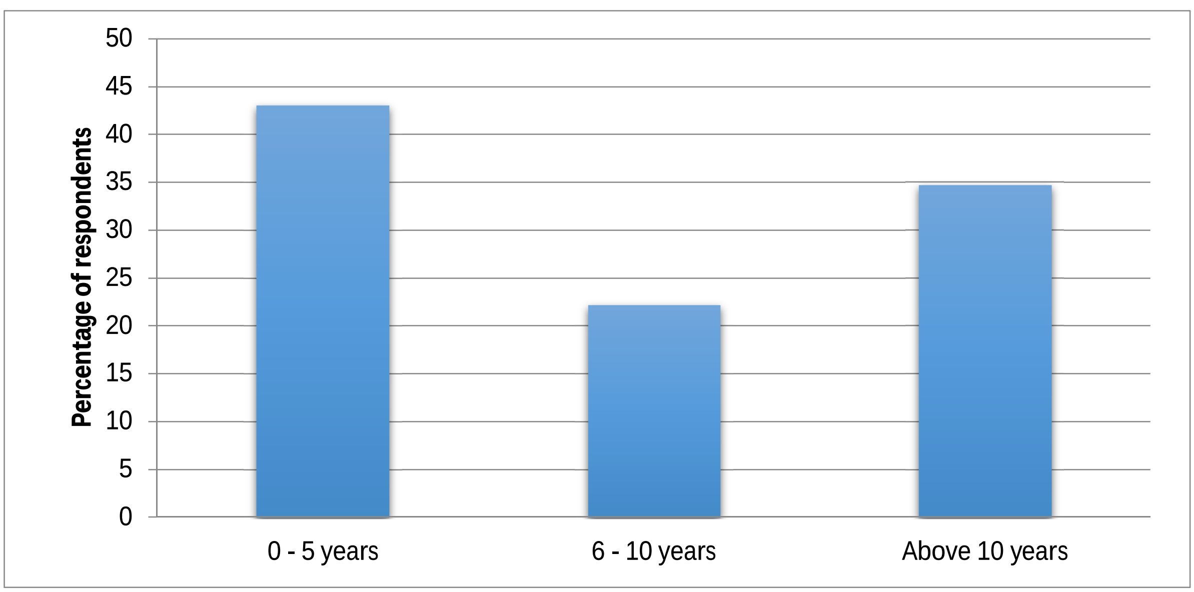
Source: Data collected through survey, November 2013

4.2.2.2. Background information of business owner's

Age of Business

The current study shows that 43% of the respondents had been in the business for less than five years, 22% have been running their business for more than five years and 35% of the respondents had been in the business for more than ten years. Most of the respondents have stayed in a business for more than 5 years, which indicates a degree of stability in business. This also shows that respondents were well placed to answer the survey questions as they had enough experience of operating a business.

Figure 9: Number of years SME is in operation

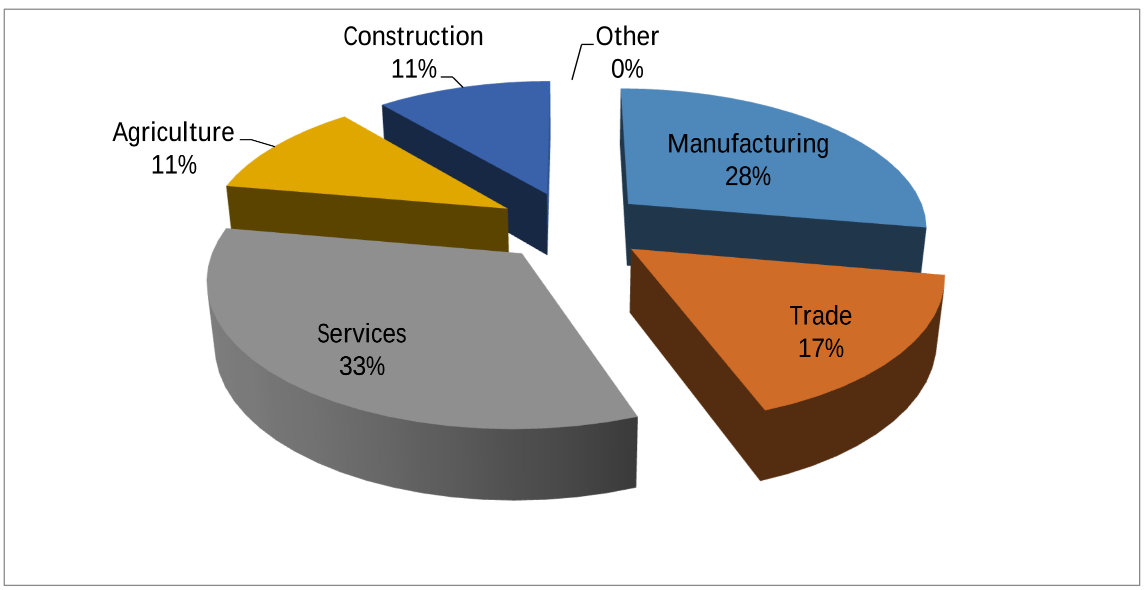


Source: Data collected through survey, November 2013

Type of Business

In response to this question, it was found that the majority of the respondents are in the service business (33%), 8% are in the manufacturing sector, 17% of the respondents are in the trade sector, while 11% are both in the agriculture and construction sector; however, none of the respondents indicated any other sector. The challenges that are involved with accessing finance which was discussed in the literature, especially with regards to start-up capital, could make SMEs opt for being in the service sector because it requires less investment to start a business in service sector.

Figure 10: Type of business

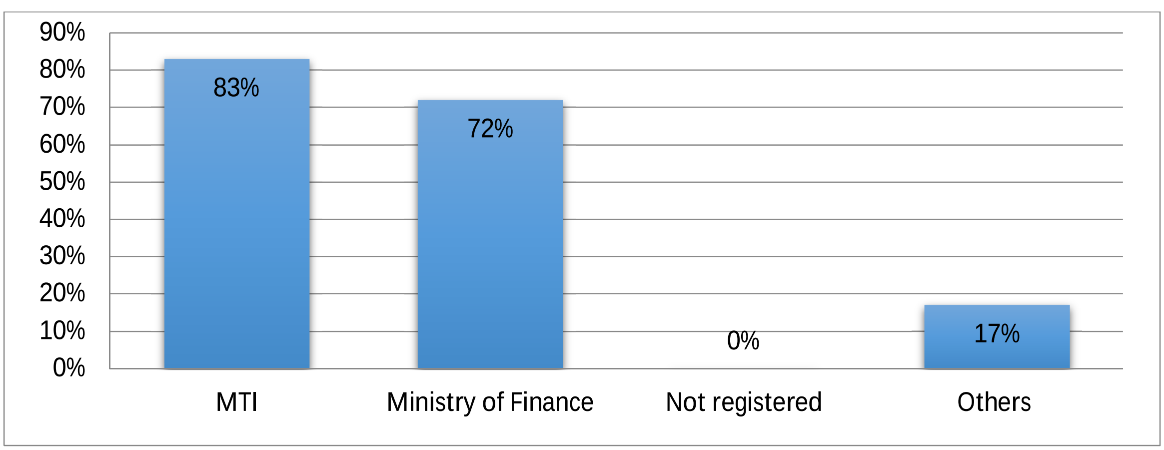


Source: Data collected through survey, November 2013

Business Registration

In response to this question the respondents were required to indicate all the authorities with whom they are registered with. More than 80% (60 of 72 respondents) of the SMEs that were surveyed indicated that they had officially registered their business with the Ministry of Trade and Industry. About 72% of the businesses were also registered with the Ministry of Finance, while 17% were also registered with other authorities such as Social Security Commission (SSC) and Namibia Tourism Board (NTB). The reason SMEs register with the MTI is in order to register their business name and in order to acquire the SME certificate that gives them access to participate in tenders, while the registration with Ministry of Finance is for tax purposes and participation in tenders, registration with SSC is mainly for tenders and registration with NTB is for businesses in tourism to start operating.

Figure 11: SME business registration (%)

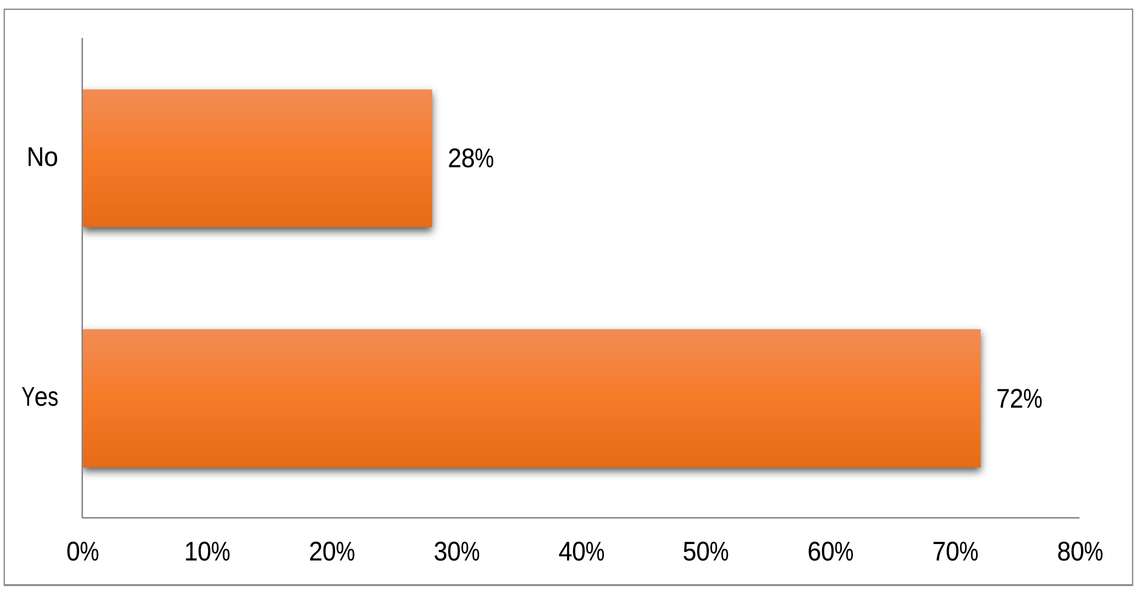


Source: Data collected through survey, November 2013

Access to Trade Credit

The study revealed that 72% of the respondents purchased goods on credit during 2012, while only 28% indicated that they did not purchase the goods on credit. This is an indication that most of the SMEs are not financially stable to purchase goods on a cash basis which might be cost effective. The researcher asked this question in order to find out other sources of finance available to small businesses, as revealed in the literature review.

Figure 12: Access to trade credit



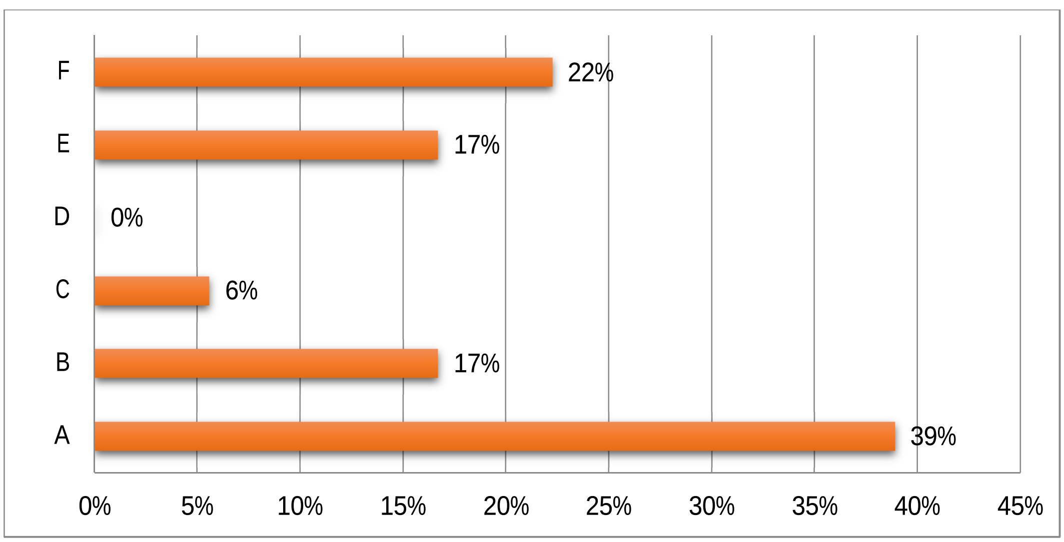
Source: Data collected through survey, November 2013

4.2.2.3. SME Financing, Challenges and Constraints

Start-up business capital

Figure 13 indicates that the level of capital employed by most businesses for start-up (39%) is less than N$100 000. About 22% of the respondents have started their business with more than N$500 001 of capital. This finding supports the results depicted in figure 14 that bank finance remains as the most important source of external finance to SMEs because the amount of capital employed is very huge.

Figure 13: Start-up business capital



A= Less than N$ 100 000 (39%)

B= N$ 100 001 to N$ 200 000 (17%)

C= N$ 200 001 to N$ 300 000 (6%)

D= N$ 300 001 to N$ 400 000 (0%)

E= N$ 400 001 to N$ 500 000 (17%)

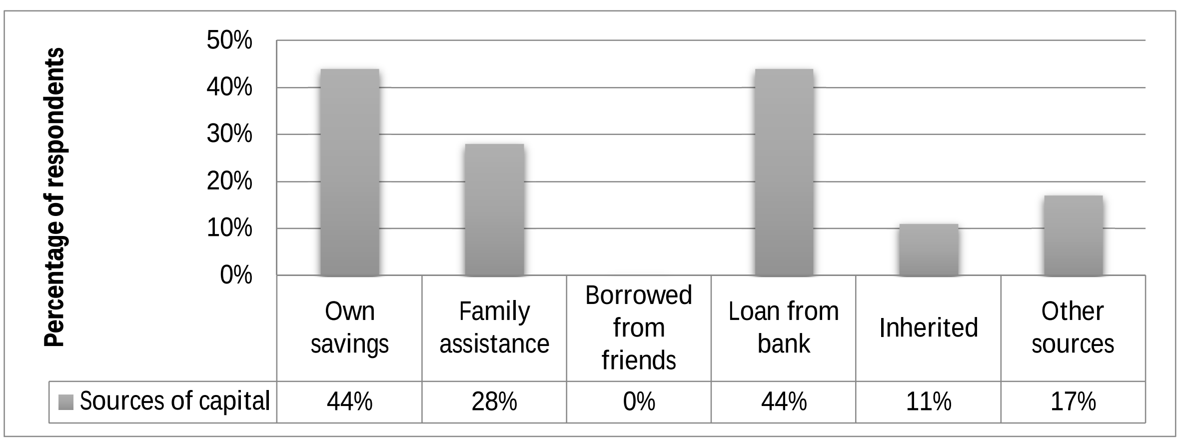
F= More than N$ 500 001 (22%)

Source: Data collected through survey, November 2013

Sources of Capital

With regard to the sources of capital, this study found that 44% used their own savings and bank loans while 28% were assisted by family members. The additional 17% stated that they started their business using other sources such as pension payouts and government assistance while the remaining 11% stated that they inherited the business from their family members. The response rate with regard to sources of capital is shown in Fig 14 below. These results suggest that bank financing remains the most important source of external finance for SMEs which is also consistent with findings by Berggren and Silver, (2010) and IFC, (2010).

Figure 14: Sources of capital to start-up the business

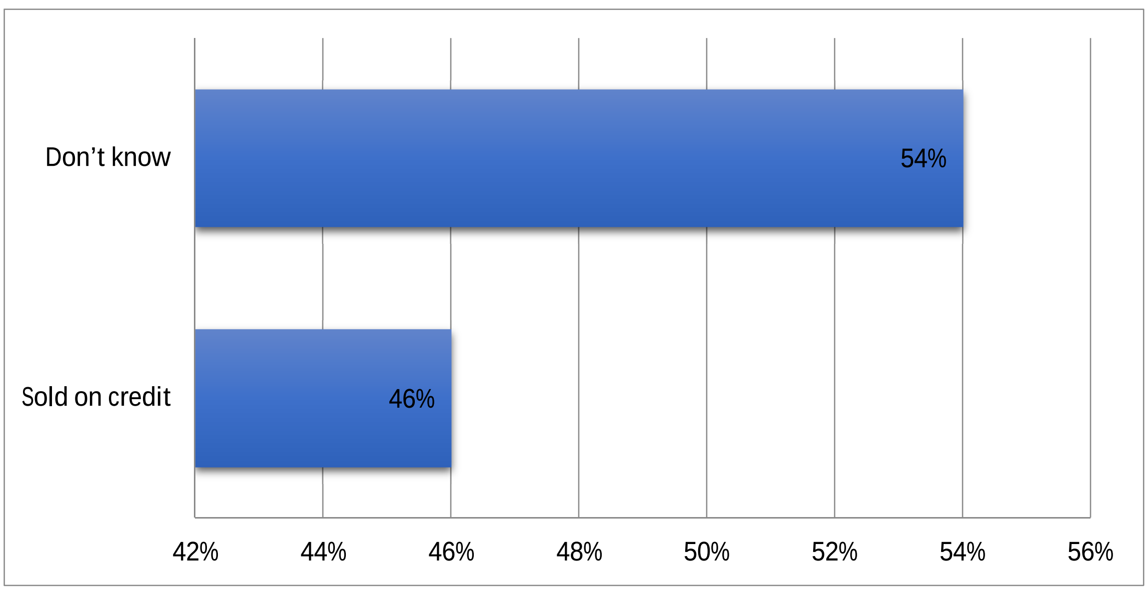


Source: Data collected through survey, November 2013

Value of credit sales of goods and services

With regard to the value of credit sales, figure 15 below indicates that 32 respondents representing 46% stated that they knew the value of their goods and services sold on credit while the remaining 40 respondents representing 54% were unsure of the amount of credit sales. This indicates most SMEs lack sound cash management principles and could experience high risk of bad debts.

Figure 15: Knowledge with regard to value of credit sales (%)

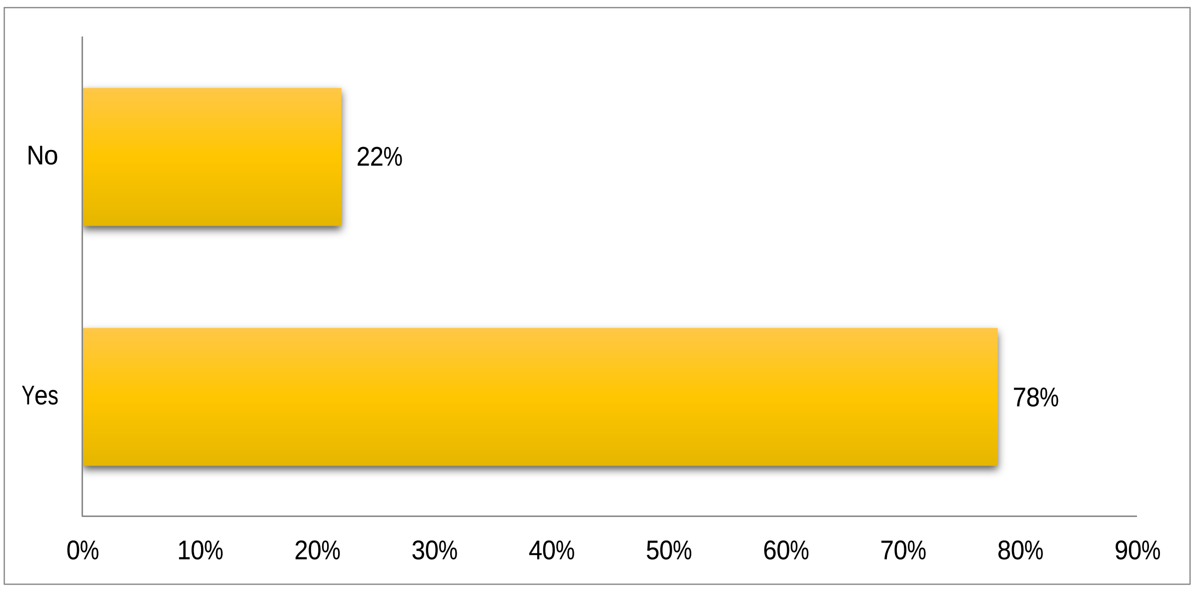


Source: Data collected through survey, November 2013

Profit or loss making

With regard to whether the businesses made profit or loss for the year 2012, 78% of respondents noted that they made profit while the remaining 22% noted that they did not make a profit as depicted in Figure 16 below. The reason why a greater number of SMEs were profitable can be attributed to the fact that their expenditures were very low and as previously indicated that it might be that sound cash management principles were in place.

Figure 16:Response rate on whether the businesses made profit / loss in 2012 (%)

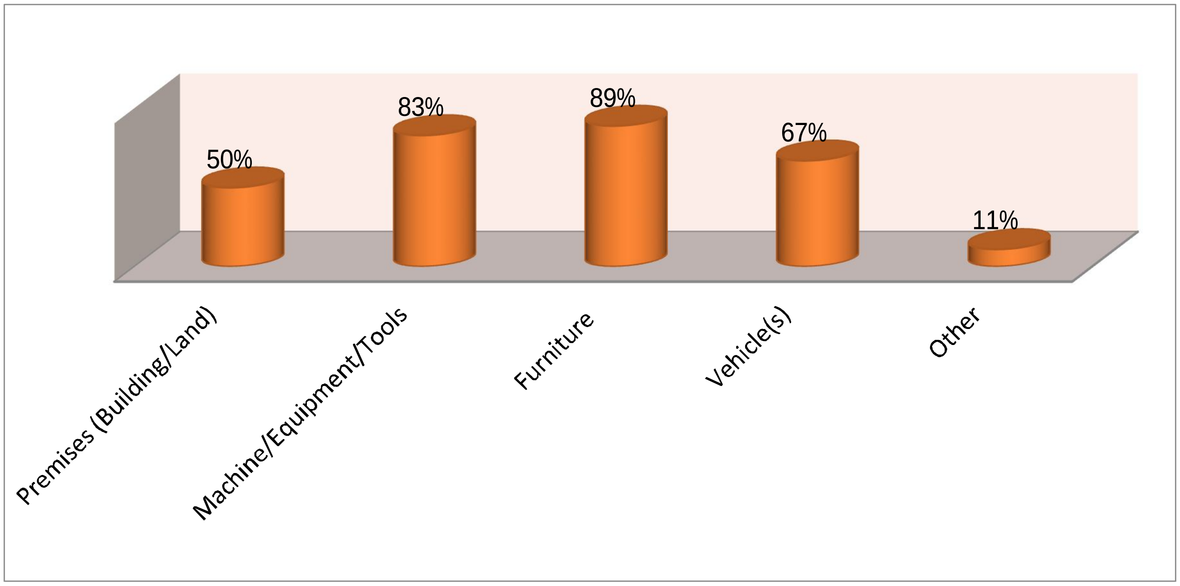


Source: Data collected through survey, November 2013

Ownership of assets

In terms of ownership of assets, the researcher wanted to find out if the SME owners have assets which can be pledged as collateral, when applying for external sources of financing. In response, most of the respondents (89%) indicated that they own furniture followed by machinery/equipment/tools (83%); vehicles (67%), premises (50%) and 11% responded that they own other assets such as clothes, shoes and handbags.

Figure 17: Different assets owned by SME business



Source: Data collected through survey, November 2013

Total value of assets

From the research carried out, as depicted in Table 6 below, most respondents (n=36 ;50%) indicated that the value of their total assets in 2012 was worth above N$1,000,001.00. While others (n=32; 44%) indicated that their total assets are worth less than N$500,000.00. The remaining respondents (n=4; 6%) indicated that their total assets are worth between N$500,001.00 to N$1,000,000.00. This indicates that SMEs are able to provide the required collateral when accessing external finances from the banks and therefore it suggests that small businesses are profitable business.

Table 6: SMEs total value of assets in 2012

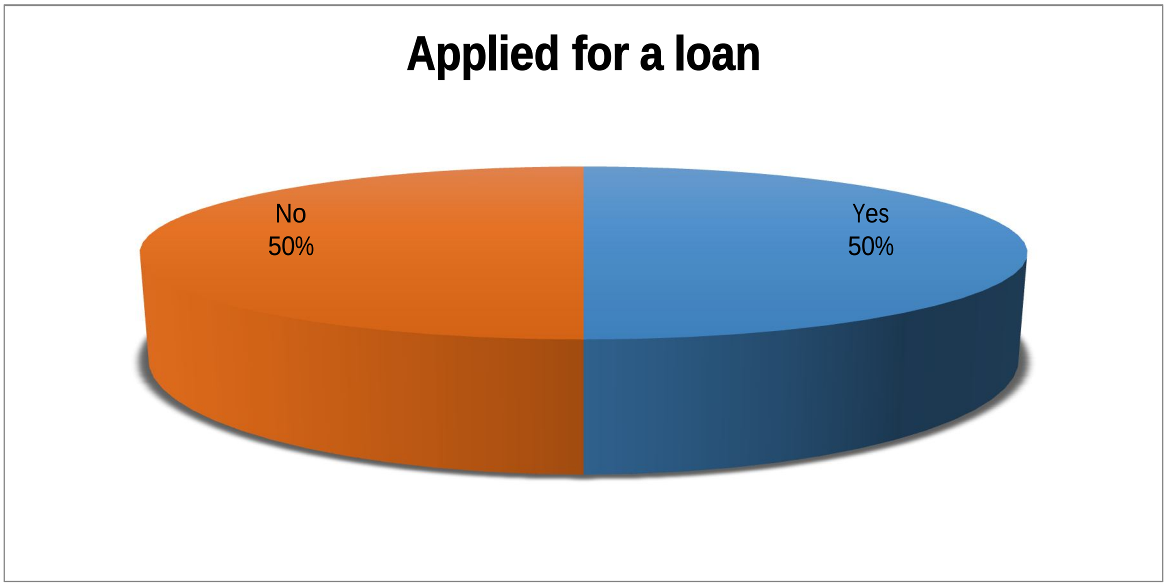
Value of assets	**Frequency**	**Percentage**
Less than N$500,000.00	32	44
Between N$500,001.00 – N$1,000,000.00	4	6
Above N$1,000,001.00	36	50
Total	**72**	**100**

Source: Data collected through survey, November 2013

Loan application

The pie chart below depicts the response rate of SMEs who applied for loans and those who did not apply for loans in 2012.

Figure 18: SME who applied for loans in 2012



Source: Data collected through survey, November 2013

The study revealed that 50% (n=36) of the respondents did not apply for a loan during 2012 and the other 50% (n=36) applied for a loan. Since small businesses depend so heavily on bank loans, the result shows that external finance is important in the growth of SMEs.

Approval of loans

Of those who applied for bank loans, most of the respondents (n=32; 89%) acknowledged that their loans were approved. The remaining (n=4; 11%) had their proposals disapproved as indicated in Table 7 below. Based on this finding, this suggests that financial service providers (banks in particular) have initiated efforts in order to address the lack of access to finance as the research found that SMEs have more access to bank finance.

Table 7: Approval of loans from the bank

Loan approval	Frequency	Percentage
Yes	32	89
No	4	11
Total	**36**	**100**

Source: Data collected through survey, November 2013

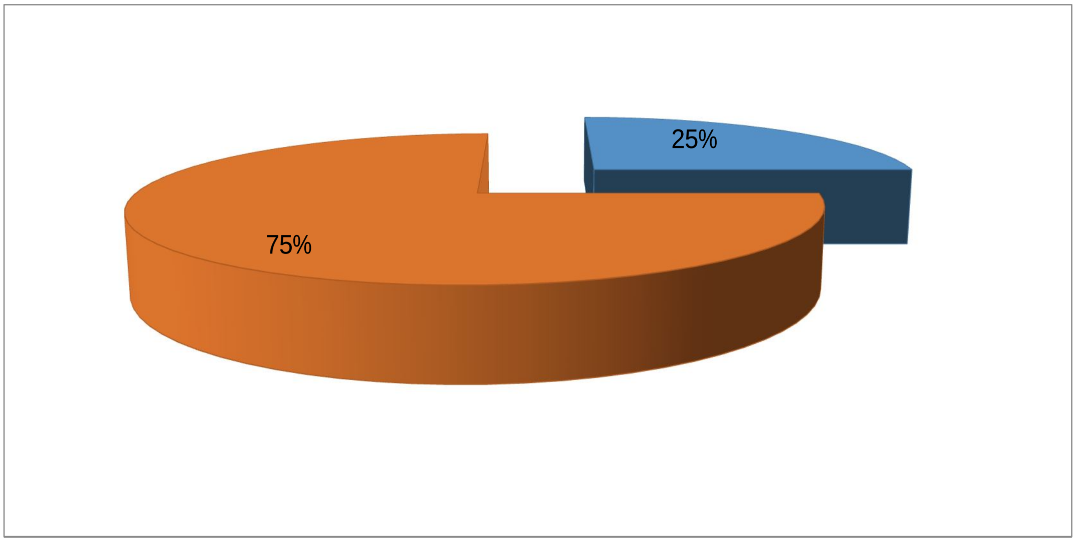
Loan amount received

Of the 32 respondents who acknowledged approval and receipt of loans, the amount they received ranged from N$60,000.00 to N$3,200,000.00.

Reasons for disapproval of loans

Of the 36 respondents who noted that their loans were not approved, most respondents (n=27; 75%) mentioned that lack of collateral was the major reason behind their loan disapproval while the remaining (n=9; 25%) cited the failure of drawing a business plan as the reason to get their loan applications approved.

Figure 19: Reasons for loan dissapprovals

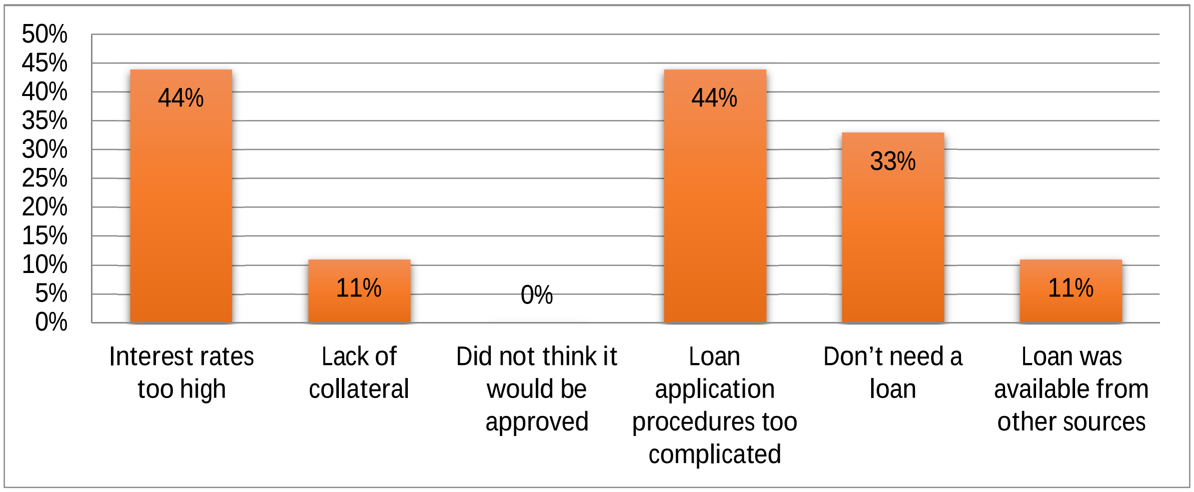


Source: Data collected through survey, November 2013

Reasons for not applying for bank loans

From the research carried out, approximately 44% of the respondents indicated that the reason they did not apply for a loan is because the interest rates are too high, as well as loan application procedures are too complicated. About 33% of the respondents revealed that they were not in need of a bank loan. The other 11% revealed that they did not apply for a bank loan because of lack of collateral.

Figure 20: Reasons for not applying for a loan



Source: Data collected through survey, November 2013

Bank overdraft as another source of bank finance

In response to whether the SMEs utilize bank overdraft facilities or not, approximately 61% of the respondents acknowledged having an overdraft bank facility while the remaining 39% acknowledged that they do not use bank overdraft facilities as indicated in Table 8 below.

Table 8: SME business with bank overdraft

Had an overdraft	Frequency	Percentage
Yes	44	61
No	28	39
Total	**72**	**100**

Source: Data collected through survey, November 2013

Problems SMEs are currently facing

In this regard the researcher used a 5 point scale to measure the problems facing the SMEs, where 1 means not a problem and 5 means a major problem. The results are summarized in Table 9. Although the contribution of small businesses to development is generally acknowledged, entrepreneurs are faced with many obstacles that limit growth and survival of SMEs. According to Chu, Kara, Zhu and Gok (2011) found that critical problems encountered by Chinese entrepreneurs are, undependable/ unreliable employees, competition, lack of management training, lack of marketing knowledge and inability to maintain accounting records.

Among the problems that this current research found are: lack of on site management advisory service, lack of on site management advisory service, lack of on-site technical advisory services, lack of technical information, lack of marketing information, lack of information on cheaper sources of goods, lack of finance for working capital and lack of keeping labor with skills required.

From Table 9 below, 20 (27%) of the respondents think lack of management training is a slight problem and the majority of the respondents (50%) are of the opinion that it is not a problem. About 33% of the respondents rated lack of on site management advisory service as a slight problem and also they rated it as not a problem, while 27% rated lack of technical training not a problem, slight problem and moderate problem.

Table 9: Major problems facing SME (% of SMEs)

Type of problem faced	Not a Problem	Slight Problem	Moderate Problem	Problem	Major Problem
Lack of management training	50	27	6	6	11
Lack of on site management advisory service	33	33	22	6	6
Lack of technical training	27	27	27	7	12
Lack of on-site technical advisory services	28	39	11	11	11
Lack of technical information	38	44	6	6	6
Lack of marketing information	50	32	6	6	6
Lack of information on cheaper sources of goods	50	39	3	5	3
Lack of finance for working capital	28	33	11	11	17
Lack of finance for investment	17	39	17	17	10
Lack of labor with skills	17	17	28	19	19
Lack of keeping labor with skills required	28	17	22	11	22
Lack of payment (late payment)	28	17	17	22	16
Other (specify)	0	0	0	6	6

Source: Data collected through survey, November 2013

As depicted in Table 9 above, the majority of the respondents (44%) opined that lack of on-site technical advisory services is a slight problem. Thirty six respondents representing 50% thought that lack of marketing information is not a problem while 32% agreed that it is a slight problem. Similarly 50% of the respondents are of the opinion that lack of information on cheaper sources of goods is not a problem while 39% agreed that it is a slight problem; the majority of the respondent (33%) indicated that lack of finance for working capital is a slight problem; similarly 39% of the respondents are of the opinion that lack of finance for investment is a slight problem. About 28% agreed that lack of labor with skills is a moderate problem; while 28% think lack of keeping labor with skills required is not a problem and 22% opined that lack of keeping labor with skills required is a moderate problem. Similarly 28% agreed that lack of payment (late payment) is not a problem and 22% opined that lack of payment (late payment) is a problem. Finally about 6% of the respondents face other problems such as higher tax and lack of credit purchases.

Type of support which is viewed as critical for SMEs' success

In this regard, the researcher used a 5 point scale to measure the type of support SMEs need for the success of their business, where 1 means totally not needed and 5 means most needed. The results are summarized in Table 10. Almost 28% of the respondents stated that market information support is not needed for the success of their business, while 22% were of two opinions; that market information is needed or could be needed. The majority of the respondents (33%) agreed that transport support is not needed while

28% opined that vocational training support is not needed; similarly the majority of the respondents (39%) opined that technical advice support could be needed while 33% opined that ideas about products support could be needed; about 33% indicated that they do not need advice on business organization while 39% stated that finance for working capital or investment support could be needed. Almost (24%) of the respondents indicated that they do not need business planning support to get loan; finally SMEs were also asked to give other type of support needed for the success of their business and about 11% opined that tax relief is the most needed support.

Table 10: Areas where SMEs need support (% of SMEs)

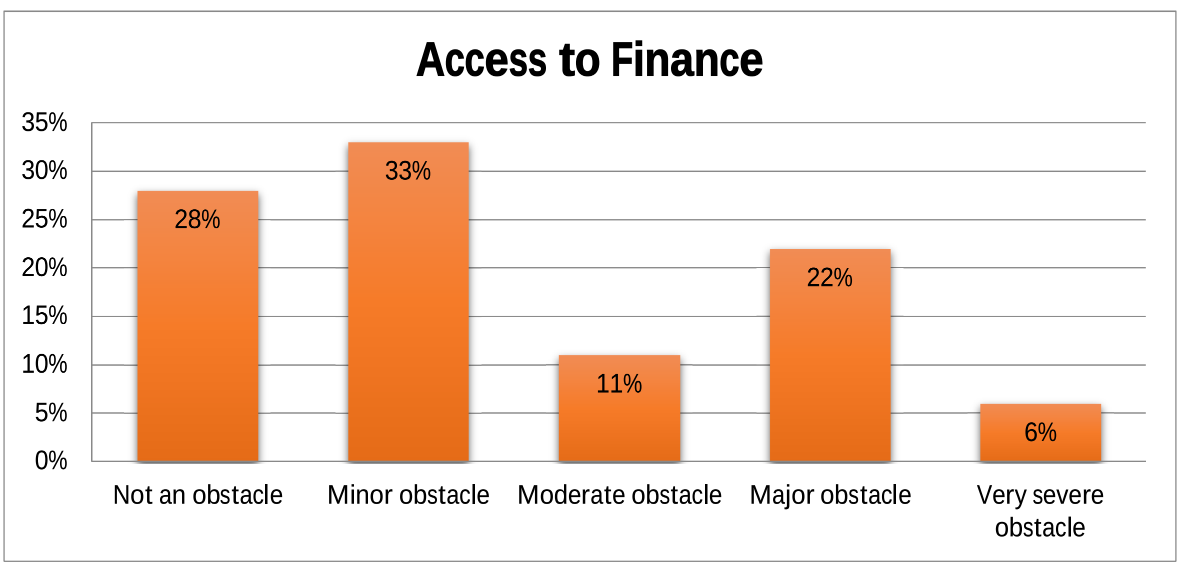
Support	**Totally not needed**	**Not needed**	**Could be needed**	**Needed**	**Most needed**
Market information	14	28	22	22	14
Transport	22	33	17	14	14
Vocational training	14	28	18	22	18
Technical advice	5	11	39	28	17
Ideas about products	11	17	33	28	11
Advice on business organization	11	33	22	17	17
Finance for working capital or investment	11	17	39	11	22
Business planning to get a loan	22	24	18	18	18
Other (specify)	0	0	0	6	11

Source: Data collected through survey, November 2013

Extent to which access to finance is an obstacle to the current operations of SMEs

In this regard the researcher used a 5 point scale to measure the type of support SMEs need for the success of their business, where 1 means not an obstacle and 5 means very severe obstacle. The results are summarized in Figure 21. As depicted in Figure 21 below, 33% of the respondents opined that having access to finance is a minor obstacle while only 6% agreed that access to finance is a very severe obstacle. The other 22% of the respondents acknowledged access to finance as a major obstacle. Furthermore, 11% of the respondents put access to finance as moderate obstacle while the remaining 28% of the respondents were of the opinion that access to finance is not an obstacle. This is an indication that banks are providing quality financial services to small businesses at reasonable costs.

Figure 21: The degree of access to finance as an obstacle



Source: Data collected through survey, November 2013

4.2.3. Findings from the OLS regression results

This section presents the results from the OLS regression model estimated using STATA statistical package as specified in Chapter Three to find out the relationship between bank finance and performance of SMEs.

4.2.3.1. Descriptive Statistics of the Regression Variables

Table 11 below shows the descriptive statistics of the variables used in this research (see appendix A).

Table 11: The descriptive statistics of the variables

Variables	**Number of observations**	**Mean**	**Std. deviation**	**Minimum**	**Maximum**
Roa	57	1.48517	4.044455	0.004	16
Bankl	57	5.71053	9.74906	0	32
Over	57	0.54386	0.5025	0	1
Age	57	10.0702	0.5025	0	23
leverage	57	0.1274	0.180095	0	0.5

Source: Author's own computation

From Table 4.9 above, variable *bank* has the highest mean and the highest standard deviation compared to other variables. From the preliminary analysis of data in Table 11 above, the mean of ROA of the sample is 1.5%. It can also be noted that about 54% of the firms used bank overdraft finance. The average age of the firms in the sample is 10 years while the mean leverage is relatively low at 13%.

4.2.3.2. Contemporaneous correlations of the variables

Table 12 below shows the contemporaneous correlations of the variables used in this research (see appendix B). From Table 12, ROA, which measures firm's performance is positively correlated to overdraft but negatively correlated to the variables *bankl, age* and *leverage*. Furthermore, Table 12 Indicates that multicollinearity is not an issue in the regression model as the variables have no approximate linear relationship.

Table 12: Contemporaneous correlations matrix

	Roa	*Bankl*	*Over*	*Age*	*Leverage*
Roa	1				
Bankl	-0.19	1			
Over	0.1218	-0.1058	1		
Age	-0.3151	0.4842	-0.124	1	
Leverage	-0.2064	0.6685	-0.1421	0.1413	1

Source: Author's own computation

4.2.3.3. Interpretation of the regression results

Table 13 lists the regression results of from equation (1) specified in the research methodology in Chapter 3 (see also appendix C – E). Regression (1) tests the influence of bank loan finance on the ROA of SMEs. From Table 13 the results of regression (1) prove that performance of SMEs is significantly positively related to the amount of bank loan. This is so because variable *bankl* is significant at 1% level of significance with a positive coefficient of 0.0430246. This indicates that if SMEs increase their bank loans, they also increase their performance as measured by ROA. This finding is also consistent with theory and findings by Su and Sun (2011).

Regression (2) in Table 13 Tests the influence of bank overdraft on the performance of SMEs and determine if the SMEs which take bank overdrafts perform better than those SMEs which do not take banks overdraft since *over* is a dummy variable which takes the value of 1 if firm takes an overdraft and 0, otherwise. Results in Table 13 shows that variable *over* is not significant in explaining changes in *Roa*, although this variable has the expected sign (positive) to indicate that firms which take bank overdrafts perform better than those which do not take bank overdrafts holding other variables in the model constant.

Table 13: Regression results

Variables	(1)	(2)	(3)
Bankl	0.0430246* (0.0119462)		0.0425152* (0.0122088)
Over		0.1548529 (0.4292755)	0.128852 (0.4289222)
Age	-0.1858599* (0.0236551)	-0.1615929* (0.0204648)	-0.1846341* (0.0239253)
Leverage	0.2386761 (0.9639731)	0.089729 (0.6807201)	-1.328704 (0.9784136)
Constant	0.2732755 (0.4678682)	0.001699 (0.4956307)	0.1857886 (0.5294648)
Number of observations	57	57	57
R-squared	0.3682	0.3518	0.3692
Prob> F	0.0000	0.0000	0.0000

*Note: Numbers in the parentheses are the robust standard errors. *Significant at 1% level.*

Source: Author's own computation

Regression (3) in Table 13 above tests the influence of both bank loans and overdraft facilities on the ROA of SMEs. The results show that those only SMEs with bank loans are significantly positive in explaining the performance of SMEs as given by the positive coefficient of 0.0425152 which is significant at 1% level of significance. Variable *over* remains insignificant in explaining the performance of SMEs. It is imperative to note that in all the three regressions results (1-3), variable *age* is significant in explaining the performance of SMEs at 1% level of significance with a negative coefficient. This indicates that as SMEs grows old, the ROA decline. This is also consistent with findings by Su and Sun (2011) who found a negative relationship between age and performance of firms. Variable *leverage* is insignificant in explaining the performance of SMEs in all the three regression results.

4.3. Summary

This chapter reported on the findings from the research by focusing on data presentation, analysis and interpretation of findings. The researcher chose to combine quantitative and qualitative methods to complement the results in this study. In chapter five the conclusions and recommendations based on the theoretical and empirical study will be discussed.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The previous chapter focused on the interpretation and discussion of the results of this study. This chapter presents the summary of the findings, conclusions and recommendations based on the findings from Chapter Four.

5.2. Summary of Findings and Conclusions

Despite SMEs' critical role as the drivers of economic growth as argued by Migiro (2005) and Ramsdem (2010), they still face a plethora of problems, chief among them, and lack of access to finance to start up and expand the business. Although some studies have been carried so far to determine the challenges facing SMEs in Namibia and the ways of mitigating them (Ramsdem, 2010), less attention has been paid on the investment policy and access to bank finance. The main theme of this study was to explore and describe the investment policy and the role of the banking sector in financing SMEs in order to fill the gap in SME literature with regard to their challenges and ways of solving their problems. This study utilized questionnaires and interviews to gather information from the SMEs, banks and Ministry of Trade and Industry in order to meet the objectives of this study.

Conclusion on Research objective 1: To review the investment policy of the banking sector and the ease of SME access to bank finance

This study reveals that 40% of the SMEs are aware of the government SME policy but 60% of the SMEs owners are not aware of it, which makes them not to be proactive. The study found that the legal and regulatory framework plays a critical role in improving the SME finance landscape; this confirms the result by IFC (2010).

Based on the findings from the SMEs, the most important source of money to start-up a small business is from own savings and loans borrowed from the bank. The above support the result by IFC (2010) and Berggren and Silver (2010) which found that bank financing remains the most important source of external finance to SMEs. Contrary to the study by (Migiro, 2005; De la Torre, MartinezPería & Schmukler, 2010; Ramsdem, 2010; Su & Sun, 2011) the evidence in this thesis indicate that access to finance is a minor obstacle in financing SMEs. However, SMEs unable to obtain access to finance cited a lack of collateral, high interest rates and loan application procedures being complicated as the main reasons. This study further reveals that to serve SMEs, banks are developing new business models, technologies and risk management systems. This confirms the findings by Beck, Demirgüç-Kunt and MartinezPería (2008); De la Torre et al (2008); and De la Torre, MartinezPería and Schmukler (2010).

Conclusion on Research objective 2: To determine the extent to which bank finance contributes to the SME success

The results from the SMEs indicate that among the ways in which SMEs could succeed are: Tax relief support, finance for working capital support and ideas about the products (marketing). This finding confirms to the study by Ferreira, Strydom and Nieuwenhuizen (2010) which concluded that business owners should be assisted especially in finance, marketing and human resource areas. Similarly, the evidence from the interviews reveals that commercial banks contributes to the success of the SMEs by proving the following support: mentoring services, opening of bank accounts, providing letters of credit guarantee for tendering and provision of specialized training such as Research and Development (R&D).

The study empirically tested the influence of bank finance on SME success measured by ROA and found that the amount of bank loans approved has a positive effect on the performance of SMEs as measured by the ROA. This indicates that the more the amount of a loan taken by SMEs, the greater the chance of success and vice versa. This finding is consistent with theory and findings by Su and Sun (2011).

5.3. Recommendations

The recommendations derived in this thesis are based on the conclusions that were found and are stipulated below.

- SMEs that are unable to obtain access to bank finance cited lack of collateral, high interest rates and loan application procedure being complicated as the main reasons. From this conclusion, it is recommended that SME entrepreneurs and managers should seek to develop and improve their information management practice by keeping proper and accurate records of firm operations, which could reduce the bank's perception of risk and facilitate easier access to financing to SMEs on favourable terms of credit.
- Despite the above mentioned challenges, by increasing their bank loans the SMEs may also increase their chances of success as this study found a positive relationship between the amount of bank loan and the performance of SMEs.
- In order to induce growth of the SME sector, banks should still develop more products designed to serve the needs of SMEs.
- The Ministry of Trade & Industry should release data information's of SMEs developments; similarly government should come up with a policy for commercial banks to compulsory submit data on SME access to bank finance.

5.3.1. Recommendations for future research

Due to the time constraint and limited data, further work in this same area should also consider variables that are important in measuring company performance in order to come up with the best results. Furthermore, future research may also increase the sample size of the study to see if results will remain robust.

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Appendix A

Descriptive statistics of the variables

```
. Summarizeroabankl over age lever
```

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	57	1.485165	4.044455	.004	16
bankl	57	5.710526	9.74906	0	32
over	57	.5438596	.5025	0	1
age	57	10.07018	7.213231	0	23
lever	57	.1273971	.180095	0	.5

Appendix B

Correlations of the variables

```
. correlateroabankl over age lever

(obs=57)


             |    Roabankl     over      age     lever

-------------+---------------------------------------------

Roa          |   1.0000

bankl        |  -0.1900   1.0000

over         |   0.1218  -0.1058   1.0000

age          |  -0.3151   0.4842  -0.1240   1.0000

lever        |  -0.2064   0.6685  -0.1421   0.1413   1.0000
```

Appendix C

Regression results for the influence of bank loan on ROA

```
. xi:regresslogroabankl age lever, robust

Linear regression                                     Number of obs =      57

F(  3,    53) =   31.26

Prob> F      =  0.0000

                                                      R-squared     =  0.3682

                                                      Root MSE      =  1.6193

------------------------------------------------------------------------------

             |               Robust

logroa       |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]

-------------+----------------------------------------------------------------

Bankl        |   .0430246   .0119462     3.60   0.001     .0190636    .0669856

age          |  -.1858599   .0236551    -7.86   0.000     -.233306   -.1384137

lever        |  -1.391297   .9639731    -1.44   0.155    -3.324782    .5421885

       _cons |   .2732755   .4678682     0.58   0.562    -.6651492      1.2117

------------------------------------------------------------------------------
```

Appendix D

Regression results for the influence of bank overdraft on ROA

```
. xi:regresslogroai.over age lever, robust

i.over           _Iover_0-1         (naturally coded; _Iover_0 omitted)


Linear regression                                      Number of obs =      57

F(  3,    53) =   29.55

Prob> F      =  0.0000

                                                       R-squared     =  0.3518

                                                       Root MSE      =  1.6401


------------------------------------------------------------------------------

             |               Robust

Logroa       |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]

-------------+----------------------------------------------------------------

_Iover_1     |   .1548529   .4292755     0.36   0.720    -.7061646     1.01587

age          |  -.1615929   .0204648    -7.90   0.000      -.20264   -.1205457

lever        |    .089729   .6807201     0.13   0.896    -1.275623    1.455081

       _cons |    .001699   .4956307     0.00   0.997    -.9924103    .9958083

------------------------------------------------------------------------------
```

Appendix E

Regression results for the influence of both bank loan and bank overdraft on ROA

```
. xi:regresslogroabankli.over age lever, robust

i.over            _Iover_0-1          (naturally coded; _Iover_0 omitted)


Linear regression                                      Number of obs =      57

F(  4,    52) =   23.03

Prob> F      =  0.0000

                                                       R-squared     =  0.3692

                                                       Root MSE      =  1.6334

------------------------------------------------------------------------------

             |               Robust

Logroa       |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]

-------------+----------------------------------------------------------------

Bankl        |   .0425152   .0122088     3.48   0.001     .0180164     .067014

_Iover_1     |    .128852   .4289222     0.30   0.765    -.7318434    .9895473

age          |  -.1846341   .0239253    -7.72   0.000    -.2326436   -.1366245

lever        |  -1.328704   .9784136    -1.36   0.180    -3.292034    .6346268

       _cons |   .1857886   .5294648     0.35   0.727    -.8766603    1.248237

------------------------------------------------------------------------------
```

Appendix F

Letter of introduction [Banks & MTI]

P.O.Box 31067
Pioneers Park
Windhoek
Namibia
07 October 2013

Dear Sir/Madam

I am a student at the University of Namibia pursuing a Master's degree of Science (Accounting & Finance) program in the Department of Accounting, Income tax and Auditing. An integral part of this program is writing of a thesis, the title of which is '**Investment policy and the role of the banking sector in financing Small and Medium Enterprise**" under the supervision of Prof/Dr. Udai Paliwal.

I need your permission to have a structured interview with yourself. I also need access to review your policy documents for SME financing. The information being collected will be used for this academic work only and complete confidentiality shall be maintained about the information provided. If permission is obtained I shall contact you in due time to fix a mutually agreeable date(s) to do the data collection.

I do hope that you will see your way clear to assist me, giving me permission to do my primary research.

Thanking you in advance for your time.

Yours faithfully
Felis Kapepiso (Mr.)
Cell: 081 3947 131

Appendix G

Letter of introduction [SMEs]

P.O.Box 31067
Pioneers Park
Windhoek
Namibia
07 October 2013

Dear Sir/Madam

I am a student at the University of Namibia pursuing a Master's degree of Science (Accounting & Finance) program in the Department of Accounting, Income tax and Auditing. An integral part of this program is writing of a thesis, the title of which is '**Investment policy and the role of the banking sector in financing Small and Medium Enterprise**" under the supervision of Prof/Dr. Udai Paliwal.

Kindly assist me to complete the questionnaire, which I have distributed and please return it to the above address. The information being collected will be used for this academic work only and complete confidentiality shall be maintained about the information provided.

I do hope that you will see your way clear to assist me, giving me permission to do my primary research.

Thanking you in advance for your time.

Yours faithfully
Felis Kapepiso (Mr.)
Cell: 081 3947 131

Appendix H

Form for Informed consent [Banks & MTI]

RESEARCH TITLE: Investment policy and the role of the banking sector in financing Small and Medium Enterprise

RESEARCHER: Felis Muhau Kapepiso, B.Acc (Unam)

I am a student at the University of Namibia pursuing a Master's degree of Science (Accounting & Finance) program in the Department of Accounting, Income tax and Auditing. An integral part of this program is writing of a thesis.

The specific objectives of this research is, to review investment policy of banking sector and ease of SME access to bank finance and the second objective is to determine the extent to which bank finance contributes to the success of SMEs. This study contributes to the field of finance, research and practice regarding the analysis of SME finance. Several studies have, so far, been conducted in Namibia regarding the development of the SME sector, but no single piece of research was conducted to analyze the role banking sector play in proving funds to SME sector and their contribution to SMEs success.

I seek your cooperation in this academic venture for understanding some of the issues that are important for the research. A list of such issues is enclosed for your reference. Participating in this research will take approximately 30 minutes. *You are free to ask any questions about this research or about being a participant and you may call me at 061-290 6057(W) or 081 3947 131(M) if you have further questions. Should you also wish to verify the authenticity of this research, you can do so by telephoning Prof/Dr. Udai Paliwal, Deputy Dean, Faculty of Economics and Management Sciences, University of Namibia main campus on 061-206 3434.*

Your participation in this research is voluntary and you are under no obligation to participate but your participation will be very valuable and important to the success of this research. You have the right to withdraw at any time without any penalty. *Your identity will not be revealed while the research is being conducted or when the study is reported or published. Please take note also that all the information will be reported as one, therefore; no strategy of an institution will be revealed.*

I (the participant) have read the information above and any questions I have asked have been answered to my satisfaction. I agree to participate in this study, realizing that I may withdraw at any time.
The signed consent will be sealed in an envelope and placed in one container. Your completed interview responses will be sealed in another envelope and placed in another container. In this way it will be extremely difficult to link sign consent with your completed interview responses.

I agree that the research data gathered for this study may be published provided I am not identifiable.

________________________ ___________

Participant (Name) **Date**

________________________ ___________

Researcher **Date**

Appendix I

Form for Informed consent [SMEs]

RESEARCH TITLE: Investment policy and the role of the banking sector in financing Small and Medium Enterprise

RESEARCHER: Felis Muhau Kapepiso, B.Acc (Unam)

I am a student at the University of Namibia pursuing a Master's degree of Science (Accounting & Finance) program in the Department of Accounting, Income tax and Auditing. An integral part of this program is writing of a thesis.

The specific objectives of this research is, to review investment policy of banking sector and the ease of SME access to bank finance and the second objective is to determine the extent to which bank finance contributes to the success of SMEs. This study contributes to the field of finance, research and practice regarding the analysis of SME finance. Several studies have, so far, been conducted in Namibia regarding the development of the SME sector, but no single piece of research was conducted to analyze the role banking sector play in proving funds to SME sector and their contribution to SMEs success.

I seek your cooperation in this academic venture for understanding some of the issues that are important for the research. A list of such issues is enclosed for your reference. Participating in this research will take approximately 30 minutes. *You are free to ask any questions about this research or about being a participant and you may call me at 061-290 6057(W) or 081 3947 131(M) if you have further questions. Should you also wish to verify the authenticity of this research, you can do so by telephoning Prof/Dr. Udai Paliwal, Deputy Dean, Faculty of Economics and Management Sciences, University of Namibia main campus on 061-206 3434.*

Your participation in this research is voluntary and you are under no obligation to participate but your participation will be very valuable and important to the success of this research. You have the right to withdraw at any time without any penalty. Your identity will not be revealed while the research is being conducted or when the study is reported or published.

I (the participant) have read the information above and any questions I have asked have been answered to my satisfaction. I agree to participate in this study, realizing that I may withdraw at any time.

The signed consent will be sealed in an envelope and placed in one container. Your completed questionnaire will be sealed in another envelope and placed in another container. In this way it will be extremely difficult to link sign consent with your completed questionnaire.

I agree that the research data gathered for this study may be published provided I am not identifiable.

______________________	__________
Participant (Name)	**Date**
______________________	__________
Researcher	**Date**

Appendix J

Structured Interview Schedule for Banks

Interviewer: Interviewee reference: Date: Time: Place:

1. What criteria does your Bank use to classify who is an SME and who is not?

2. Does the bank currently have SMEs among its clients?

3. Does your bank have a separate department setup to serve SMEs?

4. Does the bank have a sector-specific focus in dealing with SMEs?

5. Does the bank have a specific geographic focus in dealing with SMEs?

6. What type of bank products are offered to SMEs?

7. What factors are driving banks' desire to become involved with SMEs?

8. What kind of obstacles banks face in their exposure to SMEs?

9. Does your Bank offer support services to SMEs? If yes, what type of support services?

10. How many SMEs has benefited from your bank in terms of financial support between 1998 – 2002, between 2003 -2007 and between 2008 -2012? Can you please supply figures yearly?

11. How many SMEs has benefited from your bank in terms of mentorship support between 1998 – 2002, between 2003 -2007 and between 2008 -2012? Can you please supply figures yearly?

12. What type of criteria are you using in SME loan approvals?

13. What Lending technologies (methods) do use to evaluate the information's of each potential SME borrowers, before approving the loan?

14. Do you have the total amounts of bank loan disbursed to SME between 1998 – 2002, between 2003 -2007 and between 2008 -2012? If yes, please supply it yearly.

15. In your opinion, does bank finance contribute to the success of SME? If yes, elaborate.

16. Does your bank have a policy or guidelines in place regarding the SME development? If yes mention and please supply it.

17. In your opinion, who are the main players in SME financing?

18. How do you perceive the SME market (e.g. is SME market small but prospects or is SME market big and prospects)?

Thank you for your time and for your co-operation.

Appendix K

Structured Interview Schedule for MTI

Interviewer: Interviewee reference: Date: Time: Place:

1. What criteria do you use to classify who is an SME and who is not?

2. In your opinion, what factors are driving banks' desire to become involved with SMEs?

3. What kinds of obstacles/ problems SMEs face when applying for bank loan?

4. Does the ministry have any intervention program (s) on how SMEs can overcome these obstacles?

5. Does the ministry offer support services or assistance to SMEs? If yes, what type of support services or assistance?

6. How many SMEs has benefited from your ministry in terms of financial support between 1998 – 2002, between 2003 -2007 and between 2008 -2012? Can you please supply figures yearly?
7. How many SMEs has benefited from your ministry in terms of mentorship support between 1998 – 2002, between 2003 -2007 and between 2008 -2012? Can you please supply figures yearly?

8. Do you have the total amounts of bank loan disbursed to SME between 1998 – 2002, between 2003 -2007 and between 2008 -2012? If yes, please supply it yearly.

9. In your opinion, does bank finance contribute to the success of SME? If yes, elaborate.

10. Is there any policy or guidelines in place regarding the SME development? If yes mention and please supply it.

11. In your opinion, who are the main players in SME financing?

12. How do you perceive the SME market (e.g. is SME market small but prospects or is SME market big and prospects)?

Thank you for your time and for your co-operation.

Appendix L

Survey questionnaire [SMEs]

Survey form

Strictly confidential!

Survey of Business Owner (s)

Felis Kapepiso

Department of Accounting, Auditing and Income Tax

University of Namibia

2013

INSTRUCTIONS

The name and address of your business is randomly selected from the Ministry of Trade and Industry, database for Small and Medium-sized Enterprise. If you are not the owner/ manager of this business please be so kind to pass on this survey to someone who is.

1. Please read each question carefully.
2. Follow the instructions on the question.

EXAMPLE on how to complete this questionnaire:

A2. Is the respondent Male or Female (please circle).

If you are a Female, you answer as follows:

Sex	Circle
Male	1
Female	2

3. Answer every question to your best level of ability as the accuracy of information is very crucial.
4. If you require help to complete this survey, contact Felis Kapepiso at 081 3947 131
5. Please return completed survey form by *30 November 2013* to the address below in the enclosed envelope.

Once again, thank you so much for your time!

Felis Kapepiso

Master candidate

P.O. Box 31067

Pioneers Park, Windhoek

SECTION A: PROFILE

A1. Interviewee/ Respondent reference:___________

A2. Is the respondent male or female (please circle):

Sex	**Circle**
Male	1
Female	2

A3. What is your age? (Please circle)

Age	**Circle**
25 – 30	1
31 – 35	2
36 – 40	3
41 – 45	4
46 – 50	5
51 and above	6

A4. What is your nationality? (Please circle)

Nationality	**Circle**
Namibian	1
Other	2

Others (please specify)

____

A5. Position held in the business

Position held	**Circle**
Owner and Manager	1
Employed Manager	2

A6. How did you become the owner of this business?

How you became owner	**Circle**
I purchased it	1
I founded it	2
I inherited it	3
Others	4

Others (please specify)

___

A7. What is your highest formal education to date?

Education	**Circle**
Primary school	1
Junior school	2
high school	3
Certificate or Diploma	4
Undergraduate degree	5
Honors/ Master's degree	6
Doctorates	7
Other	8

Others (please specify)

___

SECTION B: BUSINESS INFORMATION

B1. When did you start your business? ________________

B2. Please indicate the nature of your business.

Sector	**Circle**
Manufacturing	1
Trade	2
Services	3
Agriculture	4
Construction	5
Other	6

Others (please specify)

____

B3. With who is your business registered? Please circle what applies to you and you may circle more than one.

Registering authority	**Circle**
Ministry of Trade & Industry	1
Ministry of Finance	2
Not registered	3
Others	4

Others (please specify)

____

B4. During 2012, did your business purchase goods on credit?

Purchased on credit	**Circle**
Yes	1
No	2

SECTION C: FINANCE

C1. What was the start-up cost (fixed and working capital) of this business?

N$____________________

C2. What was your main source of money to start this business? Please circle what applies to you and you may circle more than one.

Source of money	**Circle**
Own savings	1
Family assistance	2
Borrowed from friends	3
Loan from bank	4
Inherited	5
Other sources	6

Others (please specify)

____

C3. In the fiscal year 2012**,** what percentage of this establishment's total annual sales of its goods or services was sold on credit?

2012	**Percent** (enter bellow)	**Don't know** (circle bellow)
Sold on credit	%	0

C4. *Referring only to the year 2012, can you estimate how much was your net profit/income?*

*N$*________________________

C5. Which of the following assets do you have in your business? Please circle what applies to you and you may circle more than one.

Type of asset	**Choice**
Premises (Building/Land)	1
Machine/Equipment/Tools	2
Furniture	3
Vehicle(s)	4
Other	5

Others (please specify)

____

C6. What was the value of your total assets in 2012?

____

C7. Did you apply for a loan from the bank during 2012? (Please circle one only)

Applied for a loan	**Circle**
Yes	1
No	2

*If you answered **No** to question C7, skip question C8, C9, C10 and continue from question C11. If you answered **Yes** to question C7, go to question C8.*

C8. If yes, did you receive the loan from the bank? (Please circle)

Received loan	**Circle**
Yes	1
No	2

*If you answered **No** to question C8, skip question C9, answer question C10, skip question C11 and continue from question C12. If you answered **Yes** to question C8, go to question C9, skip question C10, C11 and continue from question C12.*

C9. *If yes, how much was your loan amount?*

____

C10. If you applied but did NOT receive a loan, please indicate the reasons by a tick in front of the reason. You may tick more than one.

Reason	
Failure to draw a business plan	
Failure to identify viable projects	
Lack of track record or trade references	
Lack of collateral	
Lack of credit history with the bank	
Other	

Others (please specify)

____

C11. If never applied for a loan, is there any reason why you have not applied for a loan from an institution? Please tick what applies to you and you may tick more than one.

Reason	
Interest rates too high	
Lack of collateral	
Did not think it would be approved	
Loan application procedures too complicated	
Don’t need a loan	
Loan was available from other sources	
Other	

Others (please specify)

____

C12. During 2012, did your business have an overdraft from the bank?

Had an overdraft	**Circle**
Yes	1
No	2

C13. What are the problems you are facing in your business currently? Please indicate your answer by circling number of your choice on each of the following problems, where:

1. Not a problem (**NP**)
2. Slight problem (**SP**)
3. Moderate problem (**MP**)
4. Problem (**P**)
5. Major problem (**MJP**)

Type of problem faced	**NP**	**SP**	**MP**	**P**	**MJP**
Lack of management training	1	2	3	4	5
Lack of on site management advisory service	1	2	3	4	5
Lack of technical training	1	2	3	4	5
Lack of on-site technical advisory services	1	2	3	4	5
Lack of technical information	1	2	3	4	5
Lack of marketing information	1	2	3	4	5
Lack of information on cheaper sources of goods	1	2	3	4	5
Lack of finance for working capital	1	2	3	4	5
Lack of finance for investment	1	2	3	4	5
Lack of labor with skills	1	2	3	4	5
Lack of keeping labor with skills required	1	2	3	4	5
Lack of payment (late payment)	1	2	3	4	5
Other (specify)	1	2	3	4	5

Others (please specify)

___

C14. What type of support do you think you need for the success of your business? Please indicate your answer by circling number of your choice for each of the following, where:

1. Totally not needed (**TN**)
2. Not needed (**NN**)
3. Could be needed (**CN**)
4. Needed (**N**)
5. Most needed (**MN**)

Support	**TN**	**NN**	**CN**	**N**	**MN**
Market information	1	2	3	4	5
Transport	1	2	3	4	5
Vocational training	1	2	3	4	5
Technical advice	1	2	3	4	5
Ideas about products	1	2	3	4	5
Advice on business organization	1	2	3	4	5
Finance for working capital or investment	1	2	3	4	5
Business planning to get a loan	1	2	3	4	5
Other (specify)	1	2	3	4	5

Others (please specify)

___

C15. To what degree is **Access to Finance** an obstacle to the current operations of your business or establishment? Please indicate your answer by circling your choice, where:

1. No obstacle (**NO**)
2. Minor obstacle (**MO**)
3. Moderate obstacle (**MDO**)
4. Major obstacle (**MJO**)
5. Very severe obstacle (**VSO**)

Obstacle	**NO**	**MO**	**MDO**	**MJO**	**VSO**
Access to Finance	1	2	3	4	5

Thank you for your co-operation in completing this questionnaire. Kindly return the Questionnaire as specified in the cover letter.