AN INVESTIGATION INTO CHALLENGES IN ACCESSING FINANCE BY SMEs IN WINDHOEK: A CASE STUDY OF THE JOHN PANDENI CONSTITUENCY

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ABSTRACT

Small and medium size enterprises (SMEs) play a significant role in the economy in terms of sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. In Namibia, SMEs contributed 14 per cent to the annual Gross Domestic Product (GDP) and employs more than 160 000. However, access to finance is a major obstacle for developing and sustaining the SMEs sector as an engine for employment creation and poverty alleviation.

It remains difficult to access funds from financial institutions, especially during start-up. Thus, this research investigated the challenges faced by SMEs in accessing finance, focusing on the SMEs operating in the John Pandeni Constituency, Windhoek. A mixed research design was used and a convenient sample size of 54 SMEs concentrated at the Soweto Market was chosen due to the convenience of having all registered SMEs housed in one complex. The findings of the research revealed that at each stage SMEs have different financial requirements and will source their financial needs from different sources. The problem of access to finance occurs due to the gaps that exist between the suppliers of external financing and the demand for financial resources.

The research observed that there are still numerous impediments facing entrepreneurs in SMEs who want to start a business, with the financial institutions arguing that their reluctance to extend credit to small enterprises was due to high administrative costs of small-scale lending, asymmetric information, high risk perception, and lack of collateral. The research recommends that SMEs improve their knowledge of the financial procedures and the workings of the financial institutions, as it is crucial to their survival, while the financial institutions are implored to engage SMEs on improved support and contractual terms in order to reduce information asymmetry, moral hazards and adverse selection. Finally, the government is implored to update the SME Policy and improve its institutional framework to enhance SME participation in the greater economy.

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DECLARATION

I, Indileni Helena Shoopala, hereby declare that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institutions of higher learning.

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CHAPTER 1

ORIENTATION AND BACKGROUND TO THE STUDY

1.1. BACKGROUND

Small and medium size enterprises (SMEs) play a significant role in the economy in terms of sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings (Macintosh, 2003; Mass &Herington, 2006; Kadhikwa, Nakesera & Mushendami, 2008). SMEs make an important contribution to overall employment in most developed developing economies accounting for approximately 70 per cent of the manufacturing labour force (Dong & Men, 2014). Likewise, the small and medium size enterprise sector plays a fundamental role in employment creation thereby contributing to economic development within most developed countries. In Namibia, SMEs contributed 14 per cent to the annual Gross Domestic Product (GDP) and employing more than 160 000 (Shejavali, 2007; Ogbokor & Ngeendepi, 2011).

The country has also recorded a significant increase in the contribution of SMEs in 2014 as their contribution in terms of GDP and employment creation rose to 15 percent and 30 percent respectively (Shejavali, 2007). The contribution that SMEs makes to the Namibian economy clearly exemplifies the potential benefits that these enterprises provide to the overall development of the country.

The core of the political and economic transformation of any developing country is the creation of a private sector, which relies heavily on the development of entrepreneurship and the creation of small and medium size enterprises (Dong & Men, 2014, Jauch, 2010). These are considered to be the principle driving force in economic development in developing countries (United Nations Economic Commission on Entrepreneurship, UNECE, 2003).

However, the startup, survival and growth of SMEs in developed countries are hindered by various challenges with inaccessibility of finance in the form of start-up capital or operating capital notably emerging as one of the major obstacles (Macintosh, 2003; Mass and Herrington, 2006; Ogbokor & Ngeendepi, 2011). It is thus imperative to draw lessons from both the developed and the developing in order to identify the best practices in helping to set up SMEs (Kadhikwa, Nakusera &Mushendami, 2008).

In recognition of the important role that the SME sector plays in growth and employment creation, the Government of Namibia, created numerous Development Finance Institutions, which were responsible for enabling SMEs to access financial services (Bank of Namibia, 2010). However, due to the operational inefficiencies which characterize most of the Development Finance Institutions, some of these entities collapsed or merged to form new companies (Jauch, 2010).

The financial institutions that are still operational as of 2014 include Development Bank of Namibia, Agricultural Bank of Namibia, National Housing

Enterprise and the Small Business Credit Guarantee Trust (Bank of Namibia, 2010). Despite the efforts made by the Government of Namibia of creating institutions that make funds available to SMEs, it is still clearly visible that a large number of SMEs in the country fail to start-up or maintain their working capital. Ogbokor & Ngeendepi, (2011) conducted a study on the 100 SMEs in Namibia noted that 87% used their own savings, 11% borrowed money from friends and only 2% managed to get a bank overdraft. None of the participants in the research received assistance in the start -up phase of the business.

Research on the SME sector in Namibia also faces problems in defining and demarcating the sector (Ministry of Trade and Industry (MTI) 1997, Namibia Economic Policy Research Unit (NEPRU), (2003). The main problems include setting the criteria for defining SMEs in Namibia in terms of turnover, capital employment and registration of business (Ogbokor & Ngeendepi, 2011). This compounds the problem of aligning the financial programs provided by the Development Financial Institutions with the specific segments of SMEs with unique needs and characteristics. Ogbokor (2010) conducted a research which focused on the problems faced by SMEs in Namibia. Shejavali (2007) focused on SMEs in the retail sector in Namibia and the challenges that they encounter. There has been no study which has focused on the challenge by SMEs to access finance in Namibia and this is the gap this study intends to fill.

Therefore, the aim of the study presented in this dissertation is to evaluate how best SMEs can overcome these challenges in order to meet the requirements set by financial institutions. In addition, the study attempts to provide suggestions to government and financial institutions on how to facilitate owners and managers of SMEs to take advantage of financial support programs that are available for them. From a theoretical perspective, this study also seeks to make a contribution to the existing academic literature by providing insights into the principal challenges experienced by SME in accessing finance and their impact on SME performance in a context of a developing country.

1.2. STATEMENT OF THE PROBLEM

Access to finance is a major obstacle for developing and sustaining the SMEs sector as an engine for employment creation and poverty alleviation in most developing countries (Mass and Herrington, 2006, Ogbokor & Ngeendepi, 2011, Jauch, 2010). In Namibia, a significant number of SMEs reported that, although having sufficient funds is important to their success, it remains difficult to access funds from financial institutions, especially during start-up (Nieman, Hough, and Nieuwenhuizen, 2004).

Ogbokor & Ngeendepi, (2011) study noted that 100 participants in the research on challenges faced by SMEs in Namibia none of the participants had received any funding during the starting up phase. 35% of the respondents indicated that they had received financial help from the government after their company had been operating for many years. Many of the respondents in the research had to borrow money from friends and relatives. Only 2 percent secured an overdraft from the bank. The research in intends to explore why banks are reluctant to provide start -up capital to SMEs.

1.3. AIM OF THE STUDY

The aim of the study is to investigate the challenges in accessing finance by SMES in Windhoek, focusing on the SMEs operating in the John Pandeni Constituency.

1.4. OBJECTIVES

The objectives of this research are to:

- Explore challenges of access to finance faced by SMEs in the John Pandeni Constituency in Windhoek
- Explore the impact of the challenges on their ability to start-up, grow and survive.
- Evaluate the implications of these challenges on the performance of SMEs
- Suggest recommendations that could aid SMEs in dealing with the challenges to minimize their effects.

1.5. RESEARCH QUESTIONS

The following research questions were formulated in line with objectives of the study:

1) In terms of access to finance, what challenges are currently faced by in SMEs operating in the John Pandeni Constituency, Windhoek?
2) What impact do these challenges have on the SMEs' ability to start-up, grow and survive?
3) What implications of these challenges on the effective and efficient performance of the SMEs?
4) How can SMEs deal with such challenges and are there any recommendation to minimize their adverse effects of access to finance challenges?

1.6. SIGNIFICANCE OF THE STUDY

The study undertaken by Ogbokor & Ngeendepi, (2011) successfully demonstrated the challenges faced by SMEs in securing start -up capital. Most of the individuals struggled to secure finance to start their business. This research intends to fill the gap in knowledge in terms of what can be done to help SMEs secure funding for their businesses. The government of Namibia is committed to the growth of SMEs in Namibia as part of its strategy for poverty alleviation and employment creation.

The study will be significant to the policy makers in the government, the private sector and donor agencies, by providing the necessary tools and knowledge that will aid the review of existing programmes, which is necessary to ensure sustainable SMEs development and their subsequent progression to larger organizations.

This study will also contribute to the field of management theory, research and practice regarding challenges faced by SMEs. The study will be important to organizations that work with SMEs in helping to provide technical knowledge and skills which may be used to help SMEs to overcome challenges that they face in their operations.

1.7. LIMITATIONS OF THE STUDY

Namibia has fourteen regions, which are further broken down into a total of 121 electoral constituencies (See Appendix A). The current study focuses on only one constituency (the John Pandeni constituency) in the John Pandeni Constituency region which has 10 constituencies. The focus on one constituency is a limitation because there many SMEs in the remaining thirteen regions whose challenges may differ from the ones experienced by SMEs in Khomas region especially John Pandeni constituency.

The study was conducted when the researcher is also employed on a full time job. This meant that there was limited time to do the research. The study did not secure funding. This meant that the researcher had to fund the expenses related to the research such as the transport, internet, printing of the questionnaires, printing of the work, as well its binding. This means that money was a limitation in conducting this research.

1.8 THESIS OUTLINE

This study is in five chapters. Chapter one is the general introduction. It looks at the background to the study, the objectives of the study and the statement of the problem. It also briefly looked at the scope and limitations and organization of the study. Chapter two is the literature review. Literature is reviewed according to the research objectives used in the study. The theoretical and conceptual framework for the study is also outlined. Chapter three is the methodology. It explained the research design. It also gives details about the population, sample and sampling procedures used in the study. It explained the research instruments, methods of data collection, data analysis plan. Chapter four is the data presentation, analysis and discussion. Chapter five presents the summary, conclusions and recommendations for the study.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter examines the financial needs of SMEs. Theories of capital structure, equity and debt gaps are discussed in this chapter. The literature review started by unpacking the meaning of Small and medium Scale enterprises (SMEs) which is greatly contested. A significant part of the literature review takes a theoretical analysis of perspectives that have been used to explain the growth of SMEs and then a theory underpinning this study is proposed.

2.2 DEFINITION OF SMALL AND MEDIUM ENTERPRISES (SMEs)

Dong & Men (2014) defined small enterprises basing it on the number of employees as privately held firms with 1 – 9 employees while medium enterprises were considered to be privately owned firms that employ 10 – 99.Kauffmann (2006) noted that in industrialized countries medium firms employ 100-499 workers and small firms have 99 or less workers. Kauffmann (2006) defined SMEs as firms with fewer than 100 employees. Abdel and Haan (2004) noted that standard definitions of SMEs focus on number of employees and annual turn -over.

Hansohm (1997) formulated an ‘economic’ and ‘statistical’ definition of a small firm. Under the ‘economic’ definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, in the sense of not forming part of a large enterprise. The statistical definition of an SME focus on 3 main firstly measuring the size of the firm and its contribution to GDP, employment and exports, comparing the extent to which SMEs contribution to the economy has changed over time and a cross country contribution of SMEs in a country over time (Hansohm, 1997).

Abdel and Haan (2004) argued that definitions of size of enterprises suffer from a lack of universal applicability. Kim and Gallent (2000) tried to sum up the danger of using size to define the status of a firm by stating that in some sectors all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. Thus, researchers would have to use a definition for small firms, which is more appropriate to their particular “target” group i.e., an operational definition. In their view, this is because SMEs may be viewed from different angles. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets. .

Nieman, Hough, and Nieuwenhuizen, (2004) also noted that the multiplicity of definitions must not be regarded as a problem in itself, but it demonstrates the complexity of the issue under scrutiny. In spite of the controversy surrounding the definition of SMEs, Hansohm (1997) has argued that the definitions of SMEs are critical in helping to frame a debate about the role of SMEs in economic development and have serious implications for accessing donor funding. Dong & Men (2014) advocates an approach that goes beyond focusing on the revenue of a company to taking in account country specific factors in which an SME operates. This is due to the fact that definitions based on revenue vary as well from one country to another.

In Namibia, some SMEs are either formal or informal. Laws and regulations are partly applied to the informal sector in Namibia (Kadhikwa, Nakusera & Mushendami, 2008). Employees do not usually have an employment contract, they have no leave, no social security and they do not take leave. In many cases employees are also family members. In the majority of cases they do not pay taxes, keep receipts or conduct bookkeeping.

It can be noted that the search for a definition is not just a vain academic pursuit, but it’s a meaningful effort that is meant to guide investment policy and direction in any country. Dong and Men (2014) rightly noted that definitions come down with eligibility for special support. A variety of stakeholders such as Non-governmental organizations, national governments, multilateral and bilateral development institutions support SME development. Varied menu of interventions are used by these institutions to help SMEs in different countries. The nature of support can be in the form of credit loans, technical support, and loan guarantees. Kim and Gallent (2000) noted that the issue of definition is important in terms of policy direction at international level as we seek to answer questions such as which business are likely to grow, reduce poverty and undergird political stability.

According to the Labour Resource and Research Institute (2002) quoting the Ministry of Trade and Industry they do not distinguish between small and medium enterprise but provide a blanket definition of an SME operating as a firm with a capital base of US$50,000 and employees less than 10 persons and a turnover of US$100,000. Iipinge (2010) highlights that the definition of SMEs used in Namibia have some limitations. Firstly, there are challenges of coming up with accurate measurement in terms of the amount that is required by an SME whether it is in cash or kind and there are also challenges of inflation. Empirical data obtained from a study conducted by Labour Resource and Research Institute (2002) reflected that 68% of these SMEs businesses were small and employed less than 3 people. The same study showed that 58% of these businesses were realizing less than US$3,241 turn over per annum, while only 6% had a turn- over of over US$22,935 per annum.

This study adopts a definition of an SME as a firm that has a capital of less than US$50, 000, employees, employees less than 10 people and has annual turnover of less than US$100,000.

2.3 SMES IN A NAMIBIAN CONTEXT AND THEIR ROLE IN THE ECONOMIC DEVELOPMENT

Nashidengo (2007) reported that three baseline surveys were conducted by The Ministry of Trade on SMEs in selected regions of Namibia such as Ohangwena, Oshana, Oshikoto and Khomas. A staggering 90% of the people in this sector were not covered by any pension scheme, medical aid or any type of insurance and would they do not enjoy other benefits such as annual leave. The Institute of Public Policy Research (IPPR) (2005) conducted a study on the contribution of SMEs to Namibia to the Gross Domestic Product (GDP) and concluded that SMEs contribute 12% to the GDP and 20% to national employment. The range of SMEs that are found in Namibia are in many sectors including subsistence farming, various types of crafts, diverse manufacturing, small scale mining, small scale construction, informal services, and informal trade (Nyakunu, 2003).

In spite of the important role of SMEs on employment creation, those employed by SMEs face numerous challenges. A research conducted by the Namibian Labour and Research Institute (2002) revealed that people did not join the informal sector by choice, but because of limited alternatives. The study showed that many people in the SME sector earned less than US$100 per month and had no benefits from the social security commission. The respondents prefer to be employed in large private company than working in the SMEs sector. Similarly, Mass and Herrington (2006) observed that the working conditions in the informal sector where marked by long working hours, low salaries, lack of formal employment contracts, lack of benefits such as pension and maternity leave. There is no reward for overtime as prescribed by the Namibian Labour Act of 2007. Employee health and safety issues were not taken into serious account. Consequently, Jauch (2010) concluded that most of the people employed in the SMEs sector in Namibia can be categorized as the working poor. The potential of SMEs to contribute to economic growth are therefore limited by numerous challenges.

2.4.2 The Agency Theory

Lepolesa (2008) identify two types of agency conflicts. The first focuses on the conflict between shareholders and managers and the second on the conflict between equity holders and debt holders. The agency theory has important implications for the relationship between stockholders and debt-holders. Stockholders are interested in the return over and above that amount which is required to repay debt. Debt-holders are only interested in the debt payment specified in the contract.

Freiling (2007) point out that the agency theory predicts that growth firms should have less debt. Firms that are expected to make profitable investments should have less need for the discipline that debt provides. This would seem to be a serious omission for two reasons. First, debt and equity represent different 46 constituencies with their own competing, and often mutually exclusive goals. Second, as the level of debt increases, the corporate governance structure can change from one of internal control to one of external control. For firms that adopt debt as a control mechanism, lenders become the key constituents in the corporate governance structure. This can have a significant impact on both managerial discretion, and on the ability of an organisation to deal effectively with its competitive environment.

Kim and Gallent (2000) note that the agency theory gives vital insights into the problems of ownership, management interrelationships and credit rationing. Issues around information asymmetry, moral hazard and adverse selection are likely to arise in contractual arrangements between firms and external providers of finance. These problems may well be more severe, and the associated costs much higher for SMEs than for large businesses. SMEs are also subject to the risk of asset substitution which, in practice, means a change in the firm’s asset structure (Cofie, 2012).

For SMEs, asset substitution may well take place between the enterprise and the owner’s household. Thus, the proximity to the household, the lack of legal formalization, weak financial disclosure and the owner-managed nature of SMEs make it hard for lenders to track ongoing changes to the asset base of the SME. The presence of these problems in SMEs may explain the greater use of collateral lending to SMEs as a way of dealing with these agency problems.

Ackah &Vuvor (2011), suggest that lenders’ strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements (information asymmetry) and supporting documentation provided by the applicant. For SMEs the assessment frequently has to go far beyond this, implying a substantially higher transaction cost. It can be concluded that due to the agency problem, asymmetric information problems and credit rationing behaviours of financial institutions, SMEs, particularly SMEs are significantly denied access to external financing. Therefore, the capital structure decisions for SMEs are greatly influenced by factors beyond their control (Ackah &Vuvor, 2011).

2.4. BUSINESS ENVIRONMENT AND SMES DEVELOPMENT: A THEORETICAL PERSPECTIVE

This section examines the theories that that inform this research. The theories that inform this research is the agency theory and static trade –off Theory. The Static theory stress the risk that SMEs face in trying to access money from the bank. For SMEs the risk of bankruptcy are quite high. The agency theory analyses the way in which the challenges of ownership of SMEs and other factors increases the element of risk when giving credit to an SME.

2.4.1 Static Trade-off Theory

Freiling (2007) mentions that the term static trade-off theory is used by several authors to describe a family of related theories. Kim and Gallent (2000) explains that the trade-off theory claims that a firm's optimal debt ratio is determined by a trade-off between the losses and gains of borrowing, holding the firm's assets and investment plans constant. The gain of debt is primarily the tax-shield effect, which arises when paid interest on debt is deductible on the profit and loss account. The costs of debt are mainly direct and indirect bankruptcy costs. The static trade theory has implications for SMEs.

Lepolesa (2008) points out that for SMEs, the expected costs of bankruptcy are quite high and the expected costs of financial distress may outweigh any potential benefits from the tax shield. SMEs rarely generate profit in the early stages of operations, and the potential benefit of tax shields of interest payments remains doubtful. Kim and Gallent (2000) point out that SMEs have limited access to external equity. In addition, internal equity is often inadequate for growing SMES. Therefore, SMEs have to depend on external debt to survive and grow**.**

2.4.3 The Impact of the Business Environment on SMEs Development: The Perspective of the SADC region

Mass and Herrington (2006) observed that trade liberation has a notable impact on firm market dynamics in the SADC region. They noted that the purpose of regional integration is to facilitate trade within a regional economic space and through enhanced trade opportunities to obtain decision at the level of the firm on how to enhance production.

The SACU does not only provide for the coordination of industrial policy among member states, it also makes a provision that all members' states must have a competition policy. It is hoped that this may have an impact on regional trade dynamics. Nyakunu (2013) elaborates that the relationships between industrial and competition policy is paramount especially when it comes to the promotion and development of SMEs. SADC countries have to develop a policy which allows SMEs to export to markets within the SADC area.

Kadhikwa, Nakusera and Mushendami (2008) stated that in some cases it is important to create a business environment that protects SMEs from unnecessary competition from foreign goods as what transpired in the Asian Tigers. He argued that the SMEs in south East Asian Tigers received government support and protection from external competition. Jauch (2010) submits that this lesson may be appropriate for Namibia especially given the point that Namibia tends to be flooded by imports in virtually every sector. It is sad to note that Namibia's manufacturing industry is still very small in spite of numerous incentives that are offered to investors under the Export Processing Zone (EPZ).

It is noted that the current position is that most SADC countries import cotton from elsewhere and not from the SADC region due to numerous legal constraints and bottlenecks. Invisible trade barriers in the SADC increase the costs and risk of doing business and it reduces competitiveness of small firms in global market and more importantly restricts access of SMEs to regional markets (Nyakunu, 2013).

Mass and Herrington (2006) explained that gender inequality tends to also affect the operations of SMEs in the SADC region. It is noticeably that in Africa women are less mobile than men and they have less cash. Nashidengo (2007) states that expansion opportunities for women in business are limited in many countries and access to business for women is constrained by culture. This reflects the failure on the part of central authorities to reforms laws and support women against traditional rules. Women also confront serious challenges in accessing financial support from the banks due to customary practices. Teece, Pisano and Shuen (1997) pointed out that less than 10% of the firms where run by women in South Africa and Tanzania. In Swaziland women are not allowed to register property and they need a men's consent to open a bank account or to officially register a business (Ackah &Vuvor, 2011).

The World Bank (2009) highlight that the same scenario occurs in Democratic Republic of Congo, where women cannot register a business without a male person in attendance. In Botswana, Angola, Namibia, Swaziland and Tanzania the number of unregistered women entrepreneurs is very high among those in micro firms and SMEs. Ackah &Vuvor (2011) report that the implications of this are that unregistered women entrepreneurs are not likely to get assistance from banks. Business and financial institutions don't want to get involved in the high risk associated with unregistered entrepreneurs. The World Bank (2009) state that in Zambia and Tanzania equal allocation of land, capital and labour to men and women would lead to an increase in production of between 20 and 30 per cent.

The World Bank noted that most SADC countries are plagued with a number of operational challenges that impede the development of a vibrant business environment. Countries such as Zambia and Zimbabwe experience power cuts which acts as a challenge to business that want to function in those countries. Musara (2010) points out that weak governance, inefficient bureaucratic structures and insecurity create a business environment that is unstable. Lepolesa (2008) further reveal that in countries such as Namibia, Mauritius, Cape Verde Botswana and South Africa and Botswana also face many challenges associated with a non -competitive business environment. Some of these challenges are lack of skilled labour, poor infrastructure, and poor access to credit, corruption and restricted access to land.

2.4.4. Challenges of Access to Finance

The lack of finance is one of the prime factors hindering the survival and growth of SMEs because most SMEs encounter great difficulties in raising fixed and working capital because of the reluctance of banks to provide loans. There is limited knowledge on the role that can be played by financial institutions in helping to address the challenges faced by SMEs. This study intends to fill that gap. Maas and Herrington (2006) highlight that a significant number of entrepreneurs are of the opinion that, although there seems to be sufficient funds available, access to these funds remains difficult, especially for SMEs. Similarly, the Bank of Namibia (2010) indicated that many businesses did not make any significant investments in 2009 and one of the primary reasons for the limited investment was the limited financial resources. Access to financial resources is observed to be a major stumbling block to business expansion in Namibia both for the formal and informal sector.

Bank of Namibia (2010) noted that Namibia is struggling with financial services for its citizens in the informal sector. In addition, financing requirements require effective and sound planning (Iipinge, 2010), which is often limited among SMEs. Despite emphasis from capital structure theories on the importance and relevance of debt financing or external financing in general, studies from the South African literature review claim that access to debt financing is limited for SMEs (Foxcroft, Wood, Kew, Herrington, & Segal, 2002; Angela Motsa and Associates, 2004; Herrington *et al.*, 2009). These studies reveal that approximately 75% of credit applications by SMEs to banks are rejected. Therefore, there is need for policy reforms to ensure improved accessibility of external finance for SMEs in South Africa.

The challenges for SMEs are complex such as business regulations, limited or lack of infrastructure, challenges in terms of access to finance and lack of technical or management skills. In the majority of cases in Namibia SMEs may start with a person savings, but in the long term more financial investment will be required in order to expand and grow the business. Research conducted by the Namibia Research and Labour Institute (2002) only 15% had accessed loans in the previous year. The research also uncovered that the people in SMEs had negative perceptions of loans.

This dismal state of affairs has been attributed to a number of factors such as risk averse bankers, inappropriate financial products, and astronomical bank charges. The tendency has been to extend financial services to those that have regular income and collateral (April, 2005). The Ministry of Trade and Industry (MTI) (1997) asserted that informal businesses often lack required accounting skills needed to generate data needed to convince a business to bank to give them a loan. The Namibian banking sector also faces a challenge of irregular clients. These are individuals that do not have a bank account and when they approach a bank for credit they are likely to be rejected, if they do not have collateral. Banks usually maintain that these people do not have a credit history and it is difficult to ascertain their ability to repay the loan (Institute of Public Policy Research (IPPR), 2005).

In addition, Yesseleva (2013) suggests that limited access of small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of the financial system, the lack of liquidity, and inexperience in small-scale lending in many of these countries. Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas disproportionally disadvantaged. If commercial banks do extend credit to small firms, it may take up to several months to process applications. In this study Banks advanced four main reasons for their reluctance to extend credit to small enterprises including: high administrative costs of small-scale lending, asymmetric information, high risk perception, and lack of collateral. Although the reasons apply to developed as well as developing economies, they tend to be more significant in developed countries (Musara, 2010).

2.4.5 High administrative costs of small-scale lending

According to Marr, Chiwara and Munyuki (2011), SMEs typically require relatively small loans as compared to large firms. The transaction costs associated with processing and administering loans are however fixed and banks often find that processing small SME loans is inefficient. Ackah and Vuvor (2011) suggest further that administrative costs also include information gathering costs such as visiting borrowers, analyzing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small enterprises are often located away from the main urban centres, their accounting skills and standards are usually lower, and banks lack experience in servicing them (Cofie,2012).

2.4.6 Asymmetric Information

Yesseleva (2013) posits that it is a prerequisite for the efficient allocation of resources by market forces, that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and their ability and willingness to repay than lenders (Cofie, 2012). The lenders are thus faced with uncertainty about both the expected rates of return of the project they are financing and the integrity of the borrower. This uncertainty increases with the length of the loan. Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure.

The problem of asymmetric information is more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk. Small, privately owned firms face no legal reporting requirements and are more vulnerable than large firms (Cofie, 2012). Asymmetric information makes it impossible to distinguish accurately between “good” and “bad” borrowers. The two main problems associated with asymmetric information are adverse selection and moral hazard, both of which may affect the quality of the loan (Cofie, 2012).

Adverse selection refers to the fact that the probability of default increases with the interest rate, the quality of the borrower pool worsens as the cost of borrowing rises. Small firms are more likely to be rationed because they are seen as particularly risky. Although they might be willing to pay more to compensate for this additional risk, the banks refuse to raise the interest rate sufficiently to equate supply with demand (April, 2005)

Ackah &Vuvor, (2011) highlights that moral hazard and adverse selections also make significant contributions in widening the financing gap. Moral hazard refers to a situation in which an agent (the borrower) takes an action that adversely affects the return to the principal (the lender). It occurs if the parties involved have diverging interests and the action taken by the agent cannot be monitored accurately by the principal. Cofie (2012) mentions that a borrower may be tempted to exert less effort or to secretly switch to riskier projects in order to increase his return. Because of a higher probability of default, the return to the bank will be reduced.

Banks can resort to two methods to reduce moral hazard which are: making it profitable to tell the truth, for example through the promise of renewed credit in the future and/or including penalties for low effort levels, for example, collateral which is lost if the firm becomes insolvent. Due to information imperfections and costly control mechanisms, the superior selection criteria based on cash-flow projections is thus often abandoned in favour of loan selection according to firm-size and collateral (Green, 2003).

2.4.7 Lack of Collateral

April (2005) emphasizes that financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral acts as a screening device and reduces the risk of lending for commercial banks. By pledging his assets, a borrower signals the quality of his project and his intention to repay. In the case of a default, the collateral serves to put the lender in a privileged position with regard to other creditors (Ackah &Vuvor, 2011).

Small firms are disadvantaged in this regard, because they lack collateral security and also a proved credit track record. Therefore, firms with innovative products may be constrained by the lack of access to finance because they may not have collateral security. Furthermore, information asymmetries may prevent financial institutions from seeing the profitability of the proposals (April, 2005).

2.4.8 Risk

Lepolesa (2008) observes that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organizational and administrative deficiencies lower the quality of management, and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity (Nashidengo, 2007).

In South Africa the risk perception of SMEs is attributed to the high failure rates. Therefore, it is reasonable for financial institutions to ration finance to SMEs, particularly SMEs who have little or even no credit history (Musara, 2010). Tightening collateral security requirements is one of the ways through which financial institutions attempt to protect themselves against such risks. The need for collateral militates against potentially viable small, emerging enterprises getting finance (Maas & Herrington, 2006).

2.4.9 Solutions to Challenges of Access of Finance

Teece, Pisano and Shuen (1997) contend that, experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies as emphasized by Freiling (2007) include a loan analysis that focuses on the prospective client's ability to pay (cash flow). Less emphasis should be placed on collateral. The analysis should be highly standardized, and loan processing times kept to the minimum. The repeat borrowers should be entitled to increasingly larger loans and loan officers should bear full responsibility for the loan throughout its entire life and should be paid performance based salaries. If payment problems occur, there should be a powerful incentive structure in place for immediate follow-up and appropriate decision-making and control mechanisms should be in place and supported by a strong management information system (MIS) and information technology (IT) to assist in the management and administration of the loan portfolio.

In another study, Chiwara et al. (2008) argue that many banks have developed tools, such as credit scoring models and other sophisticated techniques, to discriminate between high-risk and low-risk borrowers, thus reducing the risk of lending to SMEs. Despite the potential for the above mentioned methodologies to be effective in addressing the access to finance challenge for SMEs, applying these approaches has failed to provide a clear path to closing the information asymmetry gap, a major reason why SMEs cannot adequately access financial resources (Teece, Pisano and Shuen (1997). Therefore, there is a need to find more effective ways to ensure that the information gap between financial institutions and SMEs is closed.

In South Africa, policy debates in the past have failed to close the financial gap between SMEs and providers of financial resources. Various authors have revealed that access to finance challenges is the main reasons for low entrepreneurial growth and SME survival in the country (Mass and Herrington, 2006). Policy reforms to improve access to finance to SMEs should be in line with different requirements at each stage of growth in the SME sector.

Marr, Chiwara and Munyuki (2011) imply that, at each stage, SMEs have different financial requirements and will source their financial needs from different sources. Therefore, both theoretically and practically, a problem of access to finance occurs due to the gaps that exist between the suppliers of external financing and the demand for financial resources. The following section discusses the financial gaps in access to finance, particularly for SMEs.

2.5 SUMMARY

The chapter looked at two theories that underpin the study. The theories are the agency theory and Static Trade off Theory. The reasons that make banks reluctant to loan money to SMEs were discussed. Part of the reasons are lack of collateral on the part of SMEs and lack of adequate information on the part of financial institutions regarding SMEs. The study proposed an approach that can be used by financial institutions to reduce risk of lending money to SMEs.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the research design, the philosophical assumptions, data collection methods, sampling procedures and ethical considerations considered in this research. The study used the mixed research design because of the objectives of this study. It was deemed appropriate to use both qualitative and quantitative methods of collecting data because of the objectives of this study which were:

i) To explore challenges of access to finance faced by SMEs in the John Pandeni Constituency in Windhoek

ii) To explore the impact of the challenges on their ability to start-up, grow and survive.

iii) To evaluate the implications of these challenges on the performance of SMEs

iv) To suggest recommendations that could aid SMEs in dealing with the challenges to minimize their effects

3.2 RESEARCH DESIGN

A research design describes how a research was conducted and it encompasses procedures for conducting the study such as how the respondents are treated and methods of data collection used (McMillan & Schumacher, 2006). A research design presents a plan for generating empirical data and is used to answer research questions (McMillan & Schumacher, 2006). Creswell (2003) noted that research designs can be categorized into three broad categories such as qualitative, quantitative and mixed research designs.

Each research design carries a number of implicit and explicit assumptions about what is worthwhile knowledge and how it is generated. Welman, Kruger and Mitchel (2007) assert that quantitative approach to research is informed by a positivist perspective. A positivist approach to research assumes that there is an objective reality that has to be studied using objective methods. Creswell (2003) asserted that qualitative research deals with socially constructed nature of reality. It emphasizes the relationship between the researcher and the object of study and it acknowledges the value laden nature of research. Qualitative research paradigm seeks to understand the complex and varied nature of reality by relying as much as possible on the participant view of the situation being studied. Creswell (2003) incisively observed that truth does not come in a dualistic form and in this regard it makes it necessary at times to use a mixed research design. A mixed research design therefore affords a researcher an opportunity to use multiple methods.

Under the qualitative approach, the researcher used semi-structured interviews with those responsible for policies that are designed to create a favorable atmosphere for SMEs and SMEs owners. A qualitative research design allows the researcher to capture the values, attitudes and perceptions of SME owners concerning the issues under study (Berg, 2001). For the quantitative techniques, the researcher conducted surveys through questionnaires. A survey research design falls in the category of non-experimental designs and is normally used to collect data that describes attitudes, opinions and beliefs (McMillan & Schumacher, 2006). Participants to the survey who are owners of the SMEs will be presented with questionnaires' to complete and give back to the researcher.

3.3 POPULATION

A population consists of the universe of people or things from which a sample is selected (Saunders, Lewis, &Thornhill, 2003). The research population is all SME registered and have an SME Certificate from the Ministry of Trade and Industry. The registered and certified SMEs stand to benefit from government programs and initiatives aimed at improving the SME sector in Namibia.

3.4 SAMPLE AND SAMPLING METHODS

Saunders, Lewis, and Thornhill (2003) assert that sampling provides a variety of techniques that enable a researcher to reduce the data that you need to collect by examining only data from a subgroup rather than the whole population. The sampling methods are divided into probability and non -probability sampling methods. In a non-probability sample the chance of a case being chosen is not known. The contrary view is that of probability sampling in which the chance of being the element to be selected to take part in a research is known. For the purpose of this study non probability sampling and convenience sampling technique in particular was adopted.

A convenience sample consists of participants that are readily available when the researcher goes in the field (Welman, Kruger & Mitchell, 2007). A total sample of 15 participants were targeted and invited to take part in an interview from different institutions. Three participants were invited from each institution: the Ministry of Trade & Industry, Development Bank of Namibia, the SMEs Bank, First National Bank, and Bank Windhoek. A sample size of 54 SMEs concentrated at the Soweto Market located in John Pandeni Constituency was chosen due to the convenience of having registered SMEs housed in one complex.

All the SMEs at Soweto Market are registered at the Ministry of Trade as this is a requirement of the ministry, for any SME that would like to enjoy the affordable rent and rates of government owned facilities. These SME parks are meant to make it easier for SMEs to centrally receive benefits from the government and at the same time have a market place to showcase their products.

3.5. DATA COLLECTION AND RESEARCH INSTRUMENTS

An interview guide was used to collect data for qualitative analysis in line with recommendations made by previous studies (Welman, Kruger & Mitchell, 2007). The participants were interviewed and results recorded, starting with a brief introduction of the self and then a series of questions based on the Interview guide for respondents of Institutions dealing with SMEs (Appendix B). The interview guide contains open-ended questions on general challenges, policy challenges, SME owners' views, financial institutions' resolutions pertaining to the dilemma of SMEs financing as well as information about the background information of the participant.

A four page questionnaire of closed-ended questions was developed to investigate which was distributed to the SME owners and managers (Appendix C). The primary purpose and advantage of surveys is generalization of the results. The questionnaire was made of two sections. The first section covers the personal biographical statistics such as respondent's age, gender, position in company, educational background, number of years working and other company information. Section two covers the SME Business Financing methods, SME's perceptions, knowledge and attitudes towards selected challenges and factors influencing these challenges experienced when applying for funding.

Section two also includes structured questions pertaining the importance of accessing finance to organizational performance. A minimum number of 50 questionnaires were required so as to have a complete sample study group. However, a total of 60 questionnaires were prepared and distributed among 54 participants. With the requirements of a minimum of 50 questionnaires, a total of 54 questionnaires were administered to a sample group of the Soweto Market SMES. SME's participation and completion of the questionnaire was on a voluntary basis of course, after the researcher explained to purpose of the research in line with good research ethics.

3.6 DATA ANALYSIS

After the respondents finished filling in the questionnaires, the questionnaires were collected for analysis. The data were transferred directly from the completed questionnaires to the prepared SPSS v22 computer database matching the format used for the questionnaires. Data entry was combined with validation whereby range, structure, and consistency checks were pre-programmed in order to ease the detection and immediate correction of errors. At this stage, questionnaires with gross errors that could not be resolved were rejected. All respondents' questionnaires were given computer-derived codes that were specific for each respondent.

Data analysis commenced immediately following data entry, cleaning, and checking of the data. Each questionnaire was checked systematically, meaning each questionnaire was handled one at a time. Statistical analyses were performed going through the following stages:

- Univariate analyses: Descriptive analyses were done for the important variables, including frequencies of some of the demographics, and challenges in accessing finance.
- Bivariate analyses: These allowed for examination of the distribution of some key outcome variables according to respondent characteristics that were suspected to be associated, such as age, gender, challenges and factors, as well as implications

For data presentation, Tables for each question were used. Questions were categorized into sections. Tables, graphs and charts are used to present and discuss the data.

3.7 RELIABILITY AND VALIDITY

In terms of qualitative research, validity can be achieved through depth, honesty, richness of data obtained, and the extent of triangulation, disinterest of the researcher or objectivity of the researcher. On the other hand, reliability can be ensured through maintaining a fit between what the researcher records as data and what actually happens in the natural setting which is being researched. Thus, in this research, efforts were made to ensure validity and reliability during the interviews by obtaining data in any objective manner by controlling any biases that may arise in the interviews. Triangulation in the form of qualitative and quantitative research was also used to enhance validity (Creswell, 2003).

The researcher ensured that the research has internal consistency. This means that the researcher made efforts to ensure that any observation made in this research is sustained by evidence in the research. In quantitative research reliability is concerned with the degree of consistency in which the instruments measure what it claims to measure (Berg, 2001). The researcher conducted a pilot study of the questionnaire using 14 participants from the sample to ensure that the instrument had consistency.

3.8 RESEARCH ETHICS

Saunders, Lewis, and Thornhill (2003) explain that research raised numerous ethical considerations such as plagiarism; honesty in reporting and the way people were treated. Qualitative research is more likely to be more intrusive in the lives of the participants than quantitative research. This research looked into account a number of ethical issues by adhering to the following points:

- Adhering to the principle of informed consent
- Confidentiality and anonymity
- Respect for the right to privacy among the participants and respondents.

Ethical issues were addressed by ensuring that the data collection techniques did not cause any emotional or physical harm to the respondents. As part of the informed consent and voluntary participation, the researcher made appointments before interviews. Confidentially regarding details of sources was given to the targeted population as an express guarantee, in addition before interviews commenced, the researcher emphasized anonymity by assuring respondents that their names will not be mentioned in the study. Targeted participants and/or information sources had the right to withdraw from the study at any time without penalty.

3.9 SUMMARY

The chapter looked at the research design used in this research. The researcher opted for a mixed research design. The data was collected using an interview and a survey questionnaire. Ethical considerations were taken into account to ensure that the participants gave informed consent and that there rights to privacy were protected.

CHAPTER 4

PRESENTATION AND ANALYSIS OF FINDINGS

4.1 INTRODUCTION

This chapter presents findings of the study. This chapter further uses the presented findings to explore challenges of access to finance faced by SMEs in the John Pandeni Constituency in Windhoek, as well as the impact of the challenges on their ability to start-up, grow and survive. The Chapter begins with the demographic profiles. Lastly, the research looks at the insights from the interviews with respondents' from the of Institutions dealing with SMEs

4.2 DEMOGRAPHIC PROFILES

4.2.1 Demographic Profile of the Interviewees

An interview guide (Appendix B) was used to collect data for qualitative analysis from a total of 15 participants who took part in an interview from institutions that support SMEs. Three participants were invited from each institution: the Ministry of Trade & Industry, Development Bank of Namibia, the SMEs Bank, First National Bank, and Bank Windhoek. The interviews had 100% response rate since they were done by calling different institutions to set up appointments for interviews. The interview guide contained open-ended questions on general challenges, policy challenges, SME owners' views, financial institutions' resolutions pertaining to the dilemma of SMEs financing as well as information about the background information of the participant.

Table 4.1 Demography of the Interviewees

Variable	Description	Frequency	Percentage
Gender	Male	9	***60 %***
	Female	6	***40%***
Education	Diploma	4	***26.7%***
	Degree	7	***46.7%***
	Masters' Degree	4	***26.7%***

The Table 4.1 shows that 40% of the participants were males, while 60% were female. Furthermore, the educational qualifications of the interviewees entailed 46.7% of the participants having a degree, 26.7% having a diploma and 26.7% had a master's degree. The participant with the longest work experience with the institution had six years. The fifteen interviewees had a combined work experience in their respective institutions of 48 years, with a mean for the work experience of the participants was 3.2 years (s.d = 1.02).

4.2.2 Demographic Profile of the SME Respondents

The information collected included demographic profiles of the respondents which included gender, age, level of education and position in company.

Table 4.2 Demographic Characteristics of the Sample

Demographic characteristics	Description	Number of respondents	Percentage %
Gender	Male	25	***46.3%***
	Female	29	***53.7%***
Age	Below 21	4	***7.4%***
	22 – 30 years	18	***33.3%***
	31 – 40 years	12	***22.2%***
	41 – 50 years	9	***16.7%***
	51 - 60 years	7	***13.0%***
	Older than 60 years	4	***7.4%***
Education	Primary	9	***16.7%***
	Grade 8 – 10	17	***31.5%***
	Grade 11 – 12	15	***27.8%***
	Certificate	3	***5.6%***
	Diploma	7	***13.0%***
	Degree	3	***5.6%***

As can be seen in Table 4.2, the sample was predominantly female at 53.7% and the males (46.3%). At the same time the majority of the sample was between the ages of 22 – 40 years (55.5%), with a peak at 22-30 years (33.3%). The other 41 -50 years (16.7%) and 51 – 60 years (13%) also represented showing a representative sample of the productive group of the population. The under 21 (7.4%) and the over

60 years (7.4%) were equally represented in the sample. The sample had an overall mean age of respondents was of 39.1 years old and standard deviation of 12.7 years.

From Table 4.2, we can also see that the education levels of the respondents ranged from primary school education (16.7%) to a bachelor's degree (5.6%). The results show that the majority of the respondents had Grade 8-10 (31.5%) and followed by those with Grade 11-12 (27.8%). Tertiary education was additionally represented by those with certificates (5.6%) and diplomas (13%).

4.3 BUSINESS CHARACTERISTICS OF THE SMEs

4.3.1 SME Business Profile

From Table 4.3, we can see that 66.7% of the respondents were owners of the SMEs, while 20.4 % were managers and 13% were employees. The table further shows the period the respondents have been owners, managers or workers in the enterprise. The average period of service is 4 years (s.d = 1.51 years) which shows that the respondents have a lot of experience in the SME sector. With those that have over 5 years (16.7%) and 4 – 5 years (33.3%) considered to veterans of the SME sector. Those with 1- 2 years (22.2%) of service considered to be learning the ropes. Lastly, the Table 4.3 show that less than one year at 1% and the 3 – 4 years at 7.4% in service have the lowest frequencies. This can either suggest that there is high retention in sector or that the people do not have any other alternatives and that their only way to better the positions is through these SMEs.

Table 4.3 Demographic Characteristics of the SMEs

Variable	Description	Frequency	Percentage
Position in Company	Owners	36	***66.7%***
	Managers	11	***20.4%***
	Employees	7	***13.0%***
Years in Service	Less than a year	10	***1.9%***
	1 – 2 years	12	***22.2%***
	2 – 3 years	10	***18.5%***
	3 – 4 years	4	***7.4%***
	4 – 5 years	18	***33.3%***
	Over 5 years	9	***16.7%***
Number of Employees	1 – 5 employees	41	***75.9%***
	6- 30 employees	13	***24.1%***
Type of Industry Sector	Trading (buying and selling)	23	***42,6 %***
	Consultancy	2	***3,7 %***
	Manufacturing	13	***24,1%***
	Services	16	***29,6%***

Table 4.3 shows that the majority (75.9%) of the SMEs fall in the micro-SME definition by employing between 1 to 5 workers. The rest (24.1%) that have employees in the 6 – 30 employees category which might be representative of the manufacturing SMEs (24.1%) which usually employ more people. While the SMEs involved in Trading (42.6%) are in the majority due to the low barriers of entry and the repetitive nature of the SMEs. This fact is also true for Service based SMEs (29.6%).

Trading encompass activities such as buying and selling. Items that are offered for sale range from braids and clothing items and meat. Hair braiding covers business that deal with hair plaiting and salons. Consultancy (3.7%) incudes activities such as helping people to register business, helping individual to process their tax returns, Transport includes offices for SMEs that provide transport services. Trading includes business in items which are either bought locally or are imported from countries such as Angola. Trading SMEs are consistently micro even after 5 years of operation because they are usually owner managed family businesses. Most of the business were registered (87%) with the Ministry of Trade and Industry, as either Sole Traders (68.5%) or Close Corporations (31.5%).

4.5 SOURCES OF FUNDING

In order to understand the extent of access to finance of SMEs, we need to appreciate that there are different financial requirements at each stage of growth in the SME sector. As a result, SMEs will source their financial needs from different sources.

Table 4.4 Business Characteristics of the SMEs

Variable	Description	Frequency	Percentage
	Personal Savings	32	***59.3%***

Sources of Start Up Funding	Borrowed Funds from Friends and Relatives	18	***33.3%***
	Loan from Bank	4	***7.4%***
Sources of Expansion Funding	Use the available cash from current operations	8	***14.8%***
	Borrow from friends and relatives	5	***9.3%***
	Apply for a microfinance loan	9	***16.7%***
	Apply for a bank loan	22	***40.7%***
	Apply for a loan from Government credit facilities	10	***18.5%***
Ownership structure	Single Owner	42	***77.8%***
	Partnership	11	***20.4%***
	Cooperative	1	***1.9%***

Table 4.4 shows that only 7.4% of the SMEs in the sample used a bank loan for start-up, while the majority of the SMEs were started by Personal Savings (59.3%) and Borrowing from family and friends (33.3%). However, when the SMEs were asked to pick the sources of expansion funding, the trend is skewed toward applying for bank loan (40.7%) and applying for a loan from Government credit facilities (18.5%). Applying for a micro-finance loan (16.7%) is also popular, however, there are still some who will still use the available cash from current operations (14.8%) or Borrow from friends and relatives (9.3%). As they may have negative perceptions about loans. The Table 4.4 also shows how the ownership structure of the SMEs is organized with the majority of SMEs having a single owner (77.8%) is in line with the number of Sole Trader (68.5%) companies registered. Partnerships (20.4%) were also noted and even a cooperative (1.9%) was recorded.

4.6 FACTORS AND CHALLENGES AFFECTING ACCESS TO FINANCE

Table 4.5 Ranking of the Challenges affecting Access to finance in SMEs

Challenges Affecting Access To Finance	Mean	Std. Deviation	Sum	Rank
I am not aware about available financial assistance schemes for small and medium enterprises **(Not Aware of Financial Assistance Schemes)**	4,20	0,92	227	1
The processing of a loan application for approval by financial institutions is long and tedious **(Approval time too long)**	4,15	0,96	224	2
Financial institutions insist on collateral **(Requires Collateral)**	4,15	1,02	224	3
There are high interest rates charged by financial institutions **(High Interest rates)**	4,13	0,89	223	4
I am unable to prepare the business plan that is often required by financial institutions **(Unable to prepare Business Plan)**	4,11	0,95	222	5
I am not familiar with the required bank procedures for loan application from financial institutions **(knowledge of Loan Application procedure)**	3,94	1,02	213	6
There are complicated procedures required in applying for loans from the financial institutions **(Complicated Procedures)**	3,93	1,10	212	7
There are so many documents required when applying for loans from financial institutions **(Number of documents required)**	3,65	1,03	197	8

From Table 4.5 we can see that the SMEs feel that they not aware of available financial assistance schemes for small and medium enterprises (Mean 4, 2, s.d 0.92), nearly everyone agreed that the information on the financial assistance schemes was not readily available. The second challenge of concern was that the loan approval time was too long (M = 4.15, s.d = 0.91), which often results in the SMEs missing out on market opportunities that could lose value over time. The third and fourth challenges are related to how financial institutions deal with the risk SMEs carry, here the SMEs feel that the collateral requirements (M= 4.15, s.d =1.02) and the high interest rate (M= 4.13, s.d =0.89) associated with SME finance are also challenges to their accessing funding.

The challenges of not being able to prepare a business plan (M= 4.11, s.d= 0.95) and the knowledge of the loan application procedure (M= 3.92, s.d = 1.02) are more on the abilities of the SMEs and these can be addressed from the SMEs side through training and capacity building, while the last two challenges are on the actual operations of the institutions in relation the loan application process. The SMEs felt that the procedures for loan application were complicated (M=3.93, s.d = 1.10) and that they number of documents required when applying for loan (M= 3.65, s.d =1.03) were too many.

The fifteen interviewees from institutions dealing with SMEs indicated that the range of challenges facing SMEs applicants includes the lack of required documents which appeared to be the major challenge, followed by inability to prepare business plans. As more than half of those interviewed underscored the need for SMEs to keep professional accounting records, which banks may use to assess the level of risk involved in providing assistance to the SME. More than 66% of the interviewees noted that due to the high risk associated with the sector due to business morbidity it was important to come up with a model that could help identify the SMEs that are performing well and then provide them with financial and technical support. The interviewees felt that banks were unlikely to provide support to an SME in the absence of adequate information and explained that the risk of losing money is quite high when dealing with an SME that has no banking history.

Furthermore, the interviewees were asked to specify the adequate information required by banks to process loans for SMEs. They indicated that banks largely require SMEs to have a sound record of financial transactions with a particular bank, collateral, documentation and an application in order to process their applications for a loan. They also revealed that most of the SMEs that approach the banks requesting for loans usually fail to provide such information making it difficult for the banks to assess their ability to repay.

4.6.2 Factors, Implications and Recommendations on the Challenges of Access to Finance for SMEs

The interviewees from institutions dealing with SMEs were asked to explain some of the factors that hinder SMEs from growing in general. The sentiments that SMEs were confronted challenges related to lack of capital were echoed by a majority of the interviewees. They explained that SMEs are at times not able to pay their employees, purchase their stock and pay for their overheads due to financial challenges and that failure to access finance has major implications on the survival of SMEs in Namibia. Table 4.6 below presents the results from the SME responses.

Table 4.6 Ranking of Factors, Implications and Recommendations

Variable	Description	Mean	Std. Deviation	Sum
Factors	14 d Failure to access finance slows down SME growth and performance	4,24	0,89	229
	14 c Lack of collateral security is a great challenge for SMEs applying for loans (lack of collateral)	4,04	0,73	218
	14 b High interest rates discourage SME owners from applying for loans	3,94	0,76	213
	14 a Complicated procedures and strict requirements by financial institutions in applying loans discourage SME owners from applying for loans.	3,89	0,77	210
Implications	15 a I am discouraged from applying for loans from financial institutions	4,04	0,70	218
	15 b My enterprise is not experiencing any growth	4,02	0,90	217
	15 c Our financial performance in the market is not satisfactory	3,83	0,84	207
	15 d It is impossible to access loans from financial institutions	3,43	1,16	185
Recommendations	16 c. Financial institutions need to provide training in business and financial management.	4,50	0,54	243
	16 b. Financial institutions need to reduce collateral requirements.	4,44	0,63	240
	16 a Financial institutions need to reduce lending interest rates.	4,24	0,80	229

Table 4.6 shows the ranking of factors, implications and suggested recommendations. The finding shows that the SME respondents understand that they lack the necessary skills that the financial institutions need to be able to give them a

loan. As a result, they feel that Financial institutions need to provide training in business and financial management (M = 4.50, s.d = 0.54). This lack of skills is the greatest challenge as it makes it hard for the respondents to understand the processes and procedure involved in the loan application process and all the challenges (c.f Table 4.5) presented in the study are in one or the other a result of the lack of knowledge and information.

The financial institutions interviews concurred with literature and results from the SME survey with all the interviewees agreeing that many SMEs did not have the requisite skills to compile a business plan or to manage their finances in a professional manner. They also underscored the need for SMEs to keep professional accounting records, which the banks may use to assess the level of risk involved in providing assistance to the SME. The interviewees from the banks said they were committed to providing SMEs with financial and technical support, which would consist of training in basic business practice.

The financial training recommendation is expected to improve the financial performance of the SMEs in the market, since the SMEs feel that it is not currently satisfactory (M = 3.83, s.d = 0.84) and that it also responsible for the SME's stunted growth (M = 4.02, s.d = 0.9). The failure to access finance, therefore slows down SME growth and performance (M = 4.24, s.d = 0.89). The respondents in the interview were in agreement by noting inadequate capital as a major obstacle in the way of many SMEs operating in John Pandeni Constituency. The sentiments that SMEs confronted challenges which were related to lack of capital were echoed by a majority of the interviewees. The interviewees explained that SMEs are at times not able to pay their employees, purchase their stock and pay for their overheads due to limited financial resources, for instance, it is not uncommon for some SMEs employees to receive erratic remuneration.

The findings in Table 4.6, also seems to suggest that the SMEs feel the complicated procedures and strict requirements by financial institutions in applying loans are meant to discourage SME owners from applying for loans (M = 4.24, s.d =0.84). From Table 4.5 the SMEs seem to also be challenged by the complicated procedures required in applying for loans from the financial institutions (M = 3.93, s.d = 1.10), coupled with so many documents of support when applying for loans from financial institutions (M = 3.65, s.d =1.03).

This is true for the other challenges as well, with the insistence on collateral (c.f Table 4.5), high interest rates (M = 3.94, s.d = 0.76) and delays in approval of the loans (c.f Table 4.5, M= 4.15, s.d = 0.96). However, the notion that financial processes and procedures are designed to discourage SMEs can also be linked to lack of information about how the financial system and institutions work. This is evident in Table 4.5, where the lack of knowledge of the available financial assistance schemes for SMEs is consistent with this assertion. It also applies to the lack of knowledge of the loan application procedure and being unable to prepare a business plan. Consequently, making them view the loan application procedures and processes as very complicated processes though they may not.

The interviewees from the institutions dealing with SMEs where asked to indicate the requirements that are used by banks to process loans for SMEs. The participants indicated that banks largely require SMEs to have a sound record of financial transactions with a particular bank, collateral, documentation and an application in order to process their applications for a loan. As a result, SMEs view the lack of collateral security is a great challenge for SMEs applying for loans (M = 4.04, s.d = 0.73). The SMEs are therefore, recommending that the financial institutions need to reduce collateral requirements (M = 4.44, s.d = 0.63).

The interviewees from the banks and other financial institutions were also immensely concerned about the limited role that the government is playing in empowering disadvantaged people, which accentuates the challenge to provide SMEs with startup capital. As much as the banks could be forthcoming in supporting the SMEs, without government support they argued that the programs will not be sustainable or profitable for the banks who are liable to their own shareholders. They noted that the access to startup capital was a huge hindrance to many SMEs who would want to start and grow a business (c.f Table 4.4).

The three interviewees from the Ministry of Trade and Industry stressed that the government perceives the SME sector as a vital sector in creating employment and also generating revenue for the country. They pointed out that the government has designed programmes to assist individuals who are operating an SME and that the Government of Namibia through the Ministry of Trade and Industry has introduced a programme which assists SME entrepreneurs by providing them with a guarantee when they meet stipulated requirements to access a loan from the banks.

The government guarantee is granted to SMEs that are able to provide a sound business plan, cash flow projections for a period of five years and a sound business proposal. The interviewees from government stated that the government was aware of the challenges confronting SMEs especially in regard to accessing startup capital and that the government has embarked on a number of initiatives to help SMEs as part of its broad strategy to empower the people in the country and to reduce poverty. Most of the current initiatives are not designed to help a person who simply has a business idea or had just registered a company, but are designed to help individuals that have already been operating an SME for some time and who sincerely require cash injection to grow their business.

4.8 SUMMARY

This chapter presented findings of the study, which includes the demographic information, the business characteristics of the SMEs, as well as the challenges and factors influencing the access of finance in SMEs based in the John Pandeni Constituency, Windhoek. Lastly, the research looked at the insights from the interviews with respondents' from the Institutions dealing with SMEs in Namibia.

CHAPTER 5

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The main aim of the study was to investigate into challenges in accessing finance by SMES in Windhoek, focusing on the SMEs operating in the John Pandeni Constituency. The study effectively provided a departure point for policy initiation, research and practice regarding challenges faced by SMEs, as well as provide recommendations and solutions to overcome these challenges. Chapter 4 presented and analysed the findings. This chapter discusses the finding from chapter 4 by linking them to the literature reviewed in chapter 2, the conclusions and recommendations of the study will also be presented in this chapter.

5.2 DISCUSSION OF THE INTERVIEWS AND SURVEY RESULTS

Overall the findings showed that on average the 22- 30 year olds are owning or managing SMEs. Additionally, the SME ownership among women is reportedly more evenly distributed for all age groups, compared to that of the males, where the younger or youthful males are the one mainly involved in the SME sector. Though, there is need for further research to understand these demographic trends, it is the researcher’s opinion the even distribution of women-run SMEs could be due to a number of policies and programs supporting gender balance, which then ensures that women of all age groups receive equal opportunities regardless of age. On the other hand economic opportunities for males might be skewed towards the more senior males and would need policy reforms that assist this age group considering that the last Census in 2011 showed that the majority of Namibians are in this age group.

In terms of SME access to finance, reviewed literature showed that approximately 75% of credit applications by SMEs to banks were rejected. Only 7.4% of the SMEs survey had used a bank loan for starting up, while about 41 % said they would apply for a loan, when given the opportunity for business expansion. Accordingly, not all of the about 41% will access those loan due to the numerous challenges facing the SMEs, which has led to the SMEs to have negative perceptions of banks loans, even though they need them to expand. Furthermore, the findings suggest that businesses which have been in operation longer are more likely to get a loan from the banks, through a government guarantee scheme for SMEs that are able to provide a sound business plan, cash flow projections for a period of five years and a sound business proposal.

The financial institutions interviews concurred with literature and results from the SME survey with all the interviewees agreeing that many SMEs did not have the requisite skills to compile a business plan or to manage their finances in a professional manner. They also underscored the need for SMEs to keep professional accounting records, which the banks may use to assess the level of risk involved in providing assistance to the SME.

5.2.1 Loan Processing and Procedures

The lack of skills in preparing a business proposal, coupled with lack of knowledge of the loan application procedure were noted as challenges in accessing finance for SMEs' growth and expansion. Additionally, the SMEs felt that the procedures for loan application were complicated and that the number of documents required when applying for loan were also too many. SMEs typically require relatively small loans as compared to large firms. The transaction costs associated with processing and administering loans are however fixed and banks often find that processing small SME loans is inefficient. In trying to improve efficiency and reduce risks the banks end up complicating their processes which also leads to delays in loan approvals. Therefore, there is a need to find more effective ways to ensure that the information gap between financial institutions and SMEs is closed to ensure an efficient and effective loan approval processes.

The participants from the institutions dealing with SMEs where asked to indicate the requirements that are used by banks to process loans for SMEs. The participants indicated that banks largely require SMEs to have a sound record of financial transactions with a particular bank, collateral, documentation and an application in order to process their applications for a loan. According to Marr, Chiwara and Munyuki (2011), SMEs typically require relatively small loans as compared to large firms. The transaction costs associated with processing and administering loans are however fixed and banks often find that processing small SME loans is inefficient. As a result, many banks have developed tools, such as credit scoring models and other sophisticated techniques, to discriminate between high-risk and low-risk borrowers, thus reducing the risk of lending to SMEs. Despite the potential for these credit screening models on improving efficiencies, applying them further complicates the process for the SMEs and they end up failing to provide a clear path to closing the information asymmetry gap, a major reason why SMEs cannot adequately access financial resources (Teece, Pisano and Shuen (1997). Therefore, there is a need to find more effective ways to ensure that the information gap between financial institutions and SMEs is closed.

5.2.2 Asymmetric information

The findings suggest that SMEs feel there is not enough done to raise awareness of available financial assistance schemes for small and medium enterprises with nearly everyone agreeing that the information on the financial assistance schemes was not readily available. A sentiment shared by the banks and other financial institutions with the SMEs, who were immensely concerned about the limited role that the government is playing in empowering disadvantaged people, which according to them accentuates the challenge to provide SMEs with startup capital.

However, the interviewees from the Ministry of Trade and Industry stressed that the government perceives the SME sector as a vital sector in creating employment and also generating revenue for the country. As such, the government has designed programmes to assist individuals who are operating SMEs, through a programme that assists SMEs by providing a bank guarantee in order for them to meet stipulated requirements to access a loan from the banks.

Ackah and Vuvor (2011) suggest that administrative costs for banks include information gathering costs such as visiting borrowers, analyzing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small enterprises are often located away from the main urban centres, their accounting skills and standards are usually lower, and banks lack experience in servicing them. Accordingly, the interviewees reflected that the majority of SMEs owners do not have accounts for their businesses and some of them do not keep their records with the bank, thus making it difficult to assess the amount of income they get over time and the chances of them being able to repay the amount. This is an area were the banks feel the government should assist the SMEs because if the cost of collecting information on the SMEs can become higher than the interest the banks can receive from the SMEs, whose loan requirements are often very small.

In addition, respondents revealed that most of the people that approach the banks requesting for loans from the SMEs fail to provide the information that is required by the banks to assess their ability to repay. As result, the problem of asymmetric information becomes more critical for small businesses because of the lower information standards and the greater variability of risk. Asymmetric information makes it impossible to distinguish accurately between "good" and "bad" borrowers and thus can result in very bad loan book for the banks.

5.2.3 Lack of Collateral

The SMEs felt that the collateral requirements and the high interest rate associated with SME finance were hindering their access to finance. While, the financial institutions are aware that in SMEs, asset substitution may take place between the enterprise and the owner's household. Thus, the proximity to the household, the lack of legal formalization, weak financial disclosure and the owner-managed nature of SMEs make it hard for lenders to track ongoing changes to the asset base of the SME. The presence of these problems in SMEs may explain the greater use of collateral lending to SMEs as a way of dealing with these agency problems.

April (2005) emphasizes that financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral acts as a screening device and reduces the risk of lending for commercial banks. By pledging his assets, a borrower signals the quality of his project and his intention to repay. In the case of a default, the collateral serves to put the lender in a privileged position with regard to other creditors (Ackah &Vuvor, 2011).

Furthermore, the high interest rates charged the SMEs increases probability of default and the quality of the borrower pool worsens as the cost of borrowing rises. Tightening collateral security requirements is one of the ways through which financial institutions attempt to protect themselves against risks.The need for collateral works against potentially viable small, emerging enterprises getting finance (Maas & Herrington, 2006). Small firms are disadvantaged in this regard, because they lack collateral security and also a proved credit track record. Therefore, firms with innovative products may be constrained by the lack of access to finance because they may not have collateral security. Furthermore, information asymmetries may prevent financial institutions from seeing the profitability of the proposals (April, 2005).

5.2.4 Risk

The SMEs in all industry sectors have growth and employment creation challenges as four in five of the SME surveyed employed five or less people, with SMEs in the Trading sector remaining consistently micro even after 5 years of operation. These micro-SMEs are according to Ackah &Vuvor (2011) not likely to get assistance from banks due to their high risk and high transaction costs associated with micro-SMEs.

The fifteen interviewees indicated that the range of challenges facing SMEs applicants are the lack of required documents which appeared to be the major challenge, followed by inability to prepare business plans. More than half of those interviewed underscored the need for SMEs to keep professional accounting records, which banks may use to assess the level of risk involved in providing assistance to the SME. More than 66% of the interviewees noted that due to the high risk associated with the sector due to business morbidity it was important to come up with a model that could help identify the SMEs that are performing well and then provide them with financial and technical support.

Lepolesa (2008) observed that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organizational and administrative deficiencies lower the quality of management, and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity (Nashidengo, 2007).

5.2.5 Factors Affecting the Access to Finance for SMEs

In spite of the important role of SMEs on employment creation, those employed by SMEs face numerous challenges mainly due to their education levels, as people start-up SMEs because their lack of education limits their job prospects and economic alternatives. Four in five of the SMEs owners' surveyed either Grade 12 or below qualifications, with Jauch (2010) concluding that most of the people employed in the SMEs sector in Namibia can be categorized as the working poor. The potential of SMEs to contribute to economic growth are therefore limited by numerous challenges, which makes it difficult for most SMEs to become fully developed businesses and the lack of skills on the part of SMEs owners' is one of the most crucial challenges hindering SMEs from being established in the country.

The respondents in the interview were asked to explain some of the factors that hinder SMEs from growing in general. One respondent from the SME Bank succinctly pointed out that "inadequate capital has been a major obstacle in the way of many SMEs operating in at John Pandeni Constituency". The sentiments that SMEs confronted challenges which were related to lack of capital were echoed by a majority of the respondents. The interviewees explained SMEs are not able to pay their employees, purchase their stock and pay for their overheads due to limited financial resources. One participant in the interview affirmed that due to financial challenges "it was not uncommon for some SMEs employees to receive erratic remuneration".

Ogbokor and Ngeendepi (2010) concur with the observation that SMEs are risky in Namibia, by stating that the majority of SMEs started in Namibia collapse in the first two years of operations. The study also noted that most SMEs do not become fully developed business because of lack of infrastructure and lack of trust from suppliers. Factors such as lack of infrastructure, lack of skills on the part of SMEs owners' are some of the challenges that hinder SMEs from being established in the country. Furthermore, a third of the interviewees acknowledged the efforts of the Ministry of Trade to develop an incubation programme that can help SMEs in Namibia to grow. The incubation programme seeks to help the banks to develop well-structured business plans that reflects that projects the anticipated business growth over five years

The findings also show that respondents from the banks and other financial institutions were immensely concerned about the limited role that the government is playing in empowering disadvantaged people, which accentuates the challenge to provide SMEs with startup capital. However the access to startup capital remained a huge hindrance to many SMEs who wanted to start and grow a business. However, those from the Ministry of Trade and Industry stressed that the government perceives the SME sector as a vital sector in creating employment and also generating revenue for the country. The interviewees pointed out that the government has designed programmes to assist individuals who are operating an SME, with the interviewee from the Ministry of Trade pointing out that government of Namibia through the Ministry of Trade has introduced a programme which assists SME entrepreneurs by providing them with a guarantee when they meet stipulated requirements to access a loan from the banks.

The government guarantee is released to firms that are able to provide a sound business plan, cash flow projections for a period of five years and a sound business proposal. The interviewees from government stated that the government was aware of the challenges confronting SMEs especially in regard to accessing startup capital and that the government has embarked on a number of initiatives to help SMEs as part of its broad strategy to empower the people in the country and to reduce poverty. Most of the current initiatives are not designed to help a person who simply has a business idea or had just registered a company, but are designed to help individuals that have already been operating an SME for some time and who sincerely require cash injection to grow their business.

5.3 CONTRIBUTION TO KNOWLEDGE

Below is a summary of some of the contributions to knowledge made during this research study with regard to SMEs:

- The study revealed that most nearly all of the SMEs in the John Pandeni Constituency had limited access to financial assistance because of lack of skills on the part of SMEs owners' and the lack of knowledge and information on the available financial assistance schemes for small and medium enterprises
- Small businesses in the John Pandeni Constituency Region find it difficult to borrow money from financial for capitalisation due to lack of collateral and poor credit rating due to lack of proper business and financial management records.
- The study revealed that all of the SMEs in the John Pandeni Constituency Region were registered with the Ministry of Trade and Industry (MTI). The SMEs are not taking advantage of government support, resulting in them failing to enjoy benefits and government SME incubation program, equipment finance and credit guarantee schemes
- The Institutions dealing with SMEs does not effectively engage SMEs in the John Pandeni Constituency of Namibia due to weak sensitization communication strategies.
- The study revealed that financial institutions categorically classify SMEs as high risk borrowers and thus charges them high interest rates when borrowing because the organizational and administrative deficiencies lower the quality of management, and a lack of appropriate accounting systems compromise the accessibility and reliability of information from SMEs on their repayment capacity.

- The Institutions dealing with SMEs do not effectively engage SMEs in the John Pandeni Constituency and perhaps elsewhere in the country to develop and support their business management and financial accounting skills in order to effectively and efficiently run their business.
- The Institutions dealing with SMEs are not disseminating and communicating relevant information to SMEs on time to influence their growth.

5.4 RECOMMENDATIONS

In view of the findings and conclusion of this study, the following recommendations were made:

The updating of the SME Policy of 1997 must be sped up and a stakeholder workshop must be held to solicit input from all stakeholders. In general the regulating environment must be harmonized between central and local government as well as the Social Security Commission and the banking sector requirements. The research also recommends the convening of a stakeholder's conference which can explore ways in which the formal institutions can work effectively with SMEs in the area of funding.

Financial institutions must be proactive and find innovative ways to accommodate SMEs. This can be done by assisting with preparation of business plans, training in financial management, record keeping and ensure that information of loans facilities are made available to SMEs. NGOs and parastatals can also help SMEs by offering training, mentoring, monitoring and evaluations, mobilizations of savings, while credit is offered by formal institutions. It is also important for formal credit institutions to experiment with innovative approaches to offering credit to SMEs.

One such approach is to introduce a participatory program where the borrower and the bank discuss the credit scheme and the loan disbursement decision making process. The research recommends the setting up of specialized microcredit institutions to help small enterprises. Additionally, as government provides security through the credit guarantee facilities the interest rate of prime plus must be lowered.

An NGO must be identified to offer auditing services and be subsidized by either the Government as part of the credit guarantee project. The bookkeeping and audit will also allow SMEs to access finances if done by reputable people the banks trust and hence the banks can also provide credit worthy certificate to SMEs that complies with the above as motivation to SMEs. The obligation of government towards SME must be clearly defined and information disseminated to SME owners.

5.5 RECOMMENDATIONS FOR FUTURE RESEARCH

- It is also recommended that further research be undertaken to explore ways in which sustainable funding mechanisms can be put in place that can help and prioritize SMEs
- Future research should also explore the dynamics between SMEs and gender, especially in regards to the youth and male SME owners.

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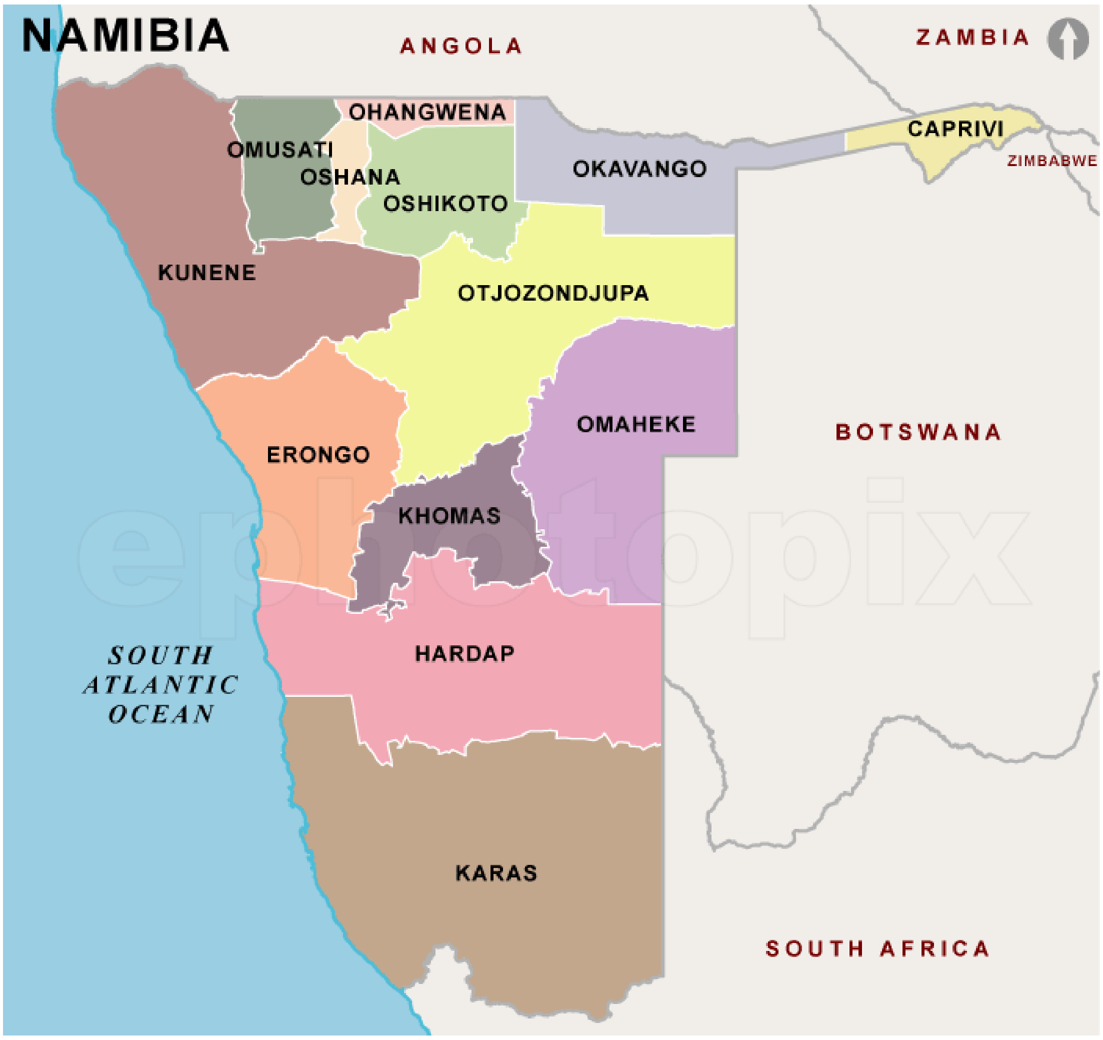
APPENDIX A


NAMIBIA
ANGOLA
ZAMBIA
OHANGWENA
OMUSATI
OSHANA
OSHIKOTO
OKAVANGO
CAPRIVI
ZIMBABWE
KUNENE
OTJOZONDJUPA
OMAHEKE
BOTSWANA
ERONGO
KHOMAS
HARDAP
SOUTH
ATLANTIC
OCEAN
KARAS
SOUTH AFRICA

APPENDIX B : INTERVIEW GUIDE

<u>INTERVIEW GUIDE:</u>

Interview guide for respondents of institutions dealing with SMEs

1. Place of work

____

2. Position and number of years of experience

____

3. Type of your financial institution.

Commercial Bank	
Development Bank	
Microfinance	
SME Bank	
Government Credit Scheme	
Other, please specify	

4. What type of loans or financial assistance offered to SMEs by your financial institution?

Overdraft	
Bridging Loan.	
Term Loan	
Fixed Loan	
Revolving Credit	
Other	

If there is any other form of loan or financial assistance not mentioned above, may you please specify it?

____

5. SME operators who approach you for financial assistance have their application documents well prepared.

Is it all of them?	
Is it the majority of them?	
Is it a few of them?	

6. If there are some whose financial assistance documents are not well prepared, what are the major challenges?

Lack of knowledge of the required documents	
Failure to prepare the documents properly	
Inability to prepare business plans	

7. Are there any other reasons why the financial assistance application documents are not well prepared by SME applicants? Please state if any.

____

____

8. If failure to prepare financial assistance application documents is one of the major challenges for SME applicants, what is your suggestion(s) to improve the situation?

____

____

9. Collateral security is one of the requirements for loan applications by financial institutions. Does your organization require collateral security for loan or financial assistance application by SMEs?

Always	
Sometimes	
No	

10. If your organization requires collateral security for loan or financial assistance application by SMEs, what form of collateral security do you require?

Fixed property	
Insurance policy	

Machinery	
Investment securities	
Other	

If there is any other form of collateral security not mentioned above, may you please specify it?

____

11. One of the methods to assess the ability of the SME to repay the loan being applied for is the performance or financial track record of the organization. Do SME loan applicants provide accurate and up to date accounting or financial records?

They always provide	
They sometimes provide	
Not all of them provide	

12. What other challenges do you encounter when offering financial assistance or programs to SME's operating in Windhoek?

____

____

13. Are they any difficulties that small and medium enterprises operating in Windhoek face when accessing finance from your institution?

____

____

14. What in your opinion are the factors that are driving the challenges that you encounter when offering financial assistance or programs to SMEs?

____

____

15. How do the challenges that you have mentioned affect the performance of SMEs in Windhoek?

____

16. What advice do you suggest to SME loan applicants so that they improve their chances of successful loan applications?

Thank you very much for your participation!

APPENDIX C: QUESTIONNAIRE

Questionnaire for SME Business Owners/Managers

SECTION A: Personal biographical data for SME owner/manager

1. Which one of these options best describes your current position? **(Tick only one applicable)**

Owner	
Manager	
Both owner and manager	
Other, please specify	

2. What is your highest level of education?

No schooling	
Grade 1 – 7 (primary level)	
Grade 8 – 10 (JSC)	
Grade 11 – 12 (Matric)	
Certificate	
Diploma	
Bachelors/First degree	
Post graduate	
Masters degree	
Doctorate (PhD)	
Other, please specify	

3. What is your age?

Under 21	
Between 22 and 30	
Between 31 and 40	
Between 41 and 50	
Between 51 and 60	
Older than 60	

4. For how long have you been operating your enterprise?

Less than 1 year	
Between 1 and 2 years	
Between 2 and 3 years	
Between 3 and 4 years	
Between 4 and 5 years	
Over 5 years	

5. Indicate your gender

Male	
Female	

6. Is your business registered with the Ministry of Trade and Industry

Yes	
No	

7. If registered, what is the form of registration?

Sole trader	
Partnership	
Close Corporation	
Propriety limited Company	
Other, please specify	

8. Ownership structure

Single owner business	
Partnership	
Co-operative	
Other, please specify	

9. Total number of employees employed at your business

1 - 5 employees	
6-30 employees	
31-60 employees	
61 - 100 employees	
Over 100 employees	

10. Type of industry

Trading (Buying and selling)	
Consultancy	
Manufacturing	

Transport	
Construction	
Other, please specify	

SECTION B: SME Business Finance

11. What was your source of start-up capital

Personal savings	
Borrowed funds from friends and relatives	
Loan from bank	
Loan from micro-finance houses	
Other, please specify	

12. Given the opportunity for business expansion or the need for capital injection, how would you finance the business

Use the available cash from the current operations	
Borrow funds from friends and relatives	
Apply for a loan from bank	
Apply for a loan from micro-finance houses	
Apply for a loan from Government credit facilities	
Other, please specify	

13. Please **circle** your choice to show your opinion on the challenges that you experience when accessing finance for your enterprise. Please respond to all the statements.

Challenge	**Strongly Disagree**	**Disagree**	**Do not Know**	**Agree**	**Strongly agree**
There are so many documents required when applying for loans from financial institutions.	1	2	3	4	5
There are complicated procedures required in applying for loans from the financial institutions.	1	2	3	4	5
I am not familiar with the required bank procedures for loan application from financial institutions.	1	2	3	4	5
I am unable to prepare the business plan that is often required by financial institutions.	1	2	3	4	5
The processing of a loan application for approval by financial institutions is long and tedious.	1	2	3	4	5
Financial institutions insist on collateral.	1	2	3	4	5
There are high interest rates charged by financial institutions.	1	2	3	4	5
I am not aware about available financial assistance schemes for small and medium enterprises.	1	2	3	4	5

14. Please **circle** your choice to show your opinion on the factors that influence the challenges that you experience when accessing finance for your enterprise. Please respond to all the statements.

Factors	**Strongly Disagree**	**Disagree**	**Do not Know**	**Agree**	**Strongly agree**
Complicated procedures and strict requirements by financial institutions in applying loans discourage SME owners from applying for loans.	1	2	3	4	5

High interest rates discourage SME owners from applying for loans.	1	2	3	4	5
Lack of collateral security is a great challenge for SMEs applying for loans.	1	2	3	4	5
Failure to access finance slows down SME growth and performance.	1	2	3	4	5

15. Please circle your choice to show your opinion on the implications of challenges of accessing finance on the performance of your enterprise.

Implication	**Strongly Disagree**	**Disagree**	**Do not Know**	**Agree**	**Strongly agree**
i. I am discouraged from applying for loans from financial institutions.	1	2	3	4	5
ii. My enterprise is not experiencing any growth.	1	2	3	4	5
ii. Our financial performance in the market is not satisfactory	1	2	3	4	5
v. It is impossible to access loans from financial institutions					

16. Please circle your choice to show your recommendations that could help reduce SME challenges in accessing finance

Recommendation	**Strongly Disagree**	**Disagree**	**Do not Know**	**Agree**	**Strongly agree**
. Financial institutions need to reduce lending interest rates.	1	2	3	4	5
. Financial institutions need to reduce collateral requirements.	1	2	3	4	5

Financial institutions need to provide training in business and financial management.	1	2	3	4	5

Thank you very much for your participation!