

**THE FUNDING CHALLENGES FACED BY SMALL AND MEDIUM
ENTERPRISES: A CASE OF WINDHOEK, NAMIBIA**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE MASTERS DEGREE IN BUSINESS
ADMINISTRATION FINANCE**

OF

THE UNIVERSITY OF NAMIBIA

BY

SALMI SHIKONGO

200631144

NOVEMBER 2018

**SUPERVISOR: DR AUBREY MUYEKE CHIBUMBA (INSITUTE
OF FINANCE AND ECONOMICS, ZAMBIA)**

ABSTRACT

This study aimed to investigate the funding challenges faced by small and medium enterprises in Windhoek city. The specific objectives that this study sought to address were to ascertain whether SMEs have challenges in accessing credit in Namibia and if so, determine these specific challenges; to determine how financing challenges affect the operations of Small and Medium Enterprises and recommend to policy makers on how to overcome these funding challenges and thus improve accessibility of funding to SMEs. This should result in the improvement of both the performance and growth of the SME sector.

To achieve the above objectives, this study adopted a quantitative research design and used a sample of 293 SMEs that were drawn from Windhoek City using simple random sampling. The sample was drawn from various business sectors including construction, retail, manufacturing, beauty and cosmetics, transport and others.

This study revealed that there were several factors that hinder the ability of SMEs to apply and obtain loan finance from commercial banks in Namibia. Among the major limitations to accessibility of loans by SMEs were: lack of sufficient collateral security, low profitability levels of SMEs, high interest rates on bank loans, lack of bankable business plans, and long and complicated loan application procedures and requirements.

The findings of this study indicated that limited access to finance affects SMEs by limiting SME expansion, diluting the competitive power of SMEs, precipitating the closure of SMEs, limiting the ability of SMEs to make profits, grow and to create job opportunities. This study recommends that there is need for current and prospective

SME entrepreneurs to have access to advice on viable investment options in order to ensure that investments are directed to areas where there is both a need and high yield returns to the investors; the government should, through the central bank, reduce the interest rates charged on loans granted by commercial banks to SME businesses. By reducing the interest rate, SMEs will be encouraged to borrow and all else being equal, generate sufficient profits; commercial banks should relax their lending conditions to SMEs and reduce transaction costs associated with borrowing money.

DECLARATION

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

No part of this thesis may be reproduced, stored in any retrieval system, or transmitted in any form, or by means (e.g. electronic, mechanical, photocopying, recording or otherwise) without the prior permission of the author, or The University of Namibia in that behalf.

I, Salmi Shikongo, grants 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.

.....
Name of student	Signature	Date

DEDICATION

I dedicate this work to my family and especially to my husband and my mother for their support, inspiration and the encouragement that they rendered to me while I undertook the journey of pursuing a Master's Degree in Business Administration.

ACKNOWLEDGEMENTS

Several people contributed to this thesis in different proportions and are worthy to be acknowledged. To begin with, my supervisor Dr Aubrey Muyeke Chibumba did an incredible job in shaping this paper. Thank you so much for your invaluable support.

Secondly, I would like to acknowledge all the SME owners in Windhoek who provided me with the data that enabled the completion of this study. Thank you so much for sacrificing your time.

Thirdly, I would like to sincerely thank all people who helped me in diverse ways towards reaching this academic milestone such as Richard Adupa, and Eric van Zyl. I would like to thank my husband for his unwavering support and the encouragement accorded to me during my academic journey. I would further like to acknowledge the support, prayers and inspiration I received from my mother. Lastly, I would like to thank all my colleagues and lecturers from University of Namibia who shaped my academic path.

TABLE OF CONTENTS

ABSTRACT	2
DECLARATION	4
DEDICATION	5
ACKNOWLEDGEMENTS	6
LIST OF FIGURES	9
LIST OF TABLES	10
ACRONYMS	11
CHAPTER ONE	1
INTRODUCTION AND BACKGROUND TO THE STUDY	1
1.1 Orientation to the study.....	1
1.2. Funding of SMEs in Namibia	3
1.3. Statement of the problem.....	4
1.4. Objectives of the study	6
1.5. Significance of the study.....	6
1.6. Limitations of the study	7
1.8. Chapter Organisation	7
CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2. Definition of SMEs.....	9
2.3. Theoretical Framework.....	10
2.4. Empirical studies.....	11
2.5. Impediments to SMEs’ access to financing.....	12
2.6. Impact of financial challenges on the performance of Small and Medium Enterprises ...	20
2.7. Summary	26
CHAPTER THREE	27
RESEARCH METHODS	27
3.1. Introduction.....	27
3.2. Research design	27

3.3. Population	27
3.4. Sample	28
3.5. Sampling method used.....	29
3.6. The Research instruments	30
3.7. Validity and reliability of the research instrument.....	30
3.8. Data Analysis.....	31
3.9. Research Ethics.....	31
3.10. Summary.....	32
CHAPTER FOUR.....	33
RESULTS AND DISCUSSION	33
4.1. Introduction.....	33
4.2. Response rate	33
4.3. Biographical data of the research participants	34
4.4. PRESENTATION AND ANALYSIS OF RESEARCH RESULTS	39
4.5. Discussion of research results.....	59
CHAPTER FIVE	63
CONCLUSION, SUMMARY AND RECOMMENDATIONS.....	63
5.1. Introduction.....	63
5.2. Summary of research findings	63
5.3. Recommendations for action	67
5.4. Recommendations for further research.....	69
5.5. Conclusion	70
REFERENCES.....	72
APPENDICES.....	78
Appendix 1: RESEARCH QUESTIONNAIRE	78

LIST OF FIGURES

	Page
Figure 4.1: Educational background of research participants	35
Figure 4.2: Type of business	36
Figure 4.3: Location of businesses selected	37
Figure 4.4: Year of commencement of operations	38
Figure 4.5: Reasons for establishing businesses	39
Figure 4.6: Reasons for operating in the current location	40
Figure 4.7: Reasons for selecting a specific type of business	41
Figure 4.8: Access to government support	42
Figure 4.9: Prior business experience	43
Figure 4.10: Registration with the Ministry of Trade	44
Figure 4.11: Registration as VAT vendors	45
Figure 4.12: Registration of SMEs with Social Security as employers	46
Figure 4.13: Fulfilment of documentation to engage in trading	46
Figure 4.14: Sufficiency of the sources of funding used by SMEs	48
Figure 4.14: Application for bank loans	50
Figure 4.15: Approval of loan applications	51

LIST OF TABLES

	Page
Table 4.1: Response rate	33
Table 4.2: Gender of respondents	34
Table 4.3: Age brackets of respondents	34
Table 4.4: Sources of funding	47
Table 4.5: Reasons for non-approval of bank loans	52
Table 4.6: Reasons for non-application of bank loans	54
Table 4.7: Effects of limited access to finance on SME operations	57

ACRONYMS

SMEs:	Small and Medium Enterprises
GDP:	Gross Domestic Product
MSME:	Micro, Small and Medium Enterprises
OECD:	Organisation for Economic Co-operation and Development
VAT:	Value Added /tax
SSC:	Social Security Commission
MoT:	Ministry of Trade
CBD:	Central Business District
NCR:	National Credit Regulator

CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Orientation to the study

In many industrialised nations, more than 98% of all the industrial enterprises belong to the SME sub-sector and count for the bulk of the labour force (Okuneye, 2016). For this reason, SMEs are perceived to play a key role in every country's economic growth. Thus, governments in industrialised countries focus on development of the SME sector to promote economic growth (Finlayson, 2003).

In Namibia, SMEs contribute to the national economy in various ways, including employment creation, adding value to the GDP of the country and helping towards the realisation of the government 2030 vision agenda (Ogbokor & Ngeendepi, 2012). Further, the SME sector is estimated to provide employment to 160,000 people, approximately one-third of the total Namibian workforce. For SMEs to create sustainable employment there is need for SMEs to be adequately financed (Hill and McCarthy, 2014). Although Hill and McCarthy (2014) recognise the importance of the SME sub-sector especially in employment creation, they observed that the ability of SMEs to create sustainable job opportunities is greatly affected by limited funding of SMEs in developing countries. Hill and McCarthy (2014) blame limited sources of finance for SME businesses as one of the leading factors responsible for SME mortality. Some of the efforts of the Namibian government in SME promotion include the

existence of a dedicated department that deals with SME issues in the Ministry of Trade and Industry and the establishment of various physical infrastructure to provide an enabling environment for production and trading by the SMEs, as well as Government efforts to provide financing to the SME sector. Despite the abovementioned efforts, Mr. Shiimi, the Bank of Namibia Governor outlined that the challenges remain, especially in terms of SME financing. Therefore, there is a need to find a workable solution which would enable more SMEs to grow and ultimately contribute to economic growth and poverty reduction (12th Annual Symposium Publication, 2010).

Small and medium enterprises are credited with playing a pivotal role in the development of countries as they create employment opportunities and act as the primary platform for implementation of innovations thus contributing to the social and political development of countries. Edinburg Group (2014) argues that, although the role of SMEs is directly felt in the economic and social spheres of society, SMEs play a very important role in the political stability of countries. Edinburg argued that, the presence of SMEs ensures absorption of idle labour force into the job market, hence, reducing the risk of political turmoil which is mainly orchestrated by unemployed people. Economically, SMEs contribute to GDP, create jobs for people, lead to increase in tax revenue for governments. They also help increase people's incomes (Kamunge, Njeru, & Tirimba, 2014).

The impact of SMEs' contribution to GDP and employment varies from country to country. For example, in India, SMEs employ as high as 40% of the total workforce and contribute up to 17% to the total gross domestic product (Edinburg, 2014). In the United

Kingdom, SMEs provide over 67% of the private sector jobs and contribute over 50% to GDP (Franklin, 2015).

Since independence, the Namibian Government has put in place policies and programmes to enhance SME development. Despite all these efforts, the SME sector has not grown to its full potential (MITSD, 2015). It is crucial to identify and understand the challenges that have inhibited this growth and thus find measures to mitigate this.

Despite the positive role played by SMEs in the development of World Economies, SMEs are faced with a number of challenges such as undercapitalisation, and severe competition from well-established businesses among others (Ong'olo, & Awino, 2013). These challenges threaten the very existence of SMEs. This study aims at establishing financing challenges faced by SMEs in Namibia, and to determine how these challenges affect the operations and performance of SMEs. Furthermore, this study aims to explore challenges hindering SMEs' access to finance and to recommend ways to overcome these. This study specifically aims at establishing financing challenges faced by SMEs in Windhoek city, Namibia, and to determine how these challenges affect the operations and performance of these SMEs.

1.2. Funding of SMEs in Namibia

There is no formally established and recognised bank that is fully dedicated to the funding of SMEs in Namibia. The SME Bank which was established by Public and Private Partnership was an attempt by the government of Namibia to help SMEs to obtain financing at low interest rates in order to encourage SME growth. The troubled

SME Bank has not been able to cater for the needs of SMEs because of undercapitalisation and alleged mismanagement. The woes at SME Bank, have dwindled and limited the avenues for SME financing. Due to the absence of a bank that is dedicated to financing SMEs' financial needs, SMEs seek financing from various financial institutions. The Development Bank of Namibia is also financing SMEs with loans valued between N\$450 000 and N\$3 million and Agribank offers agricultural loans that vary with the need and the scale of operation of the farmers.

According to MTID (2015), SME financing in Namibia is unattractive to traditional financial institutions as they are perceived to be high risk investments that do not yield adequate returns. MTID (2015) noted that even if SMEs are offering promising, and commercially viable investment opportunities, they are often not backed by adequate collateral to obtain financing from banks, making the majority of SMEs non-bankable. According to MTID, 97% of Namibian SMEs are non-bankable. This status makes most SMEs to rely on their own financial contributions and contributions from family members to fund their business ventures. MTID further notes that, due to limited access to finance, SME sector in Namibia underperforms. This is manifested by stagnated growth, low profits, limited expansion and inability of SMEs to create sustainable job opportunities.

1.3.Statement of the problem

Ever since gaining independence in 1990, the Namibian government has put in place policies and programmes to promote the SME sector. Although MSME support

programmes have been put in place to address the challenges facing the SME sector, it still remains unknown the extent to which these initiatives have succeeded in addressing the funding challenges faced by SMEs. Namibian SMEs often have insufficient and/or no suitable collateral security to support their funding needs for growth (MITSD, 2015). In order for the Namibian SME sector to contribute to national development, the SME sector needs to be fully supported in accessing funding from financial institutions at affordable interest rates and other terms that form the criteria that are set up by financial institutions to lend to SMEs. Therefore, there is a need to review lending criteria and other considerations such as capital adequacy and bankruptcy enforcement, so that it is more suitable for lending to the Small and Medium enterprises in Namibia.

Most SMEs in Namibia lack the capacity, in terms of qualified personnel to manage their activities (MITSD, 2015). As a result, they are unable to publish the same quality of financial information as those big firms. As such, they are not able to provide audited financial statements, which is one of the essential requirements in accessing credit from financial institutions. This is buttressed by the statement that privately held firms do not publish the same quantity or quality of financial information that publicly held firms are required to produce (MITSD, 2015). As a result, information on their financial condition, earnings, and earnings prospects may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may sometimes deny credit to firms that are credit-worthy but unable to report their results (Coleman, 2000).

1.4.Objectives of the study

The main objective of this study was to determine the funding challenges faced by Small and Medium Enterprises in Windhoek. The sub-objectives of this study were as follows:

- i. To determine the financing challenges faced by SMEs operating in Windhoek.
- ii. To study how financing challenges, affect the operations of Small and Medium Enterprises.
- iii. To make recommendations to policy makers, on how they can make funding more accessible to SMEs and actions required to improve their performance and growth in Namibia.

1.5.Significance of the study

The study is relevant to Namibian SMEs in two ways: First of all, this study highlighted the major challenges which SMEs are faced with when sourcing for funding from financial institutions and recommended ways on how to overcome such challenges. Secondly, this study helps financial institutions to understand the position in which the SMEs and potential entrepreneurs find themselves when trying to access funds for their business operations. This understanding enables financial institutions to review the criteria that are suitable to the small and medium enterprises, considering their potential contributions to the economic growth of Namibia. It is also hoped that these findings may propel the Namibian government to review the MITSD policy and begin to scale up the financial and technical support offered to the SME sector.

1.6.Limitations of the study

This study was limited by the timeframe in which it was conducted and completed. The study was conducted in a space of less than 8 months – which period proved inadequate to conduct a comprehensive study. Secondly, this study sampled only 300 SMEs operating in Windhoek out of thousands of SMEs registered and operating in Windhoek. From the 300 SMEs sampled, only 293 completed the research instrument and generalisations about SMEs’ access to funding were made based on the responses obtained from 293 SMEs. Thirdly, this study focussed on only SMEs in Windhoek – leaving out SMEs operating in other parts of Namibia who may be facing significantly different challenges.

1.7.Delimitation of the Study

This study focussed on analysing the funding challenges faced by SMEs operating in Windhoek. Other SMEs operating elsewhere in Namibia were not included in this study. Additionally, this study considered a period of only five years (2012 to 2017). Therefore, the period before 2012 and after 2017 fell outside this study. This scope was adopted because of the cost involved since covering a wide geographical area would have involved a lot in terms of money.

1.8.Chapter Organisation

This study is organised as follows:

Chapter one introduces the study by giving background information about SME financing, stating the research problem, objectives and questions. The chapter also explained the significance of the study and outlined the limitations the study.

Chapter two is a literature review on the financing challenges faced by SMEs and how such challenges affect the operations of SMEs.

Chapter three explains the methodology that was adopted in this study. The chapter explains the research approach that was used and the data collection methods.

Chapter four contains data analysis, presentation and interpretation of the data analysis and discussion of findings.

Chapter five summarises the study and offers recommendations to be adopted in order to improve SMEs' access to funding especially from commercial banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on financing of SMEs. Specifically, literature related to the need for financing, impediments to access of finance by SMEs, the effects of limited access to finance by SMEs on the operations of the same and ways of easing financing challenges faced by SMEs. Journal articles, published books, articles from the Internet and student papers are used in the review of literature.

2.2. Definition of SMEs

Different countries use different yardsticks to determine whether or not a business qualifies to be regarded as an SME. Overall, most definitions adopted in various countries use two main yardsticks (the number of employees and the amount of capital invested in the venture) in defining SMEs. In Malaysia, a business is regarded as an SME if it employs between 50-150 workers (SMECORP, 2013). The definition of SMEs adopted in the European Union by OECD (2005) is that of non-subsidary and independent firms which employ a maximum of 250 employees and whose annual turnover does not exceed EUR 50 million. In the United States, SMEs are enterprises which employ fewer than 500 employees (OECD, 2005). In Kenya, SMEs enterprises are divided into two categories: micro, and small and medium enterprises. Micro enterprises are those which employ less than 10 people and employ capital of less than

10 million Kenya Shillings. Small enterprises are those which employ between 10 and 50 employees and have capital range of 10 to 50 million Shillings (Ong'olo, & Awino, 2013).

In Namibia, SMEs are defined using three main indicators; annual sales turnover, capital outlay, and the number of employees (Ogbokor and Ngeendepi, 2012). Ogbokor and Ngeendepi (2012) define SMES as enterprises whose annual turnover is less than one million Namibian dollars, employ less than 10 employees and has a capital outlay of not more than five hundred thousand Namibian Dollars (N\$500 000).

2.3. Theoretical Framework

There is a general consensus among scholars regarding the relationship between access to finance by SMEs and their growth. Access to finance is considered a key ingredient in SME growth, sustainability and a source of competitiveness (Rambo 2013). Mira and Ogollah (2013) hold the view that the only way to enhance the competitive position of SMEs in the market-place is through enhancing SME access to finance. Through enhancing SME access to finance, SMEs will be able to thrive, grow and create sustainable job opportunities. Wu, Song and Zeng (2008) consider access to finance as the engine for SME growth. According to Wu, Song and Zeng (2008), one of the key reasons why SMEs in China involuntarily exit the market arena is limited access to finance – an important ingredient for the continued existence of SMEs. Abdulsaleh and Worthington (2013) opined that, sustainable growth and profitability of SMEs squarely rests on the ability of SMEs to access finance. Ackah and Vuvor (2011) consider access to finance as the bloodline of SME existence.

Although access to finance is considered as the engine for SME growth, the study by the World Bank (2015) on Small and Medium Enterprises Finance revealed that the majority of SMEs especially those in developing countries find it difficult to access finance from the conventional banking system. The World Bank estimates that over 70% of SMEs in developing countries find it hard to access finance from mainstream financial institutions. In Sub-Saharan Africa, access to SMEs financing is particularly important since SMEs account for about (90%) of all enterprises and over (80%) of all new jobs that are created (Rambo, 2013). In as much as SMEs play a pivotal role in employment generation especially in developing countries, the World Bank notes with concern that government of developing countries are not doing much to support SME growth. They are not doing much to make it easy for SMEs to access funding. Makena, Kubaison, and Njati (2014) attribute limited access to finance by SMEs in developing countries, to the sector in which most SMEs in developing countries operate in. According to Makena, Kubaison, and Njati (2014), the majority of SMEs in developing countries operate in the informal sector, which is hardly financed by the conventional banking system.

2.4. Empirical studies

According to the World Bank Enterprise Survey (2014), 40.9% of small and 28.6% of medium enterprises identify access to finance as a major constraint, whereas only 1% of large enterprises see access to finance as a challenge for their development. As much as SMEs play a pivotal role in the economic development of countries such as creation of employment, resource mobilisation, wealth creation, spurring of innovation, many SMEs

fail to live long enough to continue providing those benefits because of high mortality rate (Odeyemi, 2016). A study by Kamunge, Njeru, Tirimba (2014) in Kenya found out that most SMEs in Kiambu County had a life span of two years – a period too short for SMEs to make an impact in society. Kamunge *et al.*, (2014) attribute early mortality rate of SMEs in Kiambu county limited access to finance. Another study done by Fatoki and Odeyemi (2016) confirmed the findings by earlier study done in Kenya by Kamunge *et al.*, in 2014. According to Fatoki and Odeyemi (2016), SME mortality rate is very high in Sub-Saharan Africa, with South Africa taking the lead. Fatoki and Odeyemi (2010) estimate SME mortality rate in South Africa at 75%, the highest in the world. The demise of SMEs poses a great threat to developing economies like Namibia which have an already soaring and worrying rate of unemployment. Therefore, in order to ensure continued existence of SMEs, there is need for developing countries like Namibia to put into place financing mechanisms to support SME growth. Based on the above discussion, to prolong SME life-span, there is need for developing countries to support the SME sector through making it easy for SMEs to obtain financing.

2.5. Impediments to SMEs' access to financing

Ackah and Vuvor (2011) opined that access to finance is the engine for success of SMEs. Furthermore, Ackah and Vuvor (2011) found out that, although SMEs have other sources of financing such as personal contributions and savings of owners, selling of existing assets, equity financing which involves selling off part of owners' interests in the business to outsiders, debt financing remains the main and most widely used source of financing available to SMEs. Although Ackah and Vuvor (2011) observed that although access to finance is the bloodline of SMEs' existence, a number of

obstacles stand in the way to SMEs' access to finance.

2.5.1. Lack of collateral security

A study by Simpemba (2002) that sought to establish funding problems faced by SMEs in Zambia revealed that SMEs are constrained from accessing financing due to lack of collateral security for borrowed funds. Although banks have money to finance individual and business capital needs, the standards set by banks disqualifies many from accessing finance. Although Simpemba's study was conducted in Zambia and its findings based on the position of SMEs in Zambia at the time of the study, it is a standard practice all over the world for Banks and other financial institutions like micro-finance lending institutions to demand for collateral security for funds required by borrowers. Large and well-established firms find it easy to pass this test because of the pool of assets that they have and continue to accumulate over time. The story is however somehow different with SMEs. Most SMEs, especially those that are just launching into the business arena do not have a pool of assets to present to financiers as a guarantee for borrowed funds. Much as financial institutions may be willing to finance the operations of SMEs, the security of money lent to SMEs is of major concern to lenders. Wamono *et al.*, (2012) noted that, the viability of the business idea alone is not enough to convince lenders to finance SME operations. SMEs may have promising business ideas but due to lack of collateral, they are side-lined by lenders.

2.5.2 Monetary and Fiscal Policy

Although collateral security is one of the important requirements for securing a bank loan, availability of collateral security alone cannot guarantee SMEs from obtaining loans. Other factors such as the general economic conditions and the availability of loanable funds may influence the banks' decision to lend. Chin, Hamid, and Rasli and Baharun (2012) stated that although collateral security is one of the major considerations that lenders look at when assessing the borrower, banks' decisions to lend out money largely rests with the government's fiscal and monetary policies and government priorities at the time. In times of inflation, the government may adopt restrictive monetary policy which affects commercial banks' ability to lend out funds to SMEs and results in higher interest rates making lending to SME's challenging. However, if the government aims at expanding employment creation, access to funds by SMEs becomes relaxed.

2.5.3. Failure to maintain proper financial statements

Failure by SMEs to prepare and maintain proper financial statements is another deterrent to SMEs' failure to obtain funding from financial institutions. According to Ezeagba (2017), lenders require financial statements of businesses to ascertain their capability and capacity to repay borrowed funds. Wood and Sangster (2009) define financial statements as formal records of entities showing their financial activities and performance over a given period of time. ACCA (2012) defined financial statements as a collection of reports about an organisation's financial results, financial condition, and

cash flows. Financial statements include: statement of comprehensive income, statement of financial position, statement of cash flows, and statement of changes in equity. Ezeagba (2017) pointed out that, although SMEs are not public entities that are mandated by law to prepare and publish their financial records, it is imperative for them to prepare and maintain proper financial records for three main reasons:

- i. To measure their performance;
- ii. To provide information necessary for decision making; and
- iii. For use by other stakeholders like financiers.

Much as Ezeagba (2017) recommends SMEs to maintain proper financial records, Ezeagba noted that, most SMEs do not prepare and maintain proper books of accounts. The absence of legal obligation, low level of operation, prohibitive cost of preparing financial statements, complexity of preparing financial statements and employment of unqualified people as book keepers and financial managers contribute to failure by SMEs to prepare and maintain proper financial statements (Ackah & Vuvor, 2011). As indicated by Ezeagba (2017), failure by SMEs to maintain proper financial statements disadvantages SMEs when it comes to accessing financing. According to Wood and Sangster (2009), the objective of financial statements is to provide information about the financial position of a business, performance and changes in financial position of an enterprise that is useful for financiers to base on before advancing loans.

2.5.4. High inherent risks associated with SMEs

Dankwa and Adoley (2014) identified inherent risks associated with SMEs as a limiting factor for SMEs to access debt financing. According to Dankwa and Adoley

(2014), poor management, lack of proper accounting, and lack of separation between the SME businesses and their owners' interests pose a great risk to their survival. In the same pattern of thought with Dankwa and Adoley (2014), Ezeagba (2017) pointed out that, lack of separation between the businesses from their owners poses a great risk to SMEs as owners freely use the resources of the business for their personal use without having to account for their actions. This may result in the risk of the SME owners for example, using loan advances for personal rather than business use.

Unlike public limited and private limited companies, there is no separate existence of SMEs apart from their owners. As noted by Ezeagba, in a majority of cases, most SMEs are owned by one person or a few members of the same family whose sustenance depends on the business. Over reliance on the business coupled with poor management and lack of proper accounting increase the risk of failure of SMEs. This reduces their chances of obtaining debt financing, hence, undercapitalisation of SMEs. It is therefore recommended that, in order for SMEs to increase their chances of obtaining funding from commercial banks, it is important for the owners to keep business affairs separate from the affairs of the owners of the business. By so doing, besides increasing the chances of obtaining funding from the external sources, keeping the affairs of the business from their owners enables SME owners to accurately measure the performance of their businesses.

2.5.5. High periodic payments

According to Wamono, Kikabi and Mugisha (2012), SMEs tend to shy away from borrowing because of the high periodic repayments they are required to make a few

weeks after obtaining loans. Wamono *et al.*, (2012), SMEs with low profit and sales volumes find it hard to commit to borrowing and rather prefer to use their own funds. From the above, whether SMEs are willing to borrow or not, their failure to secure external financial resources, disadvantages their competitive position in the market place. Although Wamono *et al.*, (2012) consider periodic payments as one of the hindrances affecting SMEs access to funding, the authors failed to recognise that periodic payments depend on the size of the loan amount and differ from SME to SME. For example, an SME which obtained N\$1 000 000 (one million Namibian dollars) as a loan from the bank will have high periodic payments as compared to another that obtained a loan amount of N\$20 000 (twenty thousand Namibian dollars). Furthermore, before an SME applies for a specific loan amount, the owners have an idea on the ability of the business to service the loans from the profits generated.

2.5.6. High credit default rate by SMEs

Ezeagba (2017) blames failure by SMEs to acquire financing from banks on the high credit default rate by SMEs. A study by Ezeagba (2017) found that credit default rate among SMEs in Nigeria is higher than any other category of borrowers. According to Ezeagba, 26% of all credit defaulters in Nigeria between 2015 and 2016 were SMEs. The same study revealed that the default rate is highest for SMEs in the construction, hotels and restaurants sectors. High default rate makes lenders skeptical in granting loans to SMEs and also increases the cost of funds as banks price in the increased risk of default. Although the loan applicants may have met all the requirements, because of the previous experiences dealing with SMEs which defaulted, the probability of

approving loans to SMEs may stand in balance because of the generalisations that are drawn regarding SMEs. This relates to the common saying which states that, when one frog spoils the water, all frogs in the water stream will be blamed.

2.5.7. Low levels of profitability and liquidity

Profitability and liquidity of SMEs is one of the criteria used by banks to base their decisions of whether to lend to SMEs. Although lending is one of the main factors contributing to the growth and profitability of banks, they always take caution to ensure that money lent out to SMEs will be recovered in time (Abdulsaleh & Worthington, 2013). One of the indicators that banks look at to determine the ability of SMEs to repay the loans is the profitability and liquidity position of SMEs. Wood and Sangster (2009) define profitability as the ability of a business to use its resource to generate income in excess of its operating expenses. Liquidity on the other hand is the ability of the business to meet its short-term obligations when they become due. Wamono *et al.*, (2012) pointed out that most start-up SMEs have low profit level and experience liquidity problems. Wamono *et al.*, (2012) attribute low profit level to low capitalisation, high competition, and high start-up costs. The ability of a business to repay loans is directly linked to its profitability level. It therefore suffices to suggest that, if the profit level is low, the business will not be able to honour its loan obligations. Profit is used among other things to expand the operations of the business, pay back loans and distributed as dividends to capital providers. To re-echo Wamono *et al.*, (2012)'s observation, SMEs find it difficult to obtain financing because of low profit level and low liquidity position. The low liquidity and profit levels reflect the scale of operations that is in turn affected by the low level of funding that the SME uses

to run its operations. For example, low liquidity may simply reflect the fact that the SME is unable to get trade credit and has to pay for all goods and services in cash. Trade credit is interest free making it a cheap source of funding. Larger companies who have access to trade credit will thus be more profitable than a SME operating in the same sector and who needs cash to fund their operations.

2.5.8. Market imperfections

Kasekende and Opondo (2005) and Muchiti (2009) blame limited access of funding to SMEs to imbalances between the demand and supply sides. According to Kasekende and Opondo (2009), although main stream institutions are willing to borrow SMEs funds, the wide financing gap between the demand for funds by SMEs and the supply of funds by financial institutions limits the number of SMEs that get funding from the banks. According to Muchiti (2009), the market imperfections which exist between the demand for funds by SMEs and the supply of funds by financial institutions do not only limit the number of SMEs which access funding from financial institutions but also influence the interest rates at which banks lend out funds. According to Muchiti (2009), high demand for funds by SMEs gives an opportunity to commercial banks to increase their interest rates.

2.5.9. Lack of policy on SME financing

The World Bank (2015) blames limited access of SME financing to lack of policy on SME financing by the governments. According to World Bank (2015), most governments in developing countries do not have policies on SME financing which

makes it difficult for SMEs to access financing. This further corroborates the studies of Muchiti (2009) on market imperfections.

2.5.10. SMEs' characteristics

A study by Mira and Ogollah (2013) found out that individual characteristics of the SMEs determine their access to funding. Some of the characteristics of the SMEs identified by Mira and Ogollah (2013) that influence SME funding are the closeness of the firm to the lenders, the size of the firm, the sector in which the SME operates in, the capital structure, and location of the business. The study by the above scholars established that SMEs which operate on large scale, are close to the lenders, have low debt to equity ratio, and are located near the lenders are more likely to get funding than those which operate on small scale, have no closeness to the lenders, have high debt to equity ratio, and are located far from lenders. The same study revealed that SMEs which operate in agricultural sector are more likely to obtain financing from commercial banks than SMEs which operate in the retail and wholesale sectors.

2.6. Impact of financial challenges on the performance of Small and Medium Enterprises

Access to finance is regarded as the backbone for the success of SMEs. According to Leboea (2017), access to finance is one of the major obstacles and challenges that the SMEs across the globe are faced. According to Leboea (2017), limited access to finance not only hinders SMEs growth but also threatens the very existence of SMEs. Therefore, failure by SMEs to access finance at the right time adversely affects their operations. A study undertaken by Hallberg (2013) reveals that access to finance is an important ingredient to the development and performance of SMEs. According to Hallberg (2013), this is so because SMEs unlike well-established companies, have limited avenues for

finance and if such avenues exist, the amount of funding is too little to meet the financing needs of SMEs. To further strengthen his argument, Hallberg (2013) pointed out that whereas some big companies have large reserves of retained profits, most SMEs do not have large reserves of retained profits – enough to finance their capital needs. This therefore raises the urgency for SME funding, failure of which adversely affects the operations of the SME sector. The discussion hereunder explores the effects of limited access to finance on the operations of Small and Medium Enterprises:

2.6.1. High mortality rate of SMEs

A study conducted by Njiru (2014) that aimed at exploring the effect of cost of credit on the financial performance of commercial dairy small and medium enterprises in Kiambu county in Kenya established that limited access to capital coupled with the high cost of acquiring capital contributes to high SME mortality rate in Kenya. Njiru (2014) lamented that, despite the liberalisation of the financial sector in Kenya, most SMEs have had to close down because of failure to access the much-needed capital to boost SME operations. Njiru (2014) observed that although other avenues like Microfinance institutions exist where SMEs can access finance from, high interest rates charged by such financial intermediaries coupled with limited loan amounts and short repayment period bars SMEs from seeking from funding from such entities. Failure to obtain the required funding leaves SMEs vulnerable to closure. Although Njiru (2014) blames SME mortality rate on limited funding, studies by other researchers show contrary findings.

A study by Arasti, Zandi and Talebi (2014) found out that poor financial management and discipline among SME proprietors is a major factor that leads to SME mortality rate.

Arasti, Zandi and Talebi (2014) argue that failure by SME proprietors to separate business affairs from private affairs makes them to spend business monies on their private issues – depriving the SMEs off the much-needed money for expansion. Besides spending business money for personal needs, Arasti, Zandi and Talebi (2014) also blame SMEs for failure to maintain proper books of accounts. The crux of Arasti, Zandi and Talebi's (2014) argument is that, with the limited funds that SMEs have available, SMEs are able to expand their operations and achieve their intended objectives if SME finances are properly managed and the books of accounts are properly maintained. Franco and Haase (2014) share the same views with Arasti, Zandi and Talebi (2014). According to Franco and Haase (2014), most SMEs are run by family members who in most cases have no experience in managing business operations, and therefore, spend money as it comes without proper budgeting. Franco and Haase (2014) argue that the tendency by SMEs to employ family members who have no experience and qualifications in running the business creates management gap which if not addressed threatens the very existence of SMEs.

2.6.2. Inability of SMEs to create sustainable job opportunities

A study conducted by Leboea (2017) strengthened the already existing argument about the role played by SMEs in the development of economies. In South Africa, Leboea (2017) found out that although SMEs play a significant role in employment creation and poverty alleviation, the average life span of start-up SMEs is limited to 5 years. According to Leboea (2017), the failure by SMEs to create sustainable job opportunities relates to their inability to receive adequate funding. Furthermore, Leboea's study further revealed that apart from SMEs closing down and consequently leading to loss of

jobs, the SMEs which persist to exist fail to move from survival stage to take-off and maturity stages so as to create meaningful jobs. According to Leboea (2017), at survival stage, SMEs create jobs mostly for the owners. However, when the business grows to take-off and maturity stages, multiple jobs will be created. Leboea's findings were supported by an earlier study conducted by OECD. According to OECD (2015), limited access to funding to SMEs negatively affect their ability to create sustainable job opportunities. Limited access to funding affects the rate of economic growth which ultimately affects employment generation. Although OECD (2015) points out that SMEs play a significant role in employment creation in developing countries, it observed with concern that SMEs in developing countries are not able to create and provide sustainable job opportunities because of their short life expectancy. Furthermore, although OECD (2015) attributes high mortality rate of SMEs to limited access to funding, the same study blames poor management of SMEs as the major factor that contributes to high SME mortality rate. and most SMEs are created for this very purpose. However, for SMEs to be able to create sustainable job opportunities, they need to grow and expand their operations.

2.6.3. Weakens the competitive position of SMEs

Inadequate funding of SMEs is blamed for weakening SMEs' competitive position. According to Das (2009), limited funding available for SMEs coupled with growth in globalisation has dealt a strong blow on the competitive position of SMEs. According to Das (2009), the more competition a firm is exposed to, the less chances it has of growing. According to Das (2009), failure by SMEs to secure funding weakens their

competitive position because of operating on small scale which increases the average costs of operations. When firms operate on small scale, the average costs of operations are high which forces such firms to charge high prices for their products in order to cover the costs of production or operation. When a firm's prices are higher than the average prices charged by other firms in the market, then the firm is at risk of losing its customers to its competitors. Although Das (2009) attributes poor competitive position of SMEs to limited funding, other scholars attribute poor performance of the SME sector to lack of competitive marketing strategy, lack of innovation on the part of SMEs and poor selection of investment areas. According to Easton (2007), failure by SME owners to identify the right investment areas makes them struggle to gain a sizeable market share because of investing their resources in saturated industries. Easton (2007) further argues that the number of firms in an industry is not issue if firms can succinctly identify and meet specific customer needs. According to Easton (2007), firms that specialise in meeting specific customer needs and wants within an industry set themselves apart from competitors and are able to survive in the cloud of competition. As regards to the market size, Easton (2007) argues that competition is irrelevant in a market situation where there are many consumers and suppliers of a given product. Easton argues that a large number of firms and consumers makes firms to be more efficient and to benefit from economies of large-scale production because of large market size. The challenge however lies with the choices entrepreneurs make. According to Doyle (2007), most entrepreneurs venture into business without studying market dynamics which results in investing in markets which are very small which make it almost impossible for SMEs to thrive. According to Goyal (2012), lack of innovation makes SMEs to lag behind in global competition. Goyal (2012) blames failure by SMEs to favourably compete in the

global market to their lack of innovation. Goyal (2012) stresses that only firms that embrace innovation can survive the global tsunami of competition. From the above arguments, it can be seen that although limited funding limits the ability of SMEs to favourably compete, it can be concluded that failure by SMEs to develop a proper marketing strategy, failure by SMEs to be innovative using the available resources, and failure by SMEs to identify their niche markets within the industry makes them to lag behind other firms in the global market.

2.6.4. Delay in paying operating costs

Other effects of limited access to SME funding relate to poor maintenance or replacement of machinery, delay in paying operating costs, inability by SMEs to purchase required materials and services, limited chances of expansion, and failure to attain the objectives for which SMEs were originally formed to attain (Goyal, 2012). According to Goyal (2012), operating costs of SMEs and businesses in general are constantly increasing. Therefore, to match and be in position to settle operating costs when due requires SMEs to make reasonable profits well above the break-even point. However, a study conducted by Mutalemwe (2010) established that the majority of start-up SMEs operate on the break-even- to make profits just enough to cover the operating expenses while others are not able to make sufficient profits to break-even. Therefore, failure by such SMEs to make profits above the profit point causes a lot of hiccups in their operations.

2.6.5. Retards growth of SMEs

Limited access to funding retards the growth rates of SMEs. According to Leboea (2017), limited access to funding deprives SMEs of the chance to hire skilled labour that is instrumental in ushering growth into the SMEs through innovative ideas. According to Leboea (2017), when businesses have readily access to economic resources, it will enable the firm to attract and retain the expertise that they require, secure the inputs that are necessary to operate the business, which as a result, will allow the business to be competitive and survive during periods of unfavourable economic conditions. Therefore, the lack of capital and limited access to financing through traditional institutions hinders SMEs from growing at the rate they should grow. Quoting an example from South Africa, Leboea (2017) states that most SMEs in South Africa are founded by individuals who are from disadvantaged societies which traditional financial institutions such as banks are conservative to lend money to because of lack of experience in business.

2.7. Summary

Literature has revealed a number of factors that limit the ability of SMEs to access finance from external sources. Factors such as lack of collateral security, failure by SMEs to maintain proper books of accounts, high inherent risk associated with SMEs, high periodic payments, high credit default rate by SMEs, and low levels of profitability and liquidity of SMEs. The next chapter covers the Research Methods applied in this research.

CHAPTER THREE

RESEARCH METHODS

3.1. Introduction

This chapter brings out the methodology that was adopted in this study. The chapter covers the research design, the population, sample, the sampling techniques, and research ethics that were taken into consideration when conducting this study.

3.2. Research design

The study used a quantitative research design to produce descriptive statistics of the SME sector and their experiences when starting up and applying for funding. Quantitative data was collected using questionnaires. Quantitative research involves the analysis of numerical and quantifiable data (Creswell, 2014). According to Leedy and Ormrod (2012), quantitative research is used for testing the relationships between given variables and the main tool used in quantitative research is a questionnaire.

3.3. Population

Leedy and Ormrod (2012) define a population as the total number of elements that are of interest to a researcher. The members of the population of interest should be in a position to provide answers to the questions raised should they be selected to form part of the sample. The exact number of SMEs registered and operating in Windhoek could not be precisely established by the time of conducting this study. However, previous studies

estimate the number of SMEs operating in Windhoek to be close to 40,000 (forty thousand) (Ogbokor and Ngeendepi, 2012). Without concrete data on the contrary, this study therefore concurs with the estimates of the above scholars regarding the number of SMEs operating in Windhoek. The assumption held is that there are roughly 40000 SMEs operating in Windhoek, and therefore, the population under study is 40000 SMEs. Furthermore, it was not possible to establish the number of SMEs per sector of operation as this data is not specifically documented by government agencies.

3.4. Sample

A sample refers to a small part of the population selected for analysis in order to derive population characteristics. A sample of 300 SMEs operating in different sectors were drawn from the population of close to 40,000 SMEs registered and operating in Windhoek. The sample of 300 was arrived at by using the researcher's judgement. Since the total population was assumed to be 40,000 SMEs, 300 SMEs was considered large enough to provide the answers needed for this study. An earlier study by Ogbokor and Ngeendepi (2012) that sought to establish the challenges faced by SMEs in Windhoek used a sample of only 100 research participants. Additionally, a recent study by Avevor (2016) that sought to establish challenges faced by SMES when accessing funding from financial institutions in Ghana used a sample of only 50 research participants. Therefore, in view of this, the sample of 300 participants is justified and large enough to provide the data that was needed in this study. Additionally, since there was no available information regarding the exact number of SMEs operating in Windhoek and the sectors in which they operate in, the researcher believed that a sample of 300 research participants was large enough to provide all the data needed in this study.

3.5. Sampling method used

Sampling is a technique that is used for selecting a sample (Leedy and Ormrod, 2012). Since it is time-consuming and expensive to use every member of the population, samples are used in order to derive population characteristics. According to Willemse (2009), samples are used because it is impractical to get the entire population to participate. Willemse (2009) further noted that researchers use samples because of the destructive nature of some experiments. There are various methods that can be used for selecting the sample. The two categories of sampling are probability sampling and non-probability methods.

Probability methods of determining the sample size are those methods which follow a defined pattern when selecting a sample. According to Willemse (2009), there are three probability methods for selecting a sample. These are simple random sampling, systematic sampling and stratified or cluster sampling (Willemse, 2009).

Random sampling: This is when every member of the population has the same chance of being selected. There is no defined formula on how to arrive at the final sample

Systematic sampling: Is when a researcher uses a definite pattern to select the sample.

Stratified sampling: Is when a population is divided into subgroups of similar characteristics and then the sample is selected randomly or systematically.

This study used random sampling to select a sample of 300 Small and Medium Enterprises operating in Windhoek to take part in this study. Three hundred (300) SMEs were selected because the sample was considered large enough to provide the required data for this study.

3.6. The Research instruments

The primary tool for data collection used for this study was a questionnaire. A questionnaire is a set of questions prepared by a researcher on a given subject of interest to collect responses from the selected sample (Leedy and Ormrod, 2014). The choice of using questionnaires was informed by the number of respondents and the type of the study undertaken. This study made use of a sample of 300 respondents, therefore, making the questionnaire the most viable method to collect data. Use of questionnaires helps researchers to save time.

The questionnaires were self-administered by the researcher. Self-administration of questionnaires was done in order to avoid losing some questionnaires and to ensure that the selected respondents personally completed the questionnaires. After questionnaires were administered, they were collected a day after for analysis. Out of the 300 questionnaires that were administered, 293 were successfully retrieved.

The questionnaires contained three main types of questions: closed ended questions, opened-ended questions and a likert scale. The questionnaire was structured in this manner in order to make it easy for the research participants to complete within the shortest time possible.

3.7. Validity and reliability of the research instrument

Validity is the extent to which a research instrument measures what it should measure while reliability of a research instrument refers to the consistency of the measuring instrument (Leedy and Ormrod, 2014). To test for validity and reliability of the data collection tool, the researcher tested the questionnaire on a sample of 15 SMEs which

were randomly selected from Windhoek. After testing the research instrument, some modifications were made on the research instrument to make it understandable and easy for all respondents to answer and at the same time, collect all the necessary data that was required in this study. For example, questions which did not add value to this study were deleted and some questions were added. Furthermore, some words which were not easy to understand were replaced to make the research instrument easy for the selected sample to understand.

3.8. Data Analysis

Quantitative data collected was sorted, grouped and presented in tables and graphs using Microsoft word and excel computer applications. The data collected was transcribed in different categories on Microsoft excel. After the data was transcribed in Microsoft excel, Microsoft word application was used to plot the tables and graphs. After information was presented on tables and graphs, descriptive statistics were used to interpret the data and compare the responses on opinions of respondents on factors contributing to SME failure.

3.9. Research Ethics

Before data was collected from respondents, the researcher first sought permission from all the sampled SMEs. After permission to conduct the study was granted, the researcher explained to the selected sample about the nature and purpose of the study. The researcher also explained to the selected sample their rights in the study- including to terminate their participation in the study should the participants feel uncomfortable to continue with the study.

Furthermore, it was the responsibility of the researcher to ensure that no harm was done to the person or the personalities of the respondents through for instance disclosing the identities of respondents to third parties without express permission from the respondents. According to Leedy and Ormrod (2012), the researcher has the moral obligation to ensure that no harm is done to the person or personality of the respondents. To ensure that no harm is done to the respondents, should there be need to disclose some sources of information, the researcher has to make sure that the respondents are first informed in order to seek their permission. Should the respondents refuse their identities to be disclosed, then the researcher will not disclose the identities of respondents to third parties.

It was also the responsibility of the researcher to observe confidentiality of respondents (Leedy and Ormrod, 2012:65). To maintain the anonymity of the respondents, personal information of the respondents such as the cellphone numbers, names, titles and positions held in the organisation was not solicited from the research participants.

3.10. Summary

This chapter presented the methodology that was used for collecting data. This chapter explained the research design that was adopted, the instrument used for data collection, measures to ensure validity and reliability of the data collection instrument and ethical considerations observed when collecting data. The next chapter presents the results data that was collected from the selected sample and their discussion.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1. Introduction

This chapter presents research results obtained from the sample of 293 SMEs operating in Windhoek. The chapter is organised into four sections: Response rate, biographical data of respondents, presentation and analysis of research results and discussion of research results.

4.2. Response rate

Table 4.1: Response rate

	Distributed	Retrieved	Not retrieved
Questionnaires	300	293	7
Percentage	100%	98%	2%

Source: Survey results

A considerably high percentage of questionnaires that were distributed to various SMEs around and within Windhoek were successfully retrieved and analysed. From a total sample of 300 questionnaires distributed, 293 questionnaires were retrieved and analysed representing a 98% response rate. Only 2% of the questionnaires that were distributed were not retrieved.

4.3. Biographical data of the research participants

4.3.1. Gender of research participants

Table 4.2: Gender of respondents

	Male	Female	Total
Number of respondents	156	137	293
Percentage	53%	47%	100%

Source: Survey results

The majority of respondents who participated in this study were male. From a sample of 293 research participants, 53% were male and the remaining 47% were female. However, it due to the small sample size, it could not be concluded based on the above statistics that there were more male entrepreneurs operating SMEs in Windhoek than female entrepreneurs.

4.3.2. Age group of participants

Table 4.3: Age brackets of respondents

Age bracket	18-30	31-45	46-60	Above 60	Total
Number of participants	12	221	60	0	293
Percentage	4%	75%	21%	0%	100%

Source: Survey results

The majority of entrepreneurs who took part in this study were aged between 31 and 45 years of age. From a sample of 293 participants selected, 75% were aged between 31 and 46 years, 4% were aged between 18 and 30 years, and the remaining 21% were aged between 46 and 60 years. None of the respondents was aged above 60 years. The above statistics suggest that most entrepreneurs are aged between 31 and 45 years.

4.3.3. Educational qualifications of the research participants

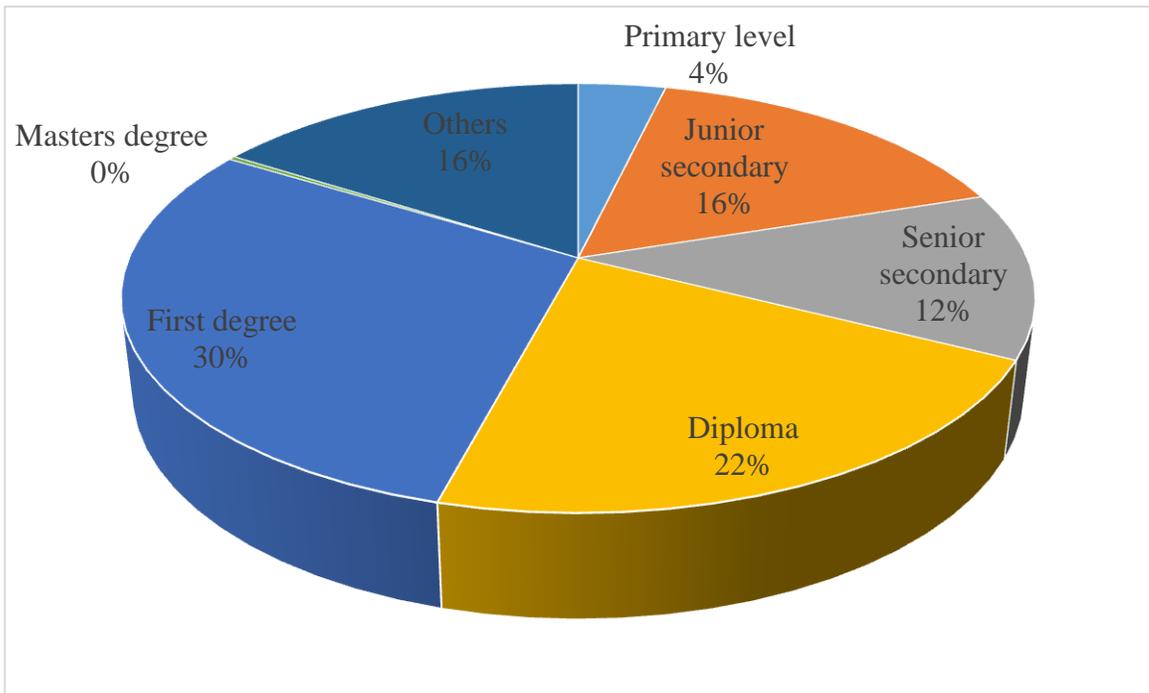


Figure 4.1: Educational background of research participants

Source: Survey results

The majority of respondents who took part in this study had first degrees in diverse fields of study. From a sample of 293 research participants, 30% had first degrees, 22% had diplomas, 12% had senior secondary certificates, 16% had junior secondary certificates, 4% had ended at primary level and the remaining 16% had other types of academic and professional qualifications. None of the respondents had masters' degrees. The statistics above show that most entrepreneurs operating in Windhoek are educated.

4.3.4. Type of businesses operated by the research participants

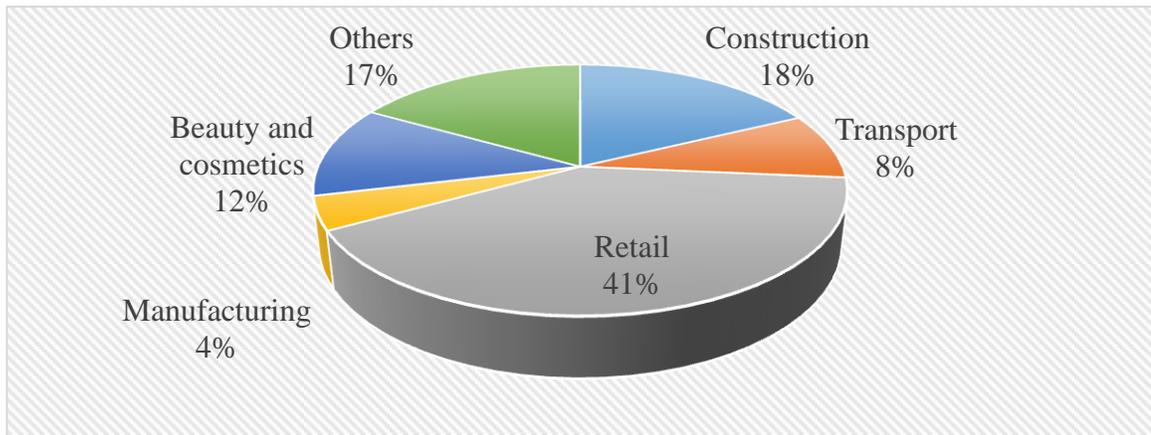


Figure 4.2: Type of business

Source: Survey results

The majority of businesses that took part in this study were retail businesses. From a sample of 293 businesses, 41% were operating as retail businesses, 8% were in the transport sector, 18% were in construction, 4% were in the manufacturing sector, 12% were in beauty and cosmetics and the remaining 17% were in other types of businesses not specified by the researcher. Retail businesses are popular probably because some retail businesses need a small amount of start-up capital.

4.3.5. Location of the businesses

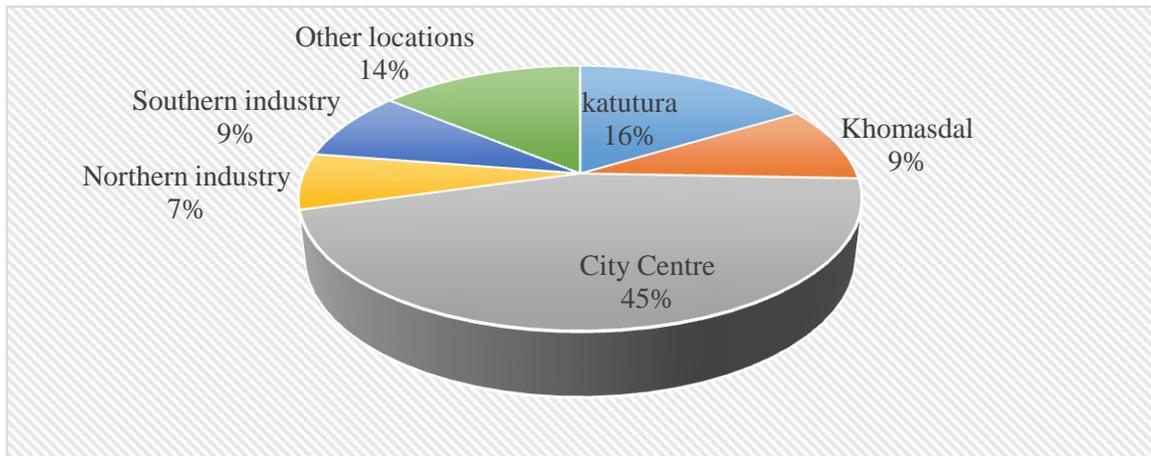


Figure 4.3: Location of businesses selected

Source: Survey results

The majority of SMEs that took part in this study were drawn from Windhoek City Centre. From a sample of 293 selected businesses, 45% operated in the city Centre, 9% were drawn from Khomasdal, another 9% were drawn from Southern industrial area, 16% were drawn from Katutura, 7% were drawn from northern industrial area, and the remaining 14% were drawn from other locations from within Windhoek. Most businesses were located in the city centre because of the central location, large number of customers and high security compared to the suburbs. Besides the above factors that may have influenced owners of SMEs to locate their businesses in the city centre, locating retail businesses in the centre may have been influenced by the high traffic in the city centre due to offices, service centres and existence of other shops.

4.3.6. Year of commencement

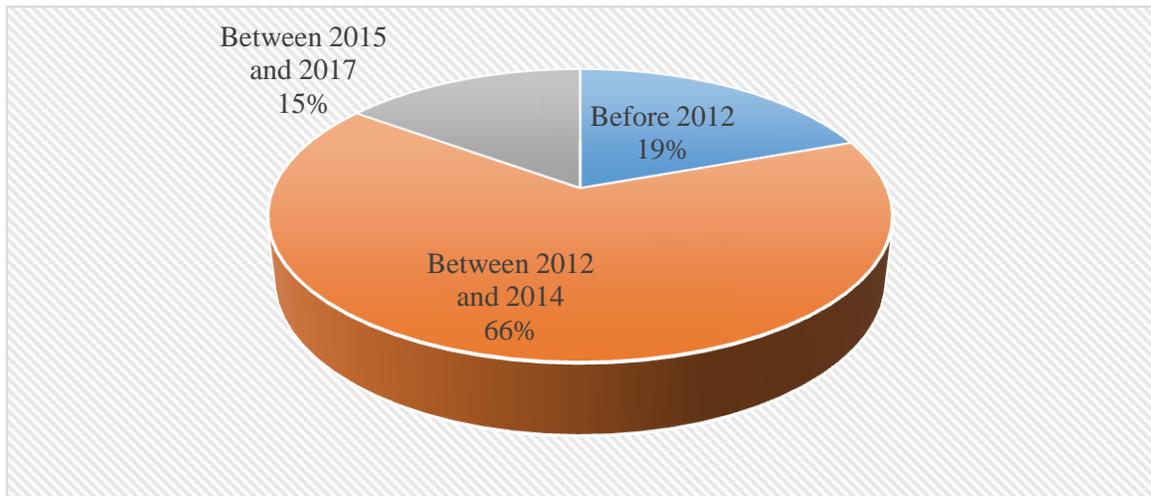


Figure 4.4: Year of commencement of operations

Source: Survey results

Most of the SME businesses studied in Windhoek were established between 2012 and 2014. From a sample of 293 SMEs, 19% were established before 2012, 66% were established between 2012 and 2014, and the remaining 15% were established between 2015 and 2017. The above statistics show that most of the SME businesses studied were relatively new.

4.4. PRESENTATION AND ANALYSIS OF RESEARCH RESULTS

4.4.1. Reasons why businesses were established

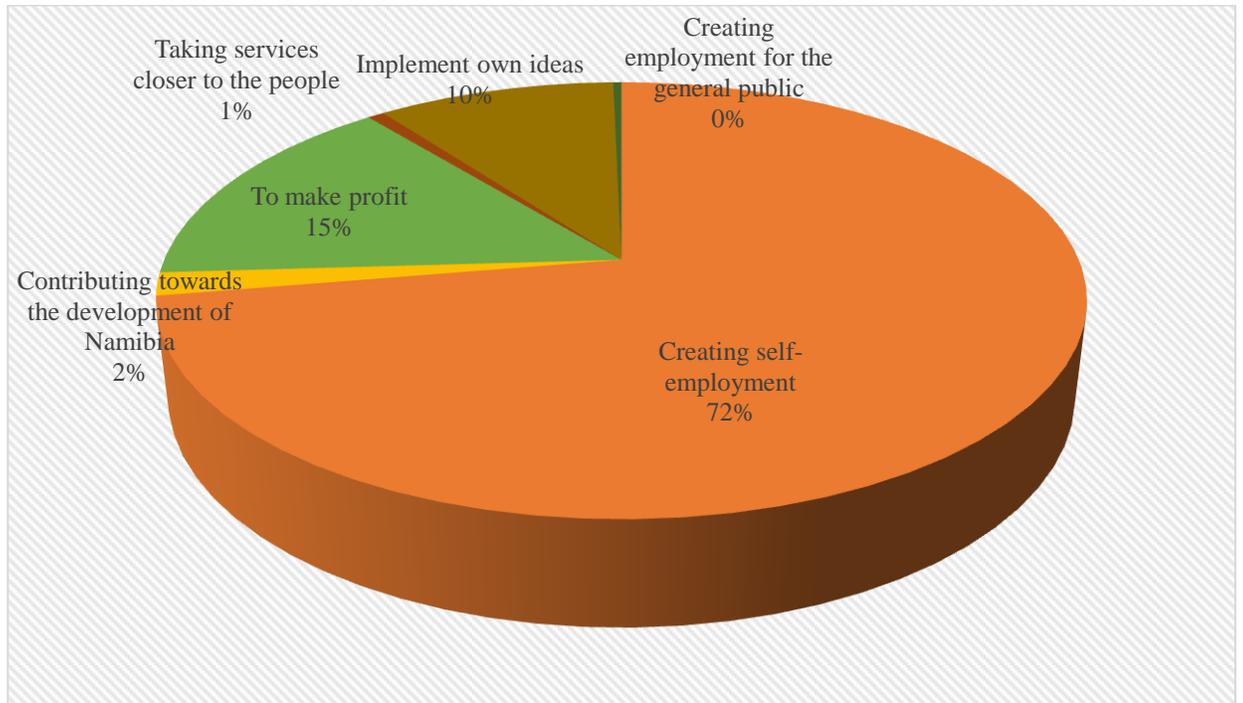


Figure 4.5: Reasons for establishing businesses

Source: Survey results

From the above statistics, it is evident that most small and medium enterprises operating in Windhoek were established to create employment for their owners and immediate family members. Other reasons why SMEs operating in Windhoek were established were to contribute to the national growth of Namibia, taking services nearer to the people, self-employment and freedom, implement own ideas, making profit, and creating employment opportunities for the general public. From figure 4.5 above, 72% of SMEs were established to create self-employment, 15% were established to make profit, 10% were established so as to enable the owners to implement their own ideas, and 2% were established to contribute towards Namibia's development.

4.4.2. Reasons for operating in the current location

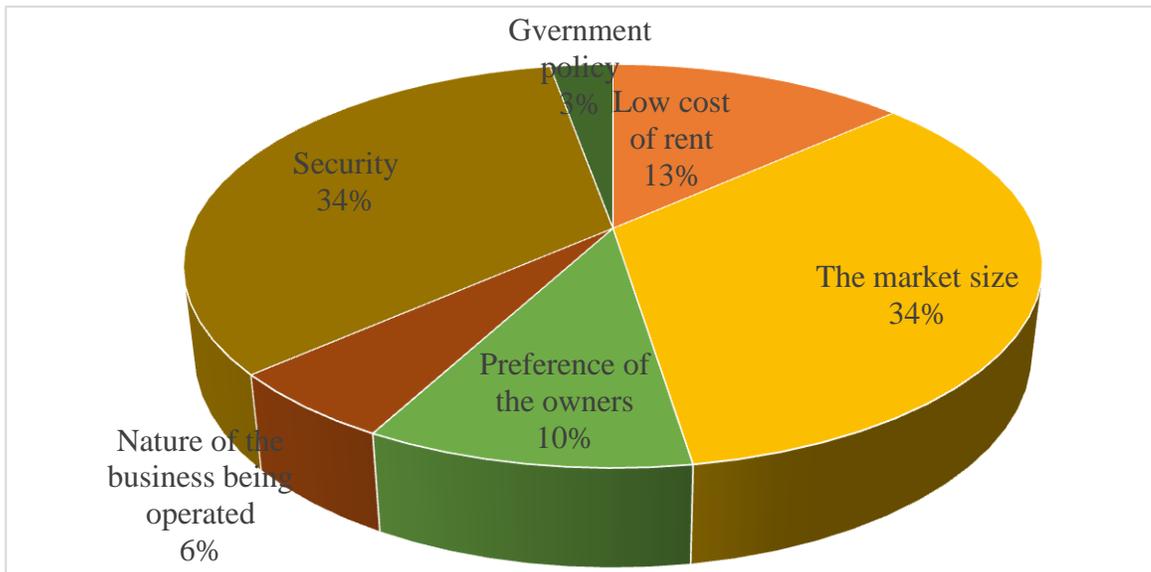


Figure 4.6: Reasons for operating in the current location

Source: Survey results

Participants were asked why they decided to locate their businesses in the locations they were operating from. The reasons given by participants included rental costs, proximity to the target market, security, preferences of the owners, government and the nature of the businesses. From the above statistics, the market size, security, cost of rent and preferences of the owners are the main factors that influence the location of SMEs in Windhoek. As regards to the rent cost, respondents indicated that they operate in the outskirts of Windhoek because the rentals are lower on the outskirts than in the Central Business District (CDB). With regards to security, respondents who took part in this study indicated that their present locations for their businesses were decided based on the security of the area. According to the respondents, businesses located in the central business district have a higher level of security and a comparatively higher level of customers compared to those located in the outskirts of the city. Furthermore, regarding

the nature of business, respondents indicated that certain types of businesses can only be located in certain areas gazetted by the government.

Other reasons given by respondents included Windhoek being the most populated city in Namibia and therefore, there is demand for almost everything that the businesses provided, entrepreneurs work in Windhoek and have no intention of relocating soon, high demand for housing in Windhoek, and closeness of businesses to customers among other factors.

4.4.3. Reasons for selecting the type of business and the sector of operation

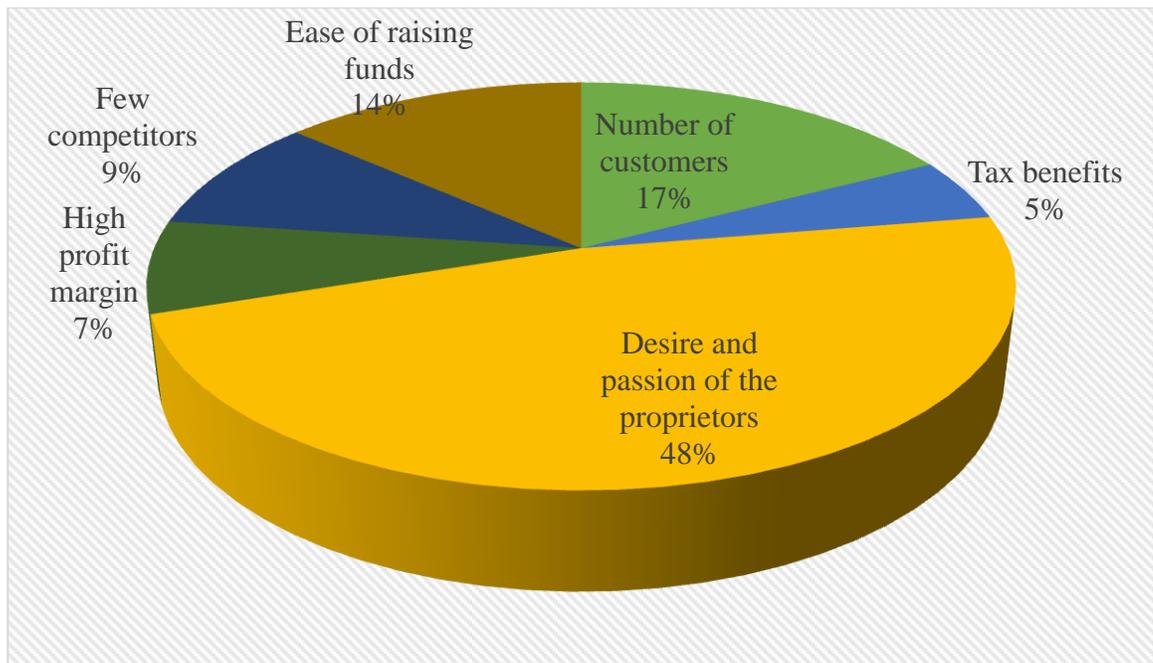


Figure 4.7: Reasons for selecting a specific type of business

Source: Survey results

The main reason why specific types of businesses were selected by SME proprietors was because of the interest and desire of the proprietors. From the figure above, 48% of the businesses were selected because of the desire and passion of the owners, 17% were selected because of the number of customers, 14% were selected because of ease and

accessibility to start-up funds, 9% were selected on account of having less competitors, 7% were selected because of the potential of making high profits, and 5% were selected because of the tax benefits.

4.4.4. Assessment of whether or not SMEs have ever received government support such as incentives, regional assistance and subsidies

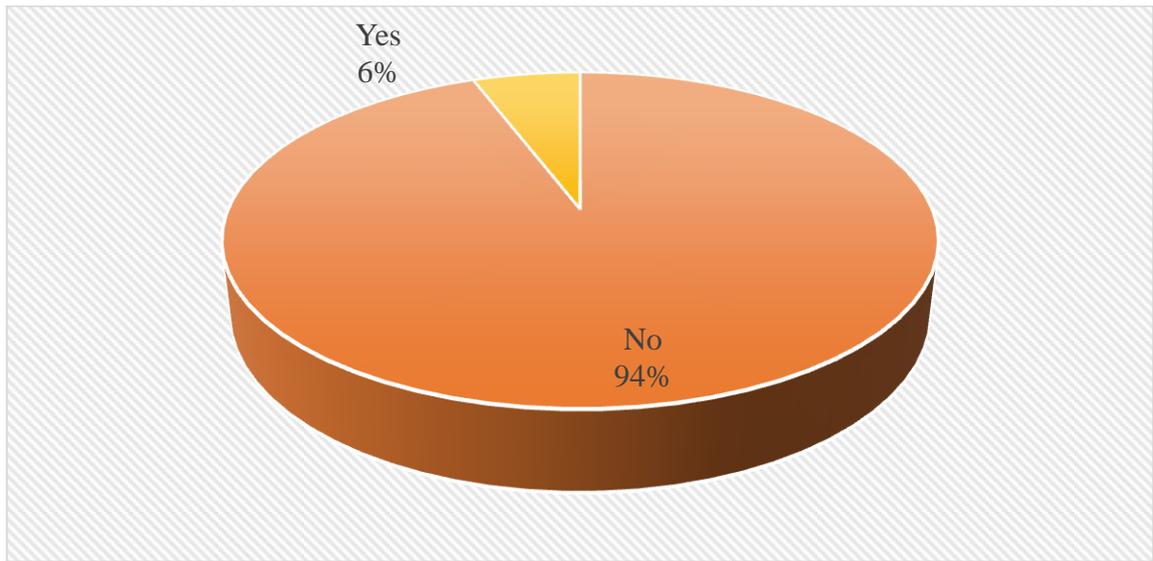


Figure 4:8: Access to government support

Source: Survey results

The majority of SMEs operating in Windhoek have never received government support in terms of incentives, regional assistance, and subsidies. Lack of government support makes SMEs to operate at a cost of operation. From a sample from 293 SMEs, 94% reported that they had never received assistance from the government in the form of incentives, regional assistance and subsidies. Government support in the form of subsidies and regional assistance helps to meet the financing needs for SMEs. Therefore, since just a handful of SMEs receive government support, this means in effect that

SMEs have to look for alternative funding from outside sources, preferably from the banks.

4.4.5. Assessment of whether or not entrepreneurs had any prior business experience in the business line that they are engaged in

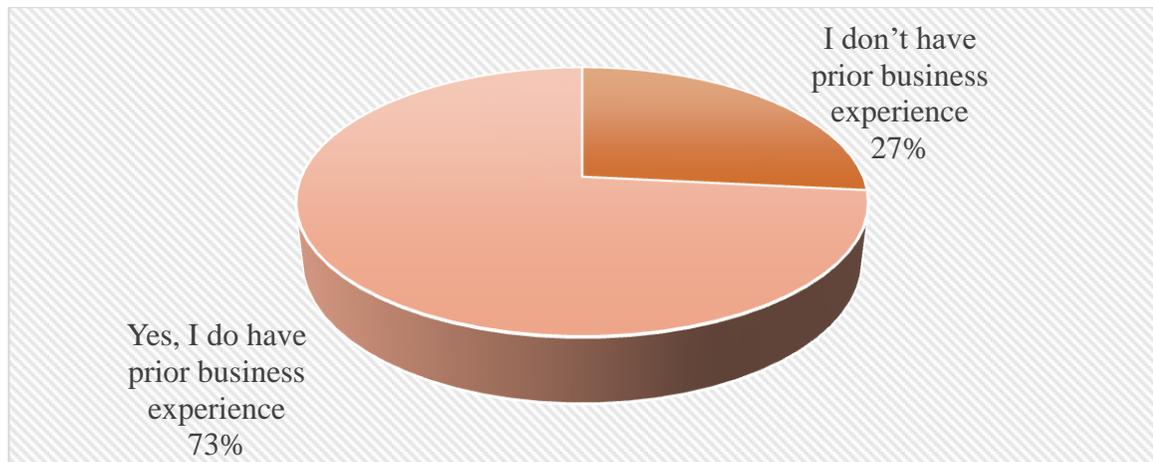


Figure 4:9: Prior business experience

Source: Survey results

The majority of businesses that took part in this study had prior experience in the line of businesses that they were engaged in at the time of conducting this study. From a sample of 293 SME entrepreneurs who took part in this study, 73% had prior business experience in the businesses that they were engaged in while the remaining 27% were new in the business arena. This implies that data was collected from seasoned entrepreneurs who knew closely the funding challenges faced by SMEs in accessing funding, especially from the banks.

4.4.6. Assessment of whether or not selected SMEs were registered with the Ministry of Trade and Industry

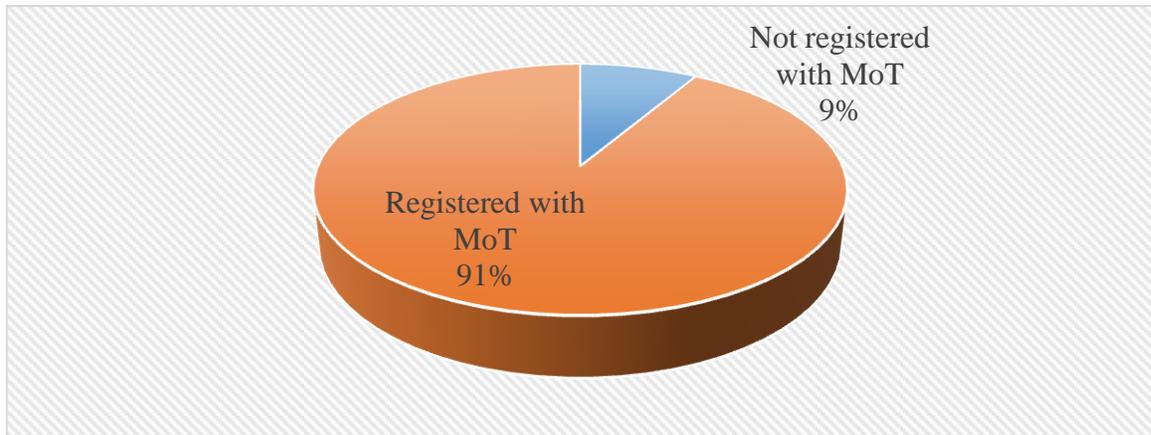


Figure 4:10: Registration with the Ministry of Trade

Source: Survey results

The majority of SMEs that took part in this study were registered with the Ministry of Trade as trading and service providers in Namibia. From a sample of 293 SMEs, 91% were registered with the Ministry of Trade and Industry as legal entities while the remaining 9% were not registered businesses.

4.4.7. Assessment of whether or not selected SMEs were registered as VAT vendors

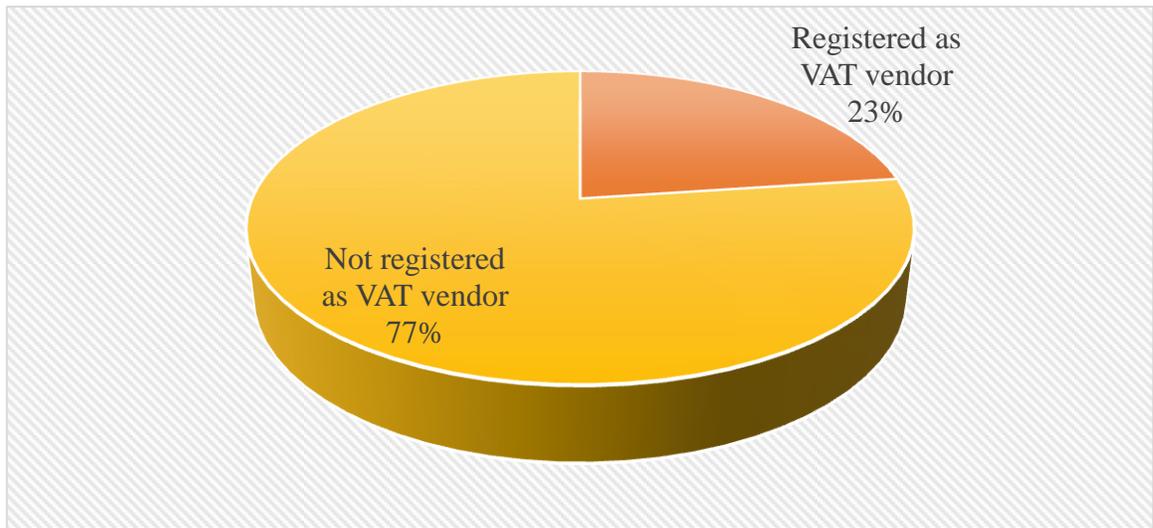


Figure 4:11: Registration as VAT vendors

Source: Survey results

Although most of the businesses that took part in this study were registered with the Ministry of Trade and Industry, the majority of SMEs that participated in this study were not registered as VAT vendors. From the figure above, 77% of the SMEs were not registered as VAT vendors and only 23% were registered as VAT vendors. Registering as a VAT vendor allows a business to charge VAT on goods and services and reclaim VAT returns on purchases. Besides the reclaiming through VAT returns, registration as VAT vendors opens avenues for SMEs to business deals with other business and makes it easy for SMEs to apply for loans. Banks may require SMEs to prove that they are taxpayers before processing their loan applications.

4.4.8. Assessment of whether or not selected SMEs were registered with social security commission as employers

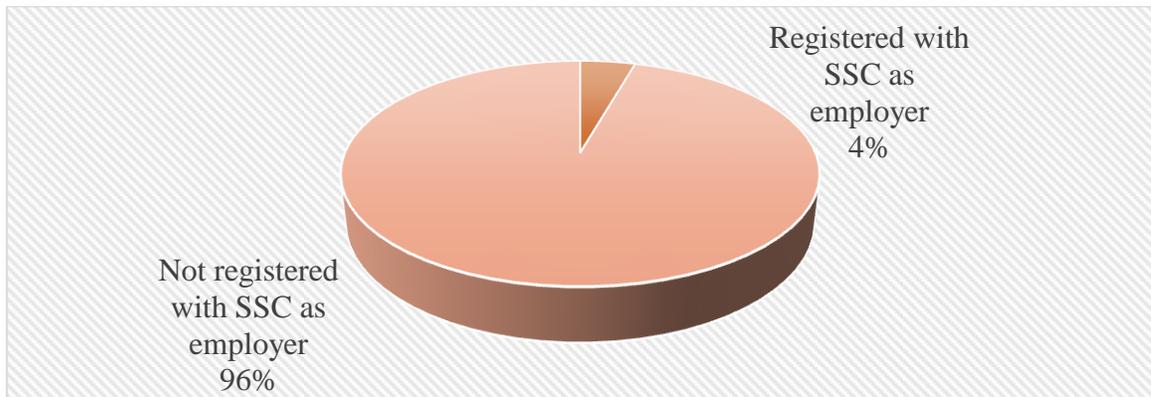


Figure 4:12: Registration of SMEs with Social Security as employers

Source: Survey results

From a sample of 293 SMEs sampled for this study, only 4% were registered with the Social Security Commission of employers while the majority of 96% were not registered as employers. Certificate of registration as employer is one of the documents required by the banks when processing loans for SMEs.

4.4.9. Assessment of whether or not selected SMEs had all the required documentation to carry out the activities that they were engaged in

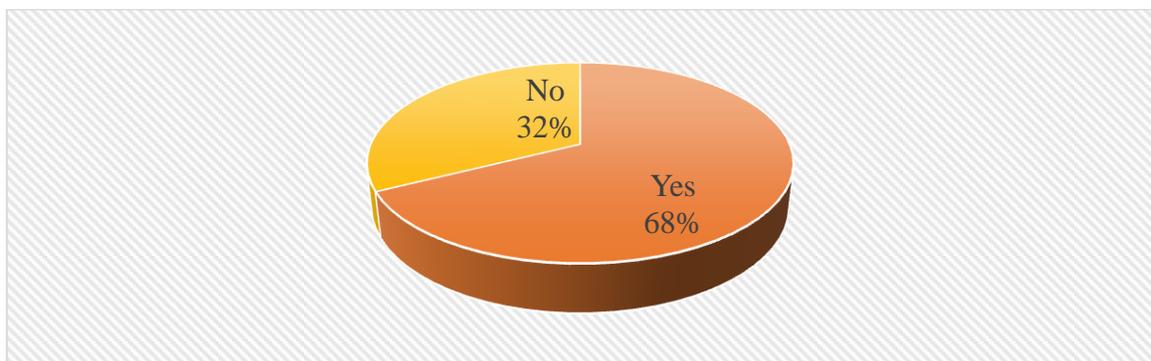


Figure 4:13: Fulfilment of documentation to engage in trading

Source: Survey results

The majority of SMEs that took part in this study claimed that they had all the necessary documentation to carry on the business activities that they were engaged in. From a sample of 293 SME businesses, 68% indicated that they had all the necessary documentation to carry on trading and service activities while 32% indicated otherwise.

4.4.10. Main sources of funding

Table 4.4: Sources of funding

s/n	Source	Yes		No		Total	
		Number	%	Number	%	Number	%
a	Owner's savings	293	100%	0	0	293	100%
b	Borrowing from relatives and friends	191	65%	102	35%	293	100%
c	Bank loans	34	12%	259	88%	293	100%
d	Retained profits	95	32%	198	68%	293	100%
e	Sale of the fixed assets of the business	0	0%	293	100%	293	100%
f	Trade credit	196	67%	97	33%	293	100%
g	Cash loans from non-banking institutions	153	52%	140	48%	293	100%
h	Others	65	22%	228	78%	293	100%

Source: Survey results

As depicted in the table above, SMEs use different sources of finance to finance their operations such as owners' savings, bank loans, retained profits, sale of the fixed assets of the business, trade-credit, cash loans from non-banking institutions, and other sources of funding. As shown by the table above, it is evident that the most common source of funding is owners' savings, trade credit, cash loans from non-banking institutions and borrowing from relatives and friends. As depicted by the table above, 100% of SMEs sampled use owners' savings as the main source of funding, 65% use funds borrowed from relatives and friends as their main source of funding, 12% use bank loans, 32% make use of retained profits, 67% use trade credit, 52% use cash loans from non-

banking institutions, and 22% use other sources of funding other than the ones specified above. None of the SMEs use funds from the disposal of fixed assets as a source of funding.

Furthermore, the table above reveals that the last source of funding for SMEs operating in Windhoek was disposal of fixed assets of the business, bank loans, and retained profits. As shown by the table above, 100% of SMEs operating in Windhoek do not rely on disposal of fixed assets as their main source of funding, 88% of SMEs do not use bank loans as a source of funding, and 68% of SMEs operating in Windhoek do not have sufficient retained profits to finance their operations.

4.4.11. Assessment of whether or not the sources of finance used by selected SMEs was sufficient to meet business needs

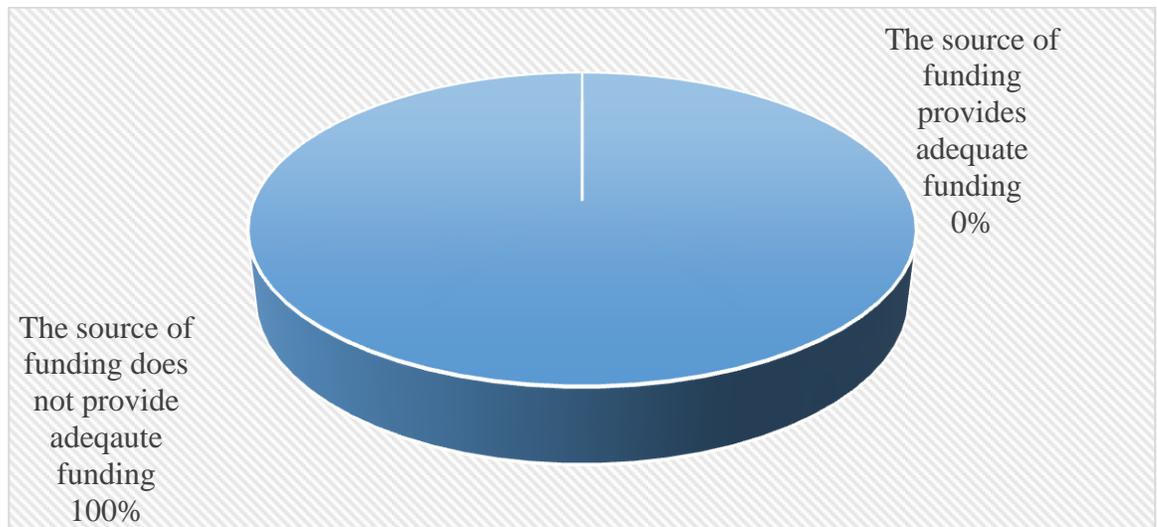


Figure 4:14: Sufficiency of the sources of funding used by SMEs

Source: Survey results

There was complete agreement among respondents that the source of funding used by SMEs does not provide adequate funding to cater for business needs. From a sample of

293 SMEs sampled, all of them indicated the funding obtained from various sources of funding available to SMEs is not adequate.

When asked to explain the reasons why the respondents thought that the sources of funding that they used were either adequate or inadequate, it was evident that whatever source of finance that the selected SMEs uses does not provide them with sufficient funds to finance their business operations for a number of reasons:

According to the respondents, owners' savings are not sufficient to meet the needs of the businesses, the amount borrowed from relatives is too small relative to the business needs. Most businesses do not have sufficient retained profits to finance business needs, and interest charged by those who give cash loans is too high for businesses to afford the sizeable loan amounts. Additionally, cash loan businesses loan out small amounts of money which cannot support SMEs to expand their operations.

Since the majority of the SMEs that took part in this study were relatively young, they do not have sufficient reserves of retained profits to finance their operations. Furthermore, since most the SMEs that took part in this study were not registered as VAT vendors, obtaining trade credit remains a farfetched dream for such SMEs to obtain trade credit. This is since VAT registration is one of the requirements that suppliers look into when giving trade credit to businesses.

4.4.12: Application for a bank loan from financial institutions for the purpose for investing in SMEs

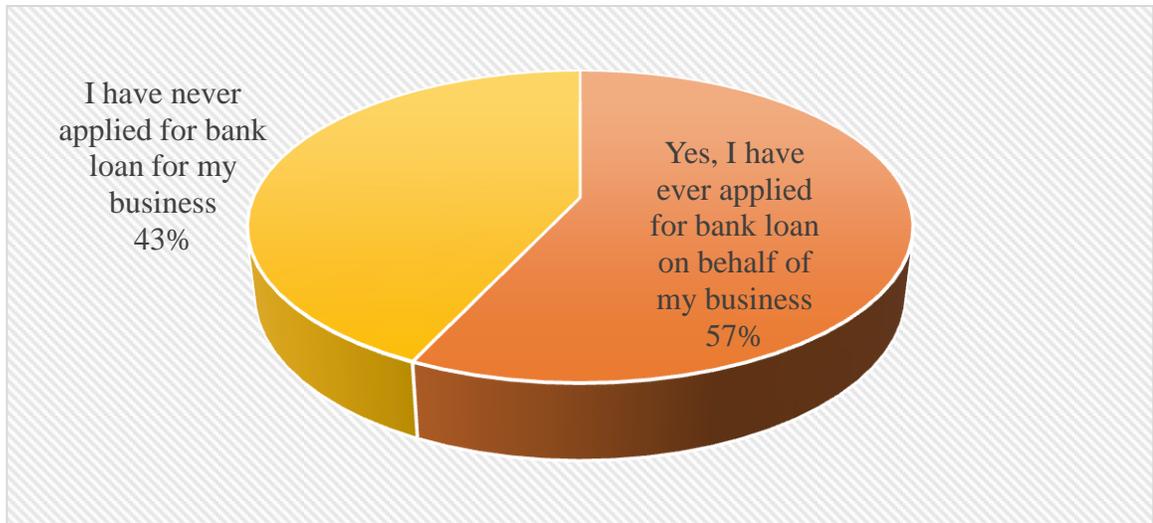


Figure 4:15: Application for bank loans

Source: Survey results

Although a large number of SMEs do not use bank loans as their main source of finance. From a total sample of 293 SMEs, 57% have applied for a bank loan to finance their business operations and only 43% had never applied for funding from any bank. These statistics suggest that bank loans are the most sought-after source of finance for SMEs operating in Windhoek. Furthermore, although SMEs have other sources of finance, the inadequacy of such sources makes SMEs seek funding from commercial banks.

4.4.13: Approval of loan applications

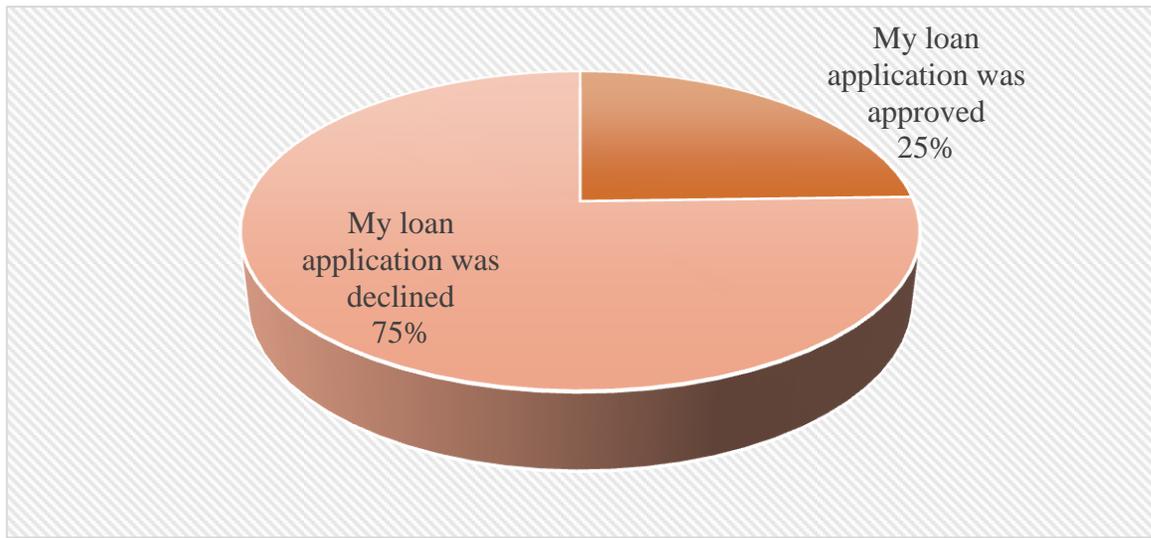


Figure 4:16: Approval of loan applications

The majority of loan applications by SMEs for funding are declined. As shown in the above chart, out of 167 loan applications submitted to various financial institutions for financial assistance, only 25% were approved and 75% were declined. This implies that most SMEs operating in Windhoek are not perceived to be credit-worthy, making them heavily rely on other sources of financing other than bank loans. Furthermore, non-approval rate for SME loans by commercial banks suggest that banks have stringent rules on loan approval for SMEs.

4.4.14: Reasons for non-approval of loan applications

Table 4.5: Reasons for non-approval of bank loans

Reason	Yes		No		Total	
	Number	%	Number	%	Number	%
Failure to pay previous loans	0	0%	167	100%	167	100%
Lack of audited financial statements	93	56%	74	44%	167	100%
Absence of well-written business plan	63	38%	104	62%	167	100%
Lack of adequate collateral security	155	93%	12	8%	167	100%
Poor and inexperienced management	15	3%	162	97%	167	100%
Low profitability margin of the business	142	85%	25	15%	167	100%
Unavailability of business idea	160	95%	7	5%	167	100%
Other factors	98	58%	69	42%	167	100%

Source: Survey results

Although businesses consider the amount of debts that businesses owe to other financial providers, none of the SMEs were denied loans on account of debt owed to other financial institutions. It is possible that the SMEs which applied for bank loans did not have loans from other financial institutions. As depicted by the above statistics, none of the applicants were denied bank loans because of failure to pay previous loans; 56% of the loan applicants were denied loans due to lack of audited financial statements; 38% were denied loans because of failure to present well-written business plans to the bank; 93% of the loan applicants were denied loans because of lack of collateral security; 3%

were denied loans on account of having poor and inexperienced management; 85% were denied loans because of the low profitability level of businesses; 95% were denied loans because of unavailability of business ideas; and 58% couldn't get loans because of other factors. Regarding unavailability of business ideas, it is possible that SMEs which applied for funding did so in order to enter into business operations which were saturated and possibly less profitable. Since the interest of the banks is to ensure that loaned out funds are recovered together with interest thereon, business ideas presented to the banks for funding should be viable.

Other reasons why banks deny granting loans to businesses, relate to credit rating, failure to properly complete the loan application forms, difficult general economic conditions, cash flow problems, and time in business. According to Yesseleva (2012) businesses that are relatively new in business are considered high risk businesses by banks, and therefore, banks are reluctant to extend credit to such businesses because of the uncertainty of their future. Other factors include government priorities. According to Agbenyo (2015), governments in their planning and priority setting, may favour businesses in certain sectors and regions than others, and therefore, businesses that are not part of government priority may find it difficult and challenging to secure bank loans as compared to those which the government considers as their priority areas.

4.4.15: Factors limiting the ability of SMEs in borrowing funds from the banks

Table 4.6: Reasons for non-application of bank loans

	SA	A	D	SD	Total
Low profitability of SMEs	153	87	49	4	293
The loan application procedure is complicated and many requirements	12	167	99	15	293
Interest rates are high	178	56	51	8	293
The repayment period is short	25	67	195	6	293
SMEs lack sufficient collateral security for bank loans	273	20	0	0	293
Poor record keeping by SMEs	23	94	123	53	293
Lack of bankable business plans	35	145	102	11	293
No audited financial statements required for bank loan application	166	35	85	7	293
Reluctance and ignorance about loan availability by SME entrepreneurs	14	24	225	30	293

Source: Survey results

This study reveals that a number of factors hinder the ability of SMEs to apply and obtain loan finance from commercial banks in Namibia. Among the major limitations to accessibility of loans by SMEs are banks' inability to understand the business idea of the SME, lack of sufficient collateral security, low profitability levels of SMEs, high interest rates on bank loans, lack of bankable business plans, and long and complicated loan application procedures and requirements.

When presented, the issue of lack of profitability, of the SMEs sampled from the table above, 52% (153) strongly agreed, 30% (87) agreed, 17% (49) disagreed, and 1% (4) of the SMEs strongly disagreed that SMEs are hindered from obtaining loans from commercial banks because of low profitability levels of SMEs. This suggests that SME

owners (82%) believe that their businesses are not very profitable and therefore probably unable to service any loans they might obtain.

Regarding loan application procedures and loan requirements, 4% (12) strongly agreed, 57% (167) agreed, 34% (99) disagreed and the remaining 5% (15) strongly disagreed that the reason why SMEs operating in Windhoek are limited from obtaining bank loans is because the loan application procedure is complicated and that there are many requirements needing to be fulfilled before getting bank loans. This suggests that 61% of SME owners believe that loan application procedures are complicated and/or that there are too many requirements to be fulfilled.

Regarding interest rates, 61% (178) of the respondents strongly agreed, 19% (56) agreed, 17% (51) disagreed and the remaining 3% (8) strongly disagreed that high interest rates limit the ability of SMEs to access bank loans from commercial banks in Windhoek. This suggests that 80% of SME owners view high interest rates as a limiting factor to their access to loans.

Pertaining to the loan repayment period, 9% (25) strongly agreed, 23% (67) agreed, 67% (195) disagreed and the remaining 1% (6) strongly disagreed that due to the short loan repayment period, SMEs operating in Windhoek are limited from accessing loan facilities from commercial banks in Windhoek. This suggests that SME owners do not perceive the short repayment period as a factor in accessing loans.

With regards to collateral security for bank loans, there was complete agreement among participants that lack of sufficient collateral security for bank loans limits the ability of SMEs operating in Windhoek to access bank loans. From a sample of 293 participants

selected for this study, 93% (273) strongly agreed and the remaining 7% (20) agreed that lack of sufficient collateral security hinders SMEs operating in Windhoek to access bank loans.

With regards to record keeping by SMEs and its effect on loan acquisition by SMEs, 8% (23) strongly agreed, 32% (94) agreed, 42% (123) disagreed and the remaining 18% (53) strongly disagreed that poor record keeping by SMEs operating in Windhoek limit their ability to access bank loans. This suggests that SMEs are fairly confident that they have good records.

With regards to bankable business plans, 12% (35) strongly agreed, 49% (145) agreed, 35% (102) disagreed and the remaining 4% (11) strongly disagreed that lack of bankable business plans limits the ability of SMEs operating in Windhoek to access bank loans. Since the majority of SMEs indicated that lack of bankable business plans limited their ability to obtain financing from the banks, it can be inferred that the majority of SMEs operating in Windhoek do not know how to write authoritative business plans or do not have enough money to pay professionals to draft bankable business plans. This would also suggest that SME's have challenges in putting their business ideas across to banks in a way that would enable the bankers to understand their operations and thus offer them suitable loan products.

Pertaining to audited financial statements, 57% (166) of the participants strongly agreed, 12% (35) agreed, 29% (85) disagreed and the remaining 2% (7) strongly disagreed that absence of audited financial statements required by banks for loan applications limits the ability of SMEs to access bank loans. Failure by the majority of SMEs to produce

audited financial statements when applying for bank loans could be attributed to the high cost of having their accounts their accounts audited by the accountants and the scale of operation. Usually, small-scale businesses are reluctant to have their financial statements audited unlike large scale entities and public entities which are mandated by law to have their annual statements audited by the auditors.

Finally, regarding reluctance and ignorance about loan availability by SME entrepreneurs, 5% (14) of the respondents strongly agreed, 8% (24) agreed, 77% (225) disagreed, and the remaining 10% (30) strongly disagreed that reluctance and ignorance about loan availability by SME entrepreneurs limit the ability of SMEs operating in Windhoek to access loan finance from commercial banks in Namibia.

4.4.16. Effects of limited access to finance on the operations of SMEs

Table 4.7: Effects of limited access to finance on SME operations

	SA	A	D	SD	Total
Limits expansion of SMEs	255	33	5	0	293
Negatively affects the competitive position of SMEs	115	149	26	3	293
Closure of SMEs	25	160	108	0	293
Limits the ability of SMEs to make profit	178	68	47	0	293
Limits SMEs' ability to create job opportunities	45	205	30	13	293

Source: Survey results

Limited access to finance affects the operations of SMEs in several ways. The findings from this study indicate that limited access to finance affects SMEs by limiting SME expansion, diluting the competitive power of SMEs, precipitating the closure of SMEs, limits the ability of SMEs to make profit, and limits the ability of SMEs to create job opportunities.

From the table above, from a total of 293 participants, 87% (255) strongly agreed, 11% (33) agreed and the remaining 2% (5) disagreed that limited access to finance limits the expansion of SMEs.

With regards to the competitive position of SMEs, 38% (115) strongly agreed, 51% (149) agreed, 9% (26) disagreed and the remaining 1% (3) strongly disagreed that restricted access to finance by SMEs negatively affects the competitive position of SMEs.

There was a high degree of agreement among participants that limited access to finance leads to closure of SME businesses operating in Windhoek. From a sample of 293 research participants, 9% (25) strongly agreed, 55% (160) agreed, and the remaining 36% (108) disagreed that limited access to finance by SMEs leads to eventual closure of SMEs.

Statistics from the table above reveal that limited access to finance limits the ability of SMEs to make profit. As revealed by the table above, 61% (178) strongly agreed, 23% (68) agreed and the remaining 16% (47) disagreed that limited access to finance limits the ability of SMEs to make profit. Another effect of limited access to finance by SMEs relates to limited ability of SMEs to create sustainable job opportunities. From the table above, 15% (45) of the research participants strongly agreed, 70% (205) agreed, 10% (30) disagreed and the remaining 4% (13) strongly disagreed that limited access to finance by SMEs limits their ability to create sustainable job opportunities.

4.4.17. Strategies for increasing access to finance by SMEs

From the responses obtained, it was evident that most SMEs support reduction of interest rates charged on loans by commercial banks, reducing the cumbersome process of loan acquisition, adjusting collateral requirements to allow businesses with low asset level to acquire loans, and allowing SMEs a sufficient grace period before they start repaying loans for both interest and principle.

4.5. Discussion of research results

Discussion of findings is done under two subheadings: financing challenges faced by SMEs operating in Windhoek; and the effects of financing challenges on the operations of SMEs.

4.5.1. Financing challenges faced by SMEs operating in Windhoek

Findings from this study reveal that failure by SMEs to comprehensively meet the requirements of external financiers impedes their ability to access funding from financial institutions. For example, failure to satisfy the banks' requirements for adequate collateral security for loans, failure to maintain proper books of accounts, failure by SMEs to register as VAT vendors, limited experience in business, and inability of SMEs to make sufficient profits to meet monthly loan repayments and interest thereon, limit SMEs from accessing bank loans and trade credit. It should be noted that registering as a VAT vendor allows a business to charge VAT on goods and services and reclaim VAT on purchases. Besides reclaiming VAT in payments, registration as VAT vendors opens avenues for SMEs to business deals with other business and makes it easier for SMEs to obtain credit. Therefore, since registration as a VAT vendor opens avenues for SMEs to apply for trade credit, failure to do so hinders SMEs' ability to access trade credit. These findings are consistent with earlier studies done by other scholars. For example,

regarding the relative newness of a business in a specific field, this limits its chances of obtaining a bank loan. According to Yesseleva (2012) businesses that are relatively new are considered high risk businesses by banks, and therefore, banks are reluctant to extend credit to such businesses because of the uncertainty of their future. Wamono *et al.*, (2012) attributed failure to obtain financing from commercial banks by SMEs in Uganda, to low profitability and liquidity levels of SMEs and high inherent risk associated with start-up businesses. Dankwa and Adoley (2014) identified poor book keeping by SMEs as a limiting factor to SMEs' access to finance from commercial banks. Ezeagba (2017) found out that, failure by SMEs to prepare and maintain proper financial statements deters SMEs from accessing funding from banks. From the foregoing, as much as SMEs require funding, banks are concerned about the security of the loaned funds and the ability of borrowers to repay borrowed funds plus interest thereon. Therefore, failure by the two parties to find a common ground makes it difficult for the borrower-lender relationship to be established.

Although the findings from this study were in harmony with the above authors, other scholars had contrary findings regarding factors which limit SMEs' access to funding. For example, Dankwa and Adoley (2014) found out that poor management and lack of separate existence between the SME businesses and their owners inform the banks' decisions to lend money to SMEs. Dankwa and Adoley (2014) argued that most start-up SMEs are run and managed by people who don't have relevant business experience, and therefore, the likelihood of poor management is high. This result contrasts with the survey results that indicated that most of the business owners in Windhoek had prior experience. It should be noted that, since banks are also businesses whose principle aim

it to make a profit, they will do everything possible to ensure that any money loaned out is recovered so as to enable banks to survive. To make profits, banks have to carefully select SMEs which have the capacity to repay the loans.

A study by the World Bank (2015) indicated that SMEs' failure to obtain funding relates to lack of policies by the governments of developing countries to support SME funding. Other scholars include Mira and Ogollah (2013) who found that SME funding depends on SME characteristics such as the closeness of the firm to the lenders, the size of the firm, the sector in which the SME operates, the capital structure, and the location of the business.

4.5.2. Effects of financing challenges faced by SMEs operating in Windhoek

Regarding the effects of limited funding on the performance of SMEs operating in Windhoek, this study revealed that limited access to finance affects the operations of SMEs by limiting SME expansion, diluting the competitive power of SMEs, precipitating the closure of SMEs. This in turn limits the ability of SMEs to make profit, and their ability to create sustainable job opportunities. Due to globalisation, domestic industries and businesses especially those from developing countries have been subjected to intense competition. For SMEs to position themselves for global competition, there is need for them to have easy access to finance so as to boost their levels of operations and achieve economies of scale. Limited access to business finance limits the ability of SMEs to expand their operations and to successfully compete with giant multinational companies.

Given the fact that SMEs are the most dominant form of businesses in Namibia, partly because of relaxed entry requirements such as little start-up capital, global competition is

bound to lead to closure of some SMEs. It therefore follows that, when SMEs close, the unemployment rate increases because SMEs employ a sizeable number of the Namibian workforce. These findings are consistent with findings of other researchers. For example, a study conducted by Leboea (2017) in Gauteng province in south Africa established that limited access to financing by SMEs does not only hinder SME growth but also threatens their very existence (Leboa, 2017).

Similarly, a study by Hallberg (2013) revealed that limited access to finance by SMEs limits SMEs' ability to create sustainable job opportunities and to bring about economic growth in countries. Additionally, a study conducted by Njiru (2014) that aimed at exploring the effects of cost of credit on the financial performance of commercial dairy small and medium enterprises in Kiambu county in Kenya established that limited access to capital coupled with the high cost of acquiring capital contributes to the high SME mortality rate in Kenya.

Although some SMEs meet some of the requirements for funding as required by commercial banks, banks still seem reluctant to give SMEs loans. To the banks, meeting the formal requirements for loans alone is not enough to guarantee the safety of borrowed funds by SMEs. Much as SMEs need funds for expansion, such funds can only be availed to SMEs if the bottom line of lenders is not negatively affected. Whereas banks find it easy to lend money to big and well-established companies and corporations which have proven management expertise, most SMEs are still run by people (owners) who may not necessarily have the experience and expertise to effectively manage the borrowed funds.

CHAPTER FIVE

CONCLUSION, SUMMARY AND RECOMMENDATIONS

5.1. Introduction

This chapter concludes the study by giving the summary of key findings, offering recommendations to be adopted in order to improve funding of SME businesses in Windhoek, and suggests areas for further research.

5.2. Summary of research findings

This study aimed at investigating the funding challenges faced by small and medium enterprises in Windhoek city. The specific objectives that this study sought to address were to ascertain whether SMEs have challenges in accessing credit in Namibia and if so, determine the specific challenges; determine how financing challenges affect the operations of Small and Medium Enterprises; and make recommendations to policy makers on how to overcome the funding challenges. This would in turn help improve accessibility of funds by SMEs so as to improve the performance of the SME sector.

To achieve the above objectives, this study adopted a quantitative research design and used a sample of 293 that was drawn from Windhoek City using simple random probability sampling. The sample was drawn from various business sectors including construction, retail, manufacturing, beauty and cosmetics, transport, and others.

This study found out that most of the small and medium enterprises operating in Windhoek were established to create employment opportunities for their founders who

mostly were college educated or higher, had previous experience in their chosen business line and were in the most productive age group whom you would normally expect to be in formal employment. This suggests that other motives could have played a role in propelling them into business. The motives included to contribute to the national growth of Namibia, taking services nearer to the people, and to make profit. Control over their earnings and mode of operation may also have been factors. More interesting is that the majority of SMEs operating in Windhoek did not receive government support such as incentives, regional assistance, and subsidies. Given that the majority are college educated and had previous relevant experience and therefore would be aware of government support programs. This would suggest that either there is no government program to support SME start-ups or that the process to access such support is convoluted and therefore unattractive for SMEs to attempt to access.

Lack of government support puts the full economic burden for both operations and regulatory compliance on the SME. Given that the same SMEs have challenges obtaining funding for their operations, it is not surprising that most are unable to incur the cost of regulatory compliance. A failure to be regulatory compliant means that from the outset the SME will miss out on generating the sort of data that banks find useful when assessing their loan application. Interestingly, the majority of SMEs that took part in this study were registered with the Ministry of Trade as trading and service providers in Namibia. Presumably this was done to enable them to access government contracts as registration with the Ministry of Trade is a pre-requisite to enable SMEs to preferentially access government tenders.

More telling was that a sizeable number of SMEs operating in Windhoek are not registered with the Social Security Commission as employers. This means that the owners are also not saving for retirement and suggests that cashflow is constrained and/or that the owners are confident that the business will generate the required savings over time. One of the advantages of self-employment is that one can choose when to retire. The inability of the Namibian government to find means of making it easier for SMEs to be regulatory compliant means that SMEs are pushed into an information cul-de-sac. This in turn means that they learn very slowly, if at all, about the performance of their business, often only anecdotally and this in turn means that their response to adverse trading conditions is delayed placing them at ever greater disadvantage.

Although in terms of response, most SME owners indicated that the most common source of funding for their operations is owners' savings and trade credit, it was clear that the source of funding used by SMEs does not provide adequate funding to cater for their business needs. The implication of this is that the SMEs operate at a suboptimal scale of operations and this in turn increases their unit operational costs ultimately resulting in very low levels of profitability. This would suggest that even if the SME were able to meet all the requirements of a lending institution including generating the relevant financial statements, the SME viability would come into question. The attractiveness of trade credit is now obvious as it gives the SME room to trade with someone else's money. However, there is an inherent misalignment between when the SME has to pay its trade credit suppliers and when it receives cash from sales. This typically results in over trading followed by rapid withdrawal of the trade credit lines.

The availability of less risky investment assets such as large corporate and government securities inevitably means that SMEs will face a challenge to access bank loans. Even if they do, they will face higher interest rates because of the perceived higher risks as compared to large corporate and government securities. The large number of SMEs also means that in total, funds demanded by the SMEs are much greater than available funds, again giving banks the opportunity to lend to SMEs at higher cost of interest especially since they have no access to alternative funding sources. This contrasts with large corporates who may have access to international markets that would enable them to access cheaper international funding. Since the local banks understand the available options to large corporates they are forced to negotiate lending terms with them.

Banks are limited in their capacity to lend funds. It follows that they will use their funds in the most prudent manner possible so that they too can make profits. This requires banks to have a rigorous process to evaluate loan applications. Much of loan processing involves analysis of financial statements of the company, reviewing its management structure and strategy. All of this analysis requires detailed data that most SMEs are unable to maintain mostly due to cost. Conversely, SMEs need to know their performance in sufficient detail for them to understand where the profit opportunities are coming from. This information typically comes from keeping and recording accurate financial and regulatory information – just the sort of records that a bank would require for loan application. As SMEs are unable to pay for the keeping and recording of their financial data, this results in them not understanding where the profit opportunities are coming from in their business. They are therefore unable to further exploit these opportunities and increase their overall profitability. This puts them at a competitive

disadvantage and thus on an unsustainable path. To be able to grow, the SME must know where to put any additional money as this is where the returns will be highest.

Although this study has confirmed the results of available literature on funding challenges faced by SMEs, the fact that most of the respondents were sufficiently educated and had experience in their area of business strongly suggests that capacity of the entrepreneur to perform in this instance may not be an issue. Further, given their educational background and probably personal access to friends who may be qualified accountants, these are the SME owners that you would expect to understand and value the need to maintain accurate financial records as a driver for their business growth. It is therefore surprising that most do not keep such records due to the costs or perceived cost of retaining such services. However, when we further recognise that most of the SMEs do not register for VAT, this is a strong indicator that taxation may figure highly in their choice of record keeping. The major disadvantage of keeping VAT records is that the tax authority has a clear view on the sales, purchases and therefore possible profits of the company. The SME may be calculating that the loss of input VAT is far outweighed by the income tax payable on profits. In any event, input VAT is negotiable with the supplier who may be willing to transact with reduced or no VAT on a cash basis. It is important to clearly understand whether SME financial record keeping or the lack thereof is driven by tax or cost implications.

5.3. Recommendations for action

In order to improve the accessibility of bank loans to SMEs, there is need to adopt the following interventions:

- i. SMEs must be nurtured in such a way that they increasingly keep accurate records of their businesses so that they can understand exactly where the profit opportunities are. This would allow them to position themselves in areas where they are more competitive and thus able to grow sustainably. The government could, for example, develop legislation to simplify SME accounting supported by a free accessible IT app for SMEs to record their business transactions but that has sufficient detail to indicate to SME owners where the profits are coming from. However, this approach would only work if it were coupled with a comprehensive SME tax structure since most SMEs would be reluctant to subscribe if it were to be used for tax purposes;
- ii. Loan interest charged, and collateral requirements are related through default rates. So, for example, if SMEs are perceived to have a high default rate, banks would ask for more collateral as well as charge higher interest rates. Any action to reduce interest rates charged to SMEs should therefore also address the issue of default and collateral. One suggestion in the literature is to use government credit guarantees to banks who fund SMEs. However, there is the new risk that banks would become careless in their loan administration if they know that there is a government guarantee backing the loan. Their sales people would aggressively sell loans knowing that bank capital would not be at risk. This in turn would result in a huge bill for government as SME defaults increased placing a burden on the budget. Such a scheme would inevitably fail. What is required is a credit guarantee scheme that the bank will pay for if the lending to the SME was done in a negligent manner but which government pays for if the SME fails independently. One such approach may be to use the Central Bank to

allocate different capital adequacy requirements for every bank's loan book. It can also place special reporting requirements for bank loans guaranteed by government. This would reduce the incidence of negligent loan selling and put the guarantee scheme on a more solid basis;

If the above-mentioned recommendations were adopted, then SME financial records would readily be available online for banks to access when evaluating loan applications. Further, government could offer credit guarantees to SMEs subscribing to their online simplified accounting app. And as long as the tax issues would have been addressed, this would start putting SMEs on a more sustainable growth path as they would now have access to profit opportunities in their businesses as well as access to loans that could be more appropriately used to grow their businesses.

5.4. Recommendations for further research

This study focussed on the challenges faced by SMEs in Windhoek in accessing funding. In order to develop an improved understanding of the SME sector, The Namibia Business School should commence an annual survey of SMEs so as to improve on SME data that can then be further analysed and to determine if these challenges are reducing or increasing over time. This would typically involve following up on previous SMEs interviewed. Such follow ups would give details on SME default rates and survivability and home in on identification of key success factors. In addition, new SMEs should be sampled to identify trends. For example, it may emerge that particular sectors are attracting SME owners. This information may be used to formulate more appropriate policies around support for such sectors as well as look at the possible impact if the sector becomes saturated.

Government SME policy should be re-examined with the specific purpose of addressing how this sector should be supported. More specifically, in the long-term, government would want SMEs to be fully regulatory compliant especially around the area of social security. However, the cost to the SME for regulatory compliance may be too high. It may be possible to off-set these costs through a combination of a simplified regulatory compliance framework that is coupled to both a tax initiative and access to a credit guarantee scheme.

5.5. Conclusion

This study aimed at exploring the challenges faced by SMEs operating in Windhoek to access finance for their operations. It has been established that lack of collateral security, poor bookkeeping, relative newness of SMEs, and the high risk associated to small and medium enterprises limit their ability to obtain financing from financial institutions. Further, survey results have revealed that although most SME's were managed/owned by individuals with advanced education, most SME's were not registered for tax and social security purposes. This may imply that profitability and liquidity issues could be driving factors for this behaviour. These findings are consistent with earlier studies done by other scholars. According to Yesseleva (2012), businesses that are relatively new in business are considered high risk businesses by banks, and therefore, banks are reluctant to extend credit to such businesses because of the uncertainty of their future. Wamono et al (2012) attributed failure by SMEs in Uganda to obtain financing from commercial banks to low profitability and liquidity levels of SMEs and high inherent risk associated with start-up businesses. Dankwa and Adoley (2014) identified poor

book keeping by SMEs as a limiting factor to SME finance from commercial banks. Unless there is a deliberate policy to address these challenges, SME's in Windhoek will continue to lack access to financing that would enable them to grow, increasingly formalise their operations, contribute to both the tax base and social security net and thus play an increasing role in job creation and the economy as currently happens in the developed world.

REFERENCES

- Abdulsaleh et al (2013) Small and medium –sized enterprises financing: a review of literature.8:14 p36
- Abdulsaleh, A.M., & Worthington, A.C. (2013). Small and Medium-Sized Enterprises financing. A Review of literature. *International Journal of Business and Management*. 8(14), 36- 54.
- ACCA (2012). Financial Reporting. Paper F7 (International) Course Notes. BPP Media Ltd. London.
- Ackah, J., & Vuvor, S. (2011). The challenges faced by Small & Medium Enterprises (SMEs) in obtaining credit in Ghana. University of Ghana.
- Addotei, C.A. (2013). Challenges of Financing Small and Medium Scale Enterprises in Ashanti Region. A case study of Stanbic Bank (GH) Ltd. Master’s thesis. Kwame Nkrumah University.
- Adebisi, S.A., Alaneme, C.G., & Ofuani, A.B. (2015). Challenges of Finance and the Performance of Small and Medium Enterprises (SMES) in Lagos State. *Developing countries studies*, 5(8), 46-57.
- Agbenyo, D. (2015). *Challenges facing Small and medium scale enterprises in accessing credit. A case study of Kumasi Metropolis*. A Master’s thesis. Kwame Nkrumah University, Ghana.
- April, W.I. (2005). Critical factors that influence the success and failure of SMEs in Namibia in the Khomas region. Assignment submitted in partial fulfilment of the requirements for the degree of Master of Commerce (Business Management) at the University of Stellenbosch.
- Arasti, Z., Zandi, F., & Talebi, K. (2014). Exploring the effect of individual factors on business failure in Iranian new established small businesses. *International Business Research*, 5(4), 2-11.
- Avevor, E.E. (2016). Challenges faced by SMES when accessing fund from financial institutions in Ghana. *Business Economics and Tourism*.

- Babbie, E. &. (2003). *The Practice of Social Research*. Cape Town: Oxford University Press.
- Bank of Namibia (2010). *SME development in Namibia*. 12th annual symposium publication (p. 6). Windhoek: Bank of Namibia.
- Berger et al (1998). *The Economics of Small Business Finance: The Roles of Private Equity and Debt Markets in the Financial Growth Cycle*. *Journal of Banking and Finance*.
- Chege, S.D. (2014). *The Effect of Access to Credit Facilities on the Growth of Top 100 Small and Medium Enterprises in Kenya*. *Masters of thesis*. University of Nairobi.
- Chin, T. A., Hamid, A. B. A., Rasli, A., & Baharun, R. (2012). Adoption of supply chain management in SMEs. *Procedia-Social and Behavioural Sciences*, 65, 614-619.
- Coleman, S. (2000). 'Access to Capital and Terms of Credit: A Comparison of Men and Women-Owned Small Businesses'. *Journal of Small Business Management*, 37-52.
- Creswell, J.W. (2014). *Research Methods: Qualitative, Quantitative and Mixed Methods Approaches*. 4th edition. Los Angeles, California. SAGE Publications Inc.
- Das, D. K. (2009). *Two Faces of Globalization: Munificent and Malevolent*. Cheltenham and Camberley: Edward Elgar Publishing.
- Doyle, E. (2007). Compliance obstacles to competitiveness. *Corporate Governance*, vol. 7, no. 5, pp. 612–622.
- Dungu, C.W. (2016). *Factors Affecting Credit Access Among Small and Medium Enterprises in Muranga'a County*. Master's thesis. University of Nairobi.
- Easton, G. (2007). Competition and marketing strategy. *European Journal of Marketing*, 22(2), 31–49.

- Ezeagba, C. (2017). Financial reporting in Small and Medium Enterprises (SMEs) in Nigeria: Challenges and options. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 7(1), 1-10.
- Finlayson, J. (2003). Gauging the Economic Contribution of Large and Small Business. *Reassessment Policy Perspective*, 10(4) 1-5.
- Finlayson, J. (2003). Gauging the Economic Contribution of Large and Small Business. *Reassessment Policy Perspective*, 10(4) 1-5.
- Franco, M., & Haase, H. (2014). Failure factors in small and medium-sized enterprises: Qualitative study from an attributional perspective. *International Enterprise Management Journal*, 6(23), 503–521.
- Goyal, K.A. (2012). Impact of globalization on developing countries (with special reference to India). *International Research Journal of Finance and Economics*, no. 5, pp. 166– 171
- Hill, K.G., & McCarthy, B. (2014). *The state of small business lending: credit access during the recovery and how technology may change the game*. Working paper, 15(004). Harvard Business School.
- Kamunge, S.M., Njeru, A., & Tirimba, I.O. (2014). Factors affecting the performance of Small and Micro Enterprises in Limuru town market of Kiambu County, Kenya. *International Journal of Scientific and Research Publications*, 4(12), 1-20.
- Kasekende, L., & Opondo, H. (2005). *Financing Small Scale and Medium Enterprises (SMEs): Uganda's experience*. Bank of Uganda.
- Lyimo, S.E. (2014). *Challenges and Prospects faced by Small and Medium Enterprises in Accessing Credit Facility: A case of Agricultural Inputs Sellers and Distributors in Arusha City*. Master's thesis. University of Tanzania.
- Makena, P., Kubaison, S. T. and Njati, C. I. (2014). Challenges Facing Women Entrepreneurs in Accessing Business Finance in Kenya: Case of Ruiru Township, Kiambu County.

- Ministry of Industrialisation, Trade and SME Development (MITSD). (2015). Draft National Policy on Micro, Small and Medium Enterprises. Windhoek.
- Ministry of Industrialisation, Trade and SME Development (MITSD). (2015). Draft National Policy on Micro, Small and Medium Enterprises. Windhoek.
- Mira, G. K. & Ogollah, K., (2013). Challenges facing accessibility of credit facilities among Women owned enterprises in Nairobi Central Business District in Kenya. *International Journal of Social Sciences and Entrepreneurship*, Vol.1 (7), 377-396
- Muchiti, B., L. (2009). *Risk Management Strategies Adapted by Kenyan Commercial Banks in Lending to SMEs*. Unpublished Research Project, UON, Nairobi, Kenya.
- Mutalemwe, D. K. (2010). Does globalisation impact SME development in Africa? *African Journal of Economic and Management Studies*, 164 - 182.
- Myers, S. C. (1984). The Capital Structure Puzzle. *The Journal of Finance*, 39(3), 574-592. <http://dx.doi.org/10.2307/2327916>
- Namibia Statistics Agency (2015). *Namibia Labour Force Survey 2014 Report*. Windhoek, Namibia. Author.
- National Credit Regulator (2011). *Literature review on small and medium enterprises' access to credit and support in South Africa*. Pretoria, South Africa. Author.
- Njiru, B.N. (2014). the effect of cost of credit on the financial performance of commercial dairy small and medium enterprises in Kiambu county. master's Thesis presented to the University of Nairobi, Kenya.
- Nkonge, B.K. (2013). Challenges faced by small and medium enterprise suppliers when bidding for tenders. A case of Thika District. *International Journal of Academic Research in Business and Social Sciences*, 3(12), 194-219.
- OECD (2015). *Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard*, OECD Publishing, Paris.

- Ogbokor, C. & Ngeendepi, J. (2012). Investigating the challenges faced by SMEs in Namibia. Windhoek, Namibia.
- Ogoi, J.H. (2016). *Strategies for Accessing Credit by Small and Medium Enterprises*. Walden Dissertations and Doctoral Studies. Walden University.
- Okuneye, B. a. (2016). Determinants of the Development of Small and Medium Scale. *European Journal of Business and Management*, 72.
- Okuneye, B. A. (2016). Determinants of the Development of Small and Medium Scale. *European Journal of Business and Management*, 72.
- Orinda, R. (2014). Financial challenges facing small and medium enterprises in Kisumu city, Kenya and their financial performance implications. Master's thesis. University of Nairobi.
- Pham, H. (2017). Determinants of new and medium enterprises' access to bank credit. A case study in Phu Tho Province, Vietnam. *International journal of Business and Management*. 12(7), 83-99.
- Rambo, C. M., (2013). Time required to break-even for small and medium enterprises: The Evidence from Kenya. *The International Journal of Marketing Research and Management*, Vol. 6(1), 81-94
- Roman, A., & Rusu, V.D. (2012). The access of small and medium size enterprises to banking financing and current challenges: case of EU countries. *Annales Universitatis Apulensis Series Oeconomica*
- Wamono, R.N., Kikabi, P., & Mugisha, J. (2012). Constraints and Opportunities for SMEs Investment in Uganda's Oil and Gas Sector. *Investment Climate and Business Environment Research Fund*, 34(12), 1-63.
- Wehinger, G. (2014). SMEs and credit crunch: Current financing difficulties, policy measures and a review of literature. *OECD Journal*, 2013(2), 1-34.
- World Bank (2015). Small and Medium Enterprises (SMEs) Finance. Available at: <http://www.worldbank.org/en/topic/financialsector/brief/smes-finance>.
- World Bank Enterprise Survey (2014). *Private sector development*. Financing

challenges faced by small and medium enterprises in developing countries.
World Bank.

Wu, J., Song, J., & Zeng, C. (2008). An Empirical Evidence of Small Business Financing in China. *Management Research News*, 31(12), 959-975.

Yesseleva, M. (2012). Small and medium-sized enterprises: Data sources in Australia. *Global Journal of Business Research*, 6(2), 83-92.

APPENDICES

Appendix 1: RESEARCH QUESTIONNAIRE

SECTION 1: ENTREPRENEUR INFORMATION

Please indicate a tick (√) in the appropriate box

1. Please indicate your gender

Male

Female

2. Age group

18-30

31-45

46-60

>60

3. Education Background

Primary

Junior secondary

Senior secondary

Diploma

First degree

Master's degree

Degree

SECTION 2: ABOUT THE BUSINESS

4. Year of commencement of operations

Before 2012

Between 2012 and 2014

Between 2015 and 2017

5. Please indicate your suburb of operation?

- Katutura
- Khomasdal
- Northern industry
- City Centre
- Southern Industry
- Others (please specify.....)

6. Please indicate the sector your SME is engaged in?

- Construction
- Transport
- Retail
- Manufacturing
- Beauty and cosmetics
- Others (please specify.....)

SECTION 3: ABOUT SETTING UP THE BUSINESS

7. Briefly explain the reasons why you ventured into business

.....
.....
.....
.....

8. Why did you choose the current location for your business?

.....
.....
.....

9. What are the reasons that motivated you to select the current form of business or business sector where you operate in?

.....
.....
.....

10. Has your business ever obtained any form of government support such as incentives, regional assistance, and subsidies?

- Yes
- No

11. Do you have any previous experience in the business that you are currently engaged in?

- Yes
- No

12. Is your business registered with the Ministry of Trade?

- Yes
- No

13. Is your business registered as a VAT vendor?

- Yes
- No

14. Is your business registered as with Social Security Commission as employer?

- Yes
- No

15. Does your business have all the necessary documentation to carry out the activities it currently does?

- Yes
- No

SECTION 4: SOURCES OF FUNDING

16. What is or are the main sources of funding for your SME?

		Yes	No
a	Owner's savings		
b	Borrowing from relatives and friends		
c	Bank loans		
d	Retained profits		
e	Sale of the fixed assets of the business		
f	Trade credit		
g	Cash loans from non-banking institutions		
h	Others		

17. Is or are the above sources sufficient to meet the funding needs of your business?

Yes

No

Briefly explain your answer

.....

.....

.....

.....

.....

.....

18. Have ever applied for a bank loan from financial institutions for the purpose for investing in your business?

Yes

No

19. In reference to question 19 above, if your answer was yes, was your loan application successful?

Yes

No

20. In relation to question 20 above, if your loan application was not honored, what was or were the possible reasons for denial?

		Yes	No
a	Failure to pay previous loans		
b	Lack of audited financial statements		
c	Absence of well-written business plan		
d	Lack of collateral security		
e	Low profitability of the business		
f	Poor and inexperienced management		
g	Unviability of business idea		
h	Other factors		

21. Which of the following factors limit the ability of SMEs from borrowing loans from the banks? SA= Strongly agree D = Disagree A = Agree SD = Strongly disagree

s/n		SA	A	D	SD
A	Low profitability of SMEs				
B	The loan application procedure is complicated				
C	Interest rates are high				
D	The repayment period is short				
E	SMEs lack sufficient collateral security for bank loans				
F	Poor record keeping by SMEs				
G	Lack of bankable business plans				
I	No audited financial statements required for bank loan application				
j	Reluctance and ignorance about loan availability by SME entrepreneurs				

22. How does limited access to finance affect the operations of SMEs?

SA= Strongly agree

D = Disagree

A = Agree

SD = Strongly disagree

s/n		SA	A	D	SD
A	Limits expansion of SMEs				
B	Negatively affects the competitive position of SMEs				
C	Closure of SMEs				
D	Limits the ability of SMEs to make profit				
E	Limits SMEs' ability to create job opportunities				

23. In your view, what should be done to improve accessibility of funding options by SMEs operating in Windhoek?

.....

.....

.....

.....

.....

End

Thank you for participating