

Challenges Facing Micro, Small and Medium Enterprises in Accessing Private Equity and Venture Capital Financing in Windhoek, Namibia

Christine Aitana^{1*}, Tendai Douglas Svotwa²

¹Namibia Business School, University of Namibia, Namibia, Orcid: 0000-0002-8383-4080

²Executive Business Centre, University of Greenwich, London, United Kingdom, Orcid: 0000-0001-7953-4854

Keywords

MSMEs

Venture Capital (VC)

Private Equity (PE)

Financing

Challenges

Abstract

Micro, Small, and Medium Enterprises (MSMEs) are the engines of economic growth, propelling job creation, industry developments and innovation. However, there are major challenges facing MSMEs in accessing the much-needed financing from VC and PE financiers. Using a qualitative approach and semi-structured interviews, this study explored major challenges facing MSMEs in accessing equity financing in Khomas Region, Namibia. Various MSMEs owners and owner-managers, as well as VCs and PEs financiers were interviewed to solicit their views on the subject. The main findings indicate that factors such as information asymmetry, poor MSME investment readiness and awareness, adverse selection and moral hazards, high risks and uncertainties as well as investments management challenges are some of the contributing elements to inability to access VC and PE financing. The data collected were categorised into various themes and sub-themes based on the frequency and relevance of the data provided by the participants. Thematic analysis was used to analyse the information, draw out conclusions and proffer recommendations for consideration by MSME and relevant stakeholders. The study greatly contributes to the MSME financing field as it unpacked the challenges faced by MSMEs in accessing equity financing in Namibia and further provides recommendations and areas for future research.

*Corresponding author

^{1*}christyaitana5@gmail.com

²tdsvotwa@gmail.com

1. Introduction

1.1. Background

Micro, Small and Medium Enterprises (MSMEs) have great potential for growth; however, it is exceptionally challenging to obtain financing that promotes innovation in small businesses, particularly from Venture Capital (VC) and Private Equity (PE) firms (Harel & Kaufmann, 2016; Pinto, Henriques, Cardoso, & Neves, 2023). Numerous researchers discovered that with the amalgamation of the world economy, the MSME business environment is faced with enormous financial challenges and intense competition (Eniola & Entebang, 2015; Haufiku, 2017; Shretha, 2015; Shipulwa, 2016).

Furthermore, although the significance of MSME financing for business development and innovation is widely documented, some studies still report that “MSMEs are often faced with major difficulties in accessing financing from private equity investors” (Wonglimpiyarat, 2015, p. 298). Klonowski (2012) emphasized that VC and PE funds are of great benefit for the growth of Small and Medium Enterprises (SME), as well as sustainability and successful transition to other stages of business development. Likewise, funding is an imperative success factor for business expansion, purchasing of assets, as well as business development. It is widely perceived that VC and PE funds expedite innovation and entrepreneurial activities, consequently, enhancing the wellbeing of societies through multiple economic activities (Cumming & Johan, 2015).

1.2. Problem Statement

The central problems of investigation in this study are the challenges facing MSMEs in accessing VC and PE financing in Windhoek, (Khomas region) Namibia. While the significance of funding MSMEs and small business activities is broadly documented, it is still reported that “MSMEs are often faced with major difficulties in accessing financing from private equity investors” (Wonglimpiyarat, 2015, p. 298). Despite the current studies conducted on financial challenges facing MSMEs in various sectors of the economy, there is a gap in extant literature, particularly on exploring, analysing and investigating challenges facing MSMEs and hindering them obtaining funding from VC and PE firms (Ayandibu & Houghton, 2017; Yoshino & Taghizadeh-Hesary, 2017), especially from an emerging country context such as Namibia.

1.3. Research Questions

This research was guided by the following main research question:

- i. Why do MSMEs in Namibia struggle to access VC and PE financing?

The above main question will be buttressed by the following sub-questions:

- i. How knowledgeable are the MSME owners in Windhoek about VC and PE financing?
- ii. How are the MSMEs coping with the financing challenges?
- iii. What challenges are experienced by VCs and PEs in dealing with MSMEs in Windhoek?

This study is organised as follows. In addition to the to the introduction, section two of the study addresses the literature reviewed on the subject, section three presents the research methodology and design, research instruments, as well as the sample and the approach adopted to conduct the study. Section four deals with the presentation and analysis of the data collected, and section five provides the research synopsis, conclusions and the recommendations proffered for consideration by MSMEs, VCs and PE companies, as well as the government.

2. Literature Review

2.1.1 Theoretical Framework

Various theories in the field of MSME finance such as financing gap, information asymmetry, knowledge gap, pecking order theory, agency theory as well as demand and supply gaps (Organisation for Economic Co-operation and Development, 2009; Rao, Kumar, Chavan, & Lim, 2023; Agyei, Sun, & Abrokwah, 2020; Huang, Boateng, & Newman, 2016) are some of the core theories framing this literature review. The overarching theory that underpins the research is MSME financing gap. Financing gap refers to market failure to support MSMEs. Additionally, Esho and Verhoef (2018) and Organisation for Economic Co-operation and Development (2009) stated that financing gap constitutes of the difference or a mismatch between the number of MSMEs in the market that are requiring funding, and the availability of financing offered by banks or other MSME funding initiatives.

The financing gap theory was deemed appropriate as it aligns with the purpose, research questions and problem statement of the investigation. The theory further supports and justifies the gap that exists between MSMEs and VCs and PEs. The gap between small businesses and financiers (banking institutions and equity investors) are mostly attributed to information asymmetry (Eldomiaty, Andrikopoulos & Bishara, 2019; Chen, 2018). Although MSMEs are recognised as the driving engine for economic development, it is widely chronicled that the dearth of appropriate investment is a stern obstruction to the development and success of small businesses

and this is popularly termed as the financing gap (Vasilescu, 2015). Similarly, Harel and Kaufmann (2016) and Dwyer, Keith and Southam (2020) postulated that as much as the outcry on MSME finance is prevalent, it is significant for the industry to be cognisant of the supply and demand of business finance and devise frameworks to regulate their effects on MSMEs.

2.1. Definitions of VCs, PEs and MSMEs

Business finance is considered as a critical component in the entrepreneurial development of small businesses and growth process. “Venture Capital and Private Equity funds are intermediaries between sources of funds (typically institutional investors) and high growth and high-tech entrepreneurial firms” (Cumming & Johan, 2015, p. 3) The main purpose of VC and PE financing is to assist companies achieve growth through the providing finances and technical and strategic advices that are considered importance at their critical stages of development (Krzysztof & Sławomir, 2015). According to Caselli and Negri (2018), VC and PE financing is classified according to the life cycle of the firms they cater to. For example, VC firms focus on providing financing to small, start-up businesses and early-stage companies with high growth potential, whereas PE firms deal with matured companies (Đalić, Terzić, & Novarlić, 2017; Arundale & Mason, 2020). The key differences between VC and PE financing are the investment strategies and stages of business operations (Krzysztof & Sławomir, 2015).

Abe, Troilo and Batsaikhan (2015) stated that what constitutes as an MSME vary widely from country to country or within a single country depending on the business sector. There is no general characteristics for defining MSMEs worldwide, however, much depends on the character of the host country, number of employees, turnover of business and capital investment (Abe, Troilo & Batsaikhan, 2015; Atherton & Smallbone, 2020). Other MSME researchers disclosed that MSMEs are a pillar of national development, fostering economic growth, job creation, innovation and creativity, as well as new industry development (Ahchetenhagen & Brundin, 2016).

This study adopts two definitions as stated in the MSME policy by Namibia’s Ministry of Finance and the Ministry of Industrialisation, Trade and SME Development in 2016. The categorisations states that micro enterprises are businesses that employ 1 to 10 persons, with an annual turnover of N\$ 0 to N\$ 300 000, small enterprises employ 11 to 30 and records an annual turnover of N\$ 300 000 to N\$ 3 million, whereas medium enterprises employ 31 to 100 employees, with an annual turnover of N\$ 3 million to N\$ 10 million, Ministry of Finance (2019) and Ministry of Industrialisation, Trade and SME Development (2016).

2.2 Equity Financing for MSMEs (Venture Capital and Private Equity)

Equity investment is crucial to MSMEs for innovation, development and profit making. According to Gemson and Annamalai (2015), VE and PE are recognised as important sources of business capital for an ever-increasing start-ups and small business industry, from early staged to matured firms. However, Dwyer et al. (2020) stated that equity financing for MSMEs is highly influenced by demand and supply in the equity markets, which in turn is influenced by information asymmetry and knowledge gap. The study further attributes challenges in accessing VC and PC to a paucity of attractive, promising and high-performance MSMEs to invest in (Dwyer et al., 2020).

For this reason, Pradhan, Arvin, Nair and Bennett (2017) maintained that VC is considered as a vital promoter and investor for start-up firms with high potential growth, requiring risky types of investments which traditional institutions would not normally fund. Moreover, several studies have shown that VC backed firms typically experience high growth and attract highly skilled staff compared to average start-ups and matured businesses (Cumming & Johan, 2015). However, only a small number of SMEs can secure VC and PE investments (Arundale & Mason, 2020).

2.2 Challenges facing SMEs in accessing VC and PE financing

From the preceding information, it is evident that hindrances to VC and PE financing are some of the major problems leading to small business failure in many developing countries. Similarly, some SME finance scholars ranked the lack of access to MSME finance as one of the major factors responsible for slow development in various emerging economies (Maiti, 2018). Other previous studies (Croce, D'Adda & Ughetto, 2014) established that some key justifications why MSMEs find it difficult to obtain equity financing is that small businesses do not offer attractive investment opportunities, managers and owners have poor financial literacy and lack of essential corporate governance. Moreover, the following fundamental reasons were mostly cited as key hindrances to MSMEs in obtaining VC and PE financing.

2.2.1 *Information Asymmetry*

Glücksman (2020) stated that the supreme impediment in obtaining funding from the VC and PE is information asymmetry. Information asymmetry is a state in which one party in the relationship possess more data about the subject of negotiation than the other (Glücksman, 2020). In a study conducted by (Boulanouar, 2020), it is narrated that the issue of asymmetrical information has a long history of deterring small firms' accessibility to external funds. In the same vein, (Martinez-Cillero, Lawless, O'Toole & Slaymaker, 2020) stated that informational asymmetry leads to

market failures as lenders and borrowers possess different sets of information when making MSME financing decisions. This further creates a massive disconnect between MSMEs and investors, as MSME owners sometimes intentionally or unintentionally disseminate incomplete data to investors (Eldomiaty et al., 2019). Another study confirmed that MSMEs displaying high level of information asymmetry are considered least by VC and PE than those with low levels of information asymmetry (Eldomiaty et al., 2019).

2.2.2 MSME investment readiness and awareness

Investment readiness is another dominant hindrance that inhibit MSMEs from attaining much needed equity from VC and PE financiers. Furthermore, the majority of MSME founders often do not possess the required attributes, business traction, investible propositions, proper preparation and full comprehension of the terms and conditions for investment agreements. Similarly, Barros and Bacaj (2020) reported that MSMEs lack investment readiness for some of the following reasons: a) poor knowledge about the availability of external funding geared towards SMEs, b) hesitation to surrender partial ownership and control of the business, c) a lack and poor knowledge on how to pitch businesses to equity investors, d) lack of audited financial statements and comprehensive business plans (Divakaran, Shariff & McGinnis, 2014; Rahman, Rahman & Belas, 2017). Finally, previous research stated that the persistence of capacity constraints, known as advisory gap, cause many promising MSMEs to be less prepared when approaching financiers (European Commission, 2016).

2.2.3 Adverse Selection and Moral Hazards

The main objective of VC and PE investments is to increase their returns on investments. MSMEs, VC and PE companies make valuable contributions to several economic sectors, and VC and PE financing are often the ideal option for innovative MSMEs, nonetheless, hindrances of moral hazards and adverse selection are a hurdle between small businesses and equity firms (Fairchild, Crawford & El-Fakir, 2019). Adverse selection refers to a business dealing in which the MSME or the entrepreneur possess more information about the potential success or failure of the investment and might sometimes manipulate it to obtain the investor's approval (Msweli, 2015).

According to Đalić et al. (2017), critical analysis is applied in the approval process of MSME financing by equity investors, which include the assessment of the founding team's managerial abilities, staying power and knowledge of the SME economic sector, characteristics of the market, potential for high return on investment, the business plan as well as how the ability of the business to manage risks.

2.2.4 High Risks and Uncertainties

“Although entrepreneurial activities are a major source of global innovation, such activities are inherently risky and uncertain particularly for MSMEs with poor or lack of proof of concept” (Fairchild et al., p. 1510). Other researchers concurred by stating that lack of proof of concept and unstable political environment signal to investors that ROI would almost be impossible to achieve (Hisrich, Petković, Ramadani & Dana, 2016; Blocka, 2019). Finally, Cole, Cumming and Li (2016) claimed that it is often challenging for investors to trust MSMEs who they have not worked with or have poor knowledge of their business operations.

2.2.5 Investment management challenges

The monitoring, evaluation and reporting processes commence immediately after the approval of financing contracts and agreements by VCs and PEs (CFA Institute, 2021). However, Huyghebaert (2016) claimed that at times, once financing agreements are established and finances have been paid to small businesses, VC and PE firms find it difficult to induce MSMEs to comply with terms, conditions and regulations of financing agreements. This portfolio management challenge leads to delays and difficulties in achieving investment goals (Illmer & Senik, 2013; Huyghebaert, 2016). Divakaran et al. (2014) further stated that the persistence of information asymmetry exacerbates the difficulties of MSME valuation, monitoring and the overall investment management.

2.3 Negative impacts of lack of VC and PE finance to MSMEs

Recent literature recorded the presence of the VC and PE firms in developing countries as a fundamental aspect for promoting different industry development through various MSME activities. The VC and PE industry is still in its emerging stage in Namibia, hence many MSMEs are not knowledgeable about it (Mbangu, 2019). According to Zhang (2018), VC and PE firms find it challenging to establish a durable local presence, build networks, relationships, and industry technical expertise to drive MSME investments in many developing countries. This is a result of slow-moving economic growth, undeveloped capital markets and unfeasible investment frameworks (Krzysztof & Sławomir, 2015).

Lack of VC and PC investments in small businesses leads to serious negative impacts such as low cash flow in businesses, depleting of the working capital, as well as loss of MSME investment prospective, delays in payments on receivables, increase in business bankruptcies, as well as the impediment of the innovative and creative activities in the economy (Eniola & Entebang, 2015; Muneer, Ali & Ahmad, 2017; Moscalu, Girardone & Calabrese, 2019).

3. Research Methodology

This paper is part of a Master of Business Administration (MBA) study that was conducted by the first author and supervised by the second author at the University of Namibia and was completed in 2022. The title of the thesis was: 'Investigating the challenges facing Micro, Small and Medium Enterprises in accessing Venture capital and private equity financing in Windhoek, Namibia'. A qualitative research approach was adopted to conduct the investigation. The approach was pertinent for this study because of its descriptive and explorative nature. This aligns well with the aim of the study, which seeks to comprehend the lived experiences of participants regarding the challenges faced by MSMEs in obtaining VC and PE financing. The key objective of this study was to identify, understand, analyse and interpret key issues faced by MSMEs in endeavouring to obtain financing from VC and PE firms, in Windhoek, Namibia.

To achieve the purpose of the study and to answer the questions thereof, a phenomenological research design was implemented. This design is frequently useful in social science studies, in which scholars interpret raw lived experiences of respondents Moser and Korstjens (2017) (which is MSMEs and VC and PEs in this case). Furthermore, in phenomenological research design, scholars conduct interviews with about 5 to 25 participants who provide primary and practical information about the subject of investigation (Mishra & Alok, 2017). "Phenomenology is a form of qualitative research that seeks a deeper understanding and documents common experiences of individuals on specific matters" (Bryan & Bell, as cited in Nzonzo & Du Plessis, 2020, p. 3).

A phenomenological research design was thus deemed relevant to conduct in-depth interviews with MSMEs and VC and PE personnel. Through this exercise, and with the aid of research questions and interview guides, the researcher managed to obtain prime opinions from respondents, through profound discussions on challenges facing MSMEs in obtaining VC and PE financing in Windhoek. This, therefore, provided a holistic overview and comprehension on common financing hurdles that MSMEs deal with regularly.

3.1 Population

For this study, the population comprised of 20 portfolio managers in VC and PE firms and 30 MSME owners-managers and managers from various SME sectors. The population (MSMEs, VCs and PEs) was selected on the merit of the shared experiences in supply and demand of MSME funding. Furthermore, MSMEs who were considered for this study are those that have been in existence for five years or more. Considering the high failure rate within two to three years of existence and financing challenges faced by MSMEs, the researcher sought to further establish the finance strategies employed by these firms to remain in business. Additionally, VCs

and PEs who haven in existence for ten years were deemed appropriate because of their experience with MSMEs in equity financing.

3.2 Sample

In this research, non-probability sampling was used, which enabled the researcher to recruit only a specific population and sample for investigation (Sileyew, 2019). Likewise, a purposive sampling technique was implemented to select MSMEs, VCs and PE participants for the study, and the size of the sample is dependent on data saturation, for which interviews were conducted with the sample of at least between 12 to 30 participants (Guest, Bunce & Johnson, 2006).

Thus, the sample of this study was 14 MSME owner-managers and owners, and 7 portfolio managers in VC and PE firms. The respondents were purposefully selected based on experience and positions occupied to provide valuable data for the study (Ibrahim, 2015; Jonathan, 2017). Subsequently, MSMEs; owners-managers and managers are charged with the duty of managing businesses, and thus were in a better position to participate in research interviews. Further, portfolio managers in VC and PE firms have sufficient experience in working with MSMEs and managing diverse portfolios. Furthermore, with purposive sampling and through in-depth semi-structured interviews, the researchers were able to obtain rich data and an enhanced understanding on financial challenges faced by MSMEs from the perspectives of both MSMEs and VCs and PEs.

3.3 Research Instrument

The key research instrument for this study was an Interview Guide. Semi-structured interviews aided by Interview Guides were thus deemed appropriate for the study as it enabled MSME owners, VC and PE as well as the researcher to engage each other freely and flexibly about challenges facing entrepreneurs in the equity investment industry (Creswell, 2013), which enabled the scholar to collect primary data from participants (Kallio, Pietila & Johnson, 2016).

3.4 Procedure

The researcher liaised with the participants through email and telephone to inform them about the intended interviews, dates, times, and venues. Subsequent to the virtual communication, and as per the agreement, interview appointments were scheduled at the convenience of both the interviewees and the interviewer through an online platform (Zoom) and face to face at the respondents' offices. An interview guide outlining subtopics and interview questions was sent to the respondents (MSMEs and VCs and PEs) prior to the interviews for perusal and familiarisation purposes. Selected participants were owners-managers and managers for MSMEs, as well as

portfolio managers, data analysts and researchers for VCs and PE firms. After all the interviews were conducted and the data collection process was complete, audio recordings were transcribed. Next, all collected data was categorised into themes and subthemes representing various topics discussed in the interviews.

Successive to this, all organised data was prepared for the analysis process, through thematic analysis process. Owing to the research design and research questions for the study, thematic analysis method was utilised to efficiently analyse and interpret data. This analysis was effective as it enabled the scholar to divide data into themes and subthemes, group data into various categories, tabulate data, as well as summarise all the information. In terms of ethical considerations, the researchers obtained research permission and the ethical clearance letters from NBS research department, as well as interview authorisation from MSMEs, VC and PE firms. Secondly, all participants gave their informed consent and voluntarily participated in the study. Thirdly and finally, substantial particulars of the study were thoroughly explained, bestowing participants with full assurance that all information would be treated with utmost confidentiality.

4. Results and Findings

Themes and subthemes were developed to determine the relevance of the information collected from diverse respondents. Furthermore, relevance was ascertained by the repetitiveness of some information provided by MSMEs, VCs and PEs during semi-structured interview sessions. Some information was embedded together through subthemes as seen fit to eliminate duplication in data presentation.

The following themes and subthemes were developed to guide the discussion and analysis of the data collected:

Theme 1: Challenges faced by MSMEs in accessing VC and PE financing Subthemes:

- a) Subtheme 1: VCs and PEs lack of faith in MSMEs;
- b) Subtheme 2: MSMEs loss of business control due to equity stake;
- c) Subtheme 3: MSME size of business;
- d) Subtheme 4: Corruption;
- e) Subtheme 5: Lack or poor knowledge about the existence of VCs and PEs;
- f) Subtheme 6: MSMEs do not meet VCs and PE financing requirements;
- g) Subtheme 7: Mismatch between MSMEs and VCs and PEs economic priority sectors.

Theme 2: VCs and PEs experience in dealing with MSMEs

Subthemes:

- a) Subtheme 1: Poor research background about the VC and PE industry;
- b) Subtheme 2: Poor understanding of the economic sectors in which MSMEs operate;
- c) Subtheme 3: Poor business strategy implementation by MSMEs;
- d) Subtheme 4: Poor financial management.

Theme 3: VCs and PEs, and government policies and regulations governing business operations

Subthemes:

- a) Subtheme 1: VC and PE firm's investment policies, frameworks and regulations;
- b) Subtheme 2: Government regulations;
- c) Subtheme 3: Areas of improvement for the VC and PE industry.

To ensure a balanced presentation of data and views of both MSMEs and equity financiers (VCs and PEs), data presentation was divided into two categories; firstly, presentation, discussion and analysis of data collected from MSME participants and secondly, presentation, discussion and analysis of data collected from VC and PE participants.

4.1 Presentation, Discussion and Analysis of data: MSMEs

4.1.1 Demographic information

The demographic information collected from 14 MSMEs, indicate that most of the participants were male (10) MSME owners-managers and managers and few female (4) participants. Furthermore, data showed that the majority of participants (10) are between the ages of 31 to 40 years, 2 are 41 to 50 years of age, 1 is between the ages of 25 to 30 while only one participant is more than 50 years of age. Additionally, many participants (6) possess bachelor's degrees, 4 respondents have diplomas, 3 participants have grade 12 certificates and other business and vocational certificates and only 1 has a masters' degree. Qualifications were obtained from both local and international institutions.

In terms of gender, the gender information collected from 14 MSMEs, the majority were male, (10) SME owners-managers and managers and few female (4) participants. Furthermore, data showed that most participants (10) are between the ages of 31 to 40 years, 2 are 41 to 50 years of age, 1 is between the ages of 25 to 30 while only one participant is more than 50 years of age. Furthermore, many participants (6) possess bachelor's degrees, 4 respondents have diplomas, 3 participants have grade 12 certificates and other business and vocational certificates and only 1 has a masters' degree.

Qualifications were obtained from both local and international institutions.

What was derived from the above information is that the level of education of MSME owner-managers and managers greatly influence business operations, as well as the comprehension of the importance of external sources of financing, particularly VCs and PEs. Many MSME owners-managers with low qualifications specified a lack and poor knowledge about VC and PE firms and their existence in various sectors of the economy. This correlates with previous literature of Metrick and Yasuda (2015) that stated poor MSME investment readiness and awareness as one of the major challenges hindering MSMEs from obtaining VC and PE funding.

Additionally, half of the participants have five to ten years' working experience, with the remainder having more than ten years' working experience in the MSME sector. This research concluded that all the participants are qualified and possess sufficient business experience to manage businesses MSMEs in various economic sectors. Moreover, the researcher concluded that the participants were indeed the right people to collect the information from due to their experience.

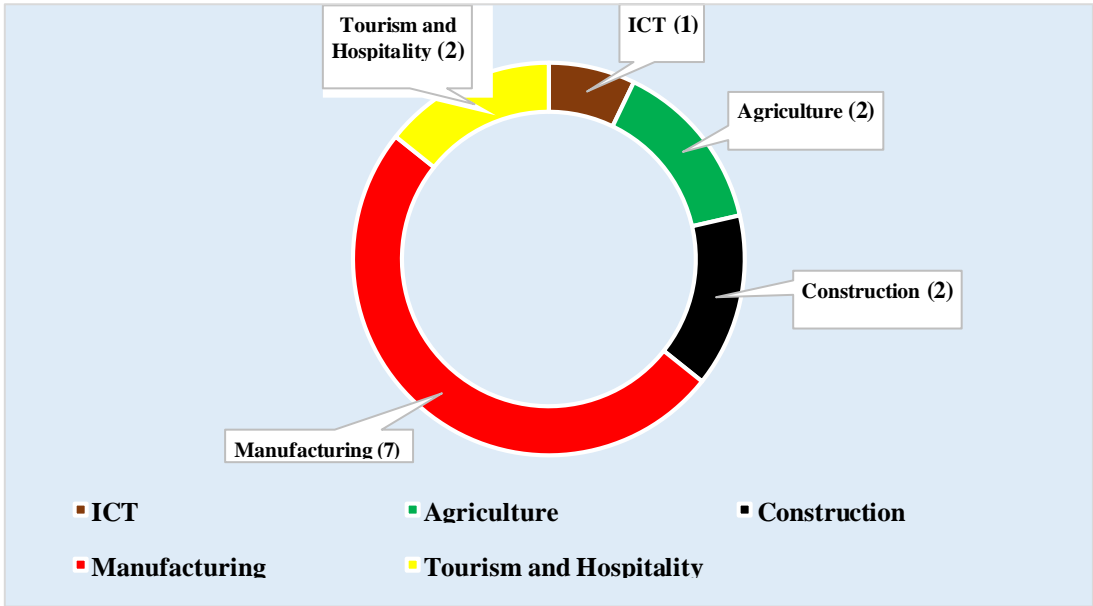
4.1.2 MSME profile

To comprehend the overall profile and operations of MSME research participants, information such as the economic sector in which the business operates, ownership structure, years of existence in business, number of employees and annual turnover were obtained from various owner-managers and managers.

4.1.3 MSME economic sector

Figure 1 illustrates the spreading of several economic sectors in which the respondent MSMEs operate.

Figure 1: MSME economic sectors



As indicated in Figure 1, several MSMEs operate in diverse sectors of the economy. Out of all 14

participants, seven MSMEs are in the manufacturing industry, one in ICT, two are in construction, two in the tourism and hospitality sector and the remaining two operate in the agricultural sector. From the data, the presence of MSMEs in diverse economic activities in the manufacturing industry is greater than other individual industries combined.

This correlates with the report published by the National planning Commission as it was phrased that “the manufacturing sector is one sector that is deemed as an engine for economic growth” (National Planning Commission, 2018, p. 29).

4.1.4 Years of MSME existence in the economic sector

Figure 2 shows the number of years that various MSMEs existed in business sectors. Research record showed that out of 14 MSMEs, 10 MSMEs have been in business for about 5 to 10 years, while 4 SMEs have been operating for 10 years or more. This question was asked to determine the business experience, value creation to the market, product and services proof of concept, different affiliations, and the connections of MSMEs within Namibian financial service industry, particularly within the VCs and PEs industry. It is perceived that the longer the operating time (years) for an MSME, the higher the degree of trust afforded to them by external financiers.

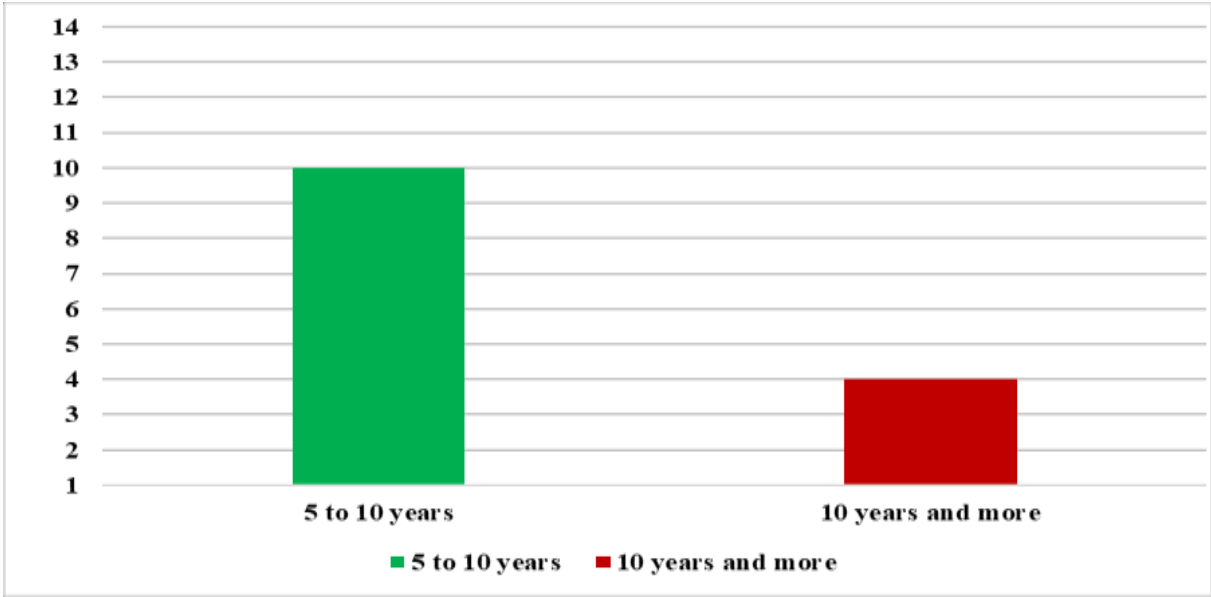


Figure 2: MSME years of existence in business

As indicated in the chart above, four MSMEs have been in business for a period of 10 years and more, while the majority of MSMEs (10) have only been in operation for between 5 to 10 years. Most MSMEs expressed that the number of years in business sometimes hinder external financiers’ confidence in investing in MSMEs.

4.1.5 MSME ownership structure

Ownership structure, in terms of local or international proprietorship was recorded to present and understand the ownership of MSMEs operating in various sectors in Windhoek. All MSMEs that took part in the semi-structured interviews are locally owned.

4.1.6 Number of employees and MSME annual turnover

The table below tabulates the number of employees actively working in participant MSMEs and the approximate annual turnover thereof.

Table 1: MSME number of employees and annual turnover

PARTICIPANT MSMEs	NUMBER OF EMPLOYEES			ANNUAL TURNOVER
	1 to 10 (Micro enterprises)	11 to 30 (Small enterprises)	31 to 100 (Medium enterprises)	
Nine	✓			N\$ 0 to N\$ 300 000.00
Four		✓		N\$ 300 001 to N\$ 3000 000
One			✓	N\$ 3000 001 to N\$ 10 000 000

As indicated in the Table 1, nine of the MSME participants are micro enterprises, while four are small enterprises and only one enterprise was a medium enterprise. From this data, it is perceived that Namibia's MSME sector is dominated by micro enterprises in almost all the sectors of the economy. Albeit the leading of micro enterprises, data shows that because of financing challenges plaguing MSMEs, it takes quite a long time for micro and small enterprises to transform into medium enterprises and eventually large corporations. Additionally, the Namibian MSME definition of MSME is deemed relevant for this study to enable a proper distinction between businesses in Namibia.

4.1.7 Official business account and business records

Participants were asked to indicate whether MSMEs have official business accounts with efficient business records and books. All the fourteen MSME participants specified that they have efficient business records and official bank business accounts. Official business accounts and efficient business records put MSMEs in an advantageous position when approaching external MSME financiers such as VCs and PEs. Equity investors and banks critically consider and vet the financial position of a business as part of some of the major requirements for MSME financing.

Table 2 summarises the key challenges as recorded from MSME participants.

Table 2: Key challenges faced by MSMEs

Challenges faced by SMEs
Lack of faith by VCs and PEs in MSMEs
Loss of control of business due to equity stake
MSME size (small size of business)
Corruption
Mismatch between MSMEs and VCs and PE priorities
Lack and poor knowledge about VCs and PEs (structures, contracts, cycles and priority sectors)
Not meeting VCs and PE financing requirements

4.1.8 Summary of the themes emerging from the data

Several challenges facing MSMEs were discussed. These include corruption, lack of faith in small businesses, mismatch between MSMEs and VCs and PEs priority sectors, MSME size of business were identified as some of the key difficulties facing small businesses. Additionally, alternative sources of external financing that MSMEs accessed in the absence of VC and PE financing were explored. Additionally, subthemes such as MSME knowledge about VC and PE and their financing requirements enhanced the researcher’s understanding of the MSME participants’ perception of VCs and PEs. Finally, MSME participants were asked to provide recommendations to VCs and PEs, government, and MSME support programmes, which were presented in a subtheme, respectively.

The following quotations were recorded from VC and MSME respondents who participated in the study:

“It is not really a problem to fund or to even analyse business proposals that we receive from SMEs. The problem is that many SMEs present us with businesses or ideas that are not tried or not operating and that is automatically out of our requirements because for us, a business must be in operation, with a proven concept and there should be products and services that are already in the market.” (Participant 5: Male, 25 - 30 years’ age group, 5 years working experience, Analyst).

“We have a list of requirements in our procedures and investment guidelines that we use to assess various proposals and SMEs that present us with financing requests. All our

requirements need to be met in order to take the proposal to the next stage of consideration. Many SMEs have financial records that are not audited, or the numbers aren't just adding up, and financial management is one of the most important elements." (Participant 2: Male, 25 - 30 years' age group, 5 years working experience, Analyst).

"Sometimes small businesses stand a chance, a business proposal is evaluated, but through the meetings and contract discussions, small business owners realise that the vision of the investors and that of his or her business are not correlating. This can prove to be dangerous at a later stage since these investors will own a stake in the company. On the basis alone, an SME can pull out of a deal to protect his or her business." (Participant 3: Male, more than 50 years' age group, more than 10 years of work experience, Owner-manager).

"As long as the investors will not change the mission and vision of the business, VC/PE financing is preferable for us. The problem is that bank collateral is a major hurdle for SMEs globally". (Participant 3: Male. More than 50 years' age group, more than 10 years working experience, Manager). This coincides with Finsmes (2019) study of analysing the disadvantages of VC financing on small enterprises.

4.2 Presentation, Discussion and Analysis of data: VCs and PEs

4.2.1 VC and PE business characteristics

Table 3 illustrates various attributes that make up several VCs and PEs participants of this research.

Table 3: VC and PE characteristics

Participant number	Business profile VC & PE	Ownership structure and years of business existence		Economic sector investment priority
		Ownership structure	Years of business existence	
1	VC and PE	100% owned Namibian	More than 10	Manufacturing, construction, renewable energy
2	VC	100% Internationally owned (Germany)	5-10	Tourism hospitality, Agriculture and ICT
3	VC	100% owned Namibian	More than 10	Education, Agriculture, Manufacturing
4	VC and PE	50% Namibian, 50% internationally owned	More than 10	Agriculture, construction, manufacturing
5	VC and PE	100% owned Namibian	More than 10	Construction (property development), Manufacturing, Agriculture
6	VC	100% owned Namibian	More than 10	Environmental projects
7	PE	100% owned Namibian	More than 10	Agriculture, renewable energy, construction, manufacturing

As indicated in the table above, three participant businesses focus on VC investments, three other businesses focus on both VC and PE financing, whereas only one business focus on PE financing for MSMEs. This information was crucial to analyse the number of VC and PE businesses and their priority sectors of investment in the Namibian economy. The table indicates a full representation of both VCs and PEs in various economic sectors in Namibia. Moreover, this shows that micro, small and medium enterprises can be catered for by VCs and PEs in the Khomas region.

Additionally, this data is essential for formulating recommendations to MSMEs in search of financial assistance from VCs and PEs. In the above table, it is shown that many equity financiers provide both VC and PE services. This is viewed as a good opportunity for SMEs in various economic sectors.

4.2.2 VCs and PE finance requirements

The following requirements emanated from the discussions held with VC and PE participants:

1. MSME must fall within the priority sector of the financier.
2. MSME must have audited and updated financial records.
3. MSME must be registered with Business Intellectual Property Authority (BIPA) as a Pty Ltd (with a fully established board of directors and a functional legal structure).
4. MSME annual revenue of not less than N\$ 8 million.
5. Meet all other due diligence requirements for the business.
6. Meet all other financing requirements, including the due diligence approval process.

One major finding from study is that seven MSME participants are not well versed in the subject of MSME investment, and not well acquainted with the existence of many VC and PE firms in Namibia. Contrary, the fact that the majority of VCs and PEs do not actively advertise and market their services is seen as a slight contributing factor to poor investment knowledge displayed by MSME owners.

Moreover, albeit VCs and PEs do not actively advertise their services, the investment businesses still thrive and reach strategic objectives since they are industry specific. In summary, the analysis confirmed the challenges predetermined in the literature review and with the theoretical framework, with several challenges discovered during the research. This substantiated the need and significance for the research and its addition to the field of knowledge in MSME financing, particularly through VC and PE approaches.

5. Conclusions

This study aimed at investigating the challenges faced by MSMEs in accessing VC and PE finance in Windhoek, Namibia. In support of the foregoing, research questions of the study included the following: how knowledgeable the MSME owners in Windhoek are about PE and VC funding; the challenges facing the PE and VC funding of MSMEs in Windhoek; how MSMEs cope with funding challenges, interventions employed by PE and VC firms and the government to inform MSMEs about financing options and application processes and how access to PE and VC funding

can be improved.

The findings indicate that most equity financing companies in Windhoek are PEs than VCs. The results of the study pointed to numerous factors that hinder small businesses in various economic sectors from accessing and obtaining equity capital from VC and PE. The study further showed an increase in MSME activities in Namibia. However, the findings showed a shortage of small business finance appropriate for different stage firm development. Furthermore, this research found that the presence of VC and PEs in Namibia is quite established, however, a finance gap exists prevalently between equity companies and MSMEs.

The following key common challenges were documented in the data collected from semi-structured interviews aided by an Interview guide conducted with MSMEs owner-managers and managers:

- a) Lack of faith in investing in MSMEs by VCs and PEs. The results of the research showed that majority of VCs and PEs are not willing to invest, or partner with small businesses in early and sometimes even developmental stages,
- b) MSMEs were weary that equity financiers could divert the mission and vision of the business. Albeit the promising contracts and deals that are offered by VCs and PEs, some businesses fear that investors might change the goals and key company values to suite their investment goals (high ROI),
- c) Corruption (poor and lack of practicality in the implementation of MSME policies). Increased unethical practices in various MSME lead to MSMEs not receiving the suitable and much need external financing,
- d) MSMEs lack knowledge VC and PE equity financing, and
- e) Most of the MSMEs do not meet the financing requirements of VCs and PEs.

The research further found out that most MSMEs in Windhoek prefer equity financing than banking institutions' finance if they had a better comprehension of VCs and PEs and were able to meet the requirements of investments companies. Fundamentally, equity financing does not only provide capital but also offer technical, managerial and network expertise to MSMEs. This greatly assists small businesses to quickly develop into other business stages and gain competitive advantage in the market. In addition, researchers discovered that bank finance is often not a panacea for MSME finance challenges when MSME owners lack the essential finance management skills.

Additionally, results revealed that most equity firms are willing to assist MSMEs financially, however, because of the following reasons, many investment applications and deals do not reach a point of fruition:

- a) MSMEs lack research background and understanding of VC and PE firms and priority investments,
- b) Poor market and economic sector knowledge,
- c) Poor business strategy implementation capacity displayed by SMEs,
- d) Poor financial management,
- e) Not meeting VC and PE financing requirements,
- f) Lack and uncertain proof of concept, and
- g) Lack of business valuation knowledge.

Additionally, the research found that for the majority of MSMEs, equity financing might not necessarily be the right external financing option at various stages of development. Some MSMEs could qualify for equity financing because of high potential of ROI of the business concept, however, other major requirement may not have been met.

6. Implications, Limitations and Future Research

The study provides practical implications for MSMEs and VC and PE line ministries, government stakeholders, MSMEs as well as equity investment businesses. To accelerate economic growth and development in Namibia, equity investment in MSMEs should be prioritised in MSME policy formulation and implementation. Although current equity financing from various VC and PE companies is commendable, there is still great work that needs to be done to assist MSMEs in both financial and technical ways. Both MSMEs and equity businesses need to comprehend each other's needs and devise initiatives and strategies to meet each other halfway.

Practical investment training and initiatives need to be developed to assist MSMEs to understand VC and PE industry and financing options thereof. The findings confirmed that most MSME owners and owner-managers have poor knowledge about the VC and PE industry and various financing options for small businesses. To attract quality investors and ensure investor's readiness, MSMEs need to orientated and trained on various VC and PE requirement and regulations (The World Bank, 2020; Arundale & Mason, 2020). Equity investors should take part in MSME training programs to disseminate pertinent VC and PE information. This practical implication is based on research investigations conducted by (Chen & Scott, 2020; Divakaran et al., 2014). The studies

proved that the involvement of VC and PE in SME training is highly pertinent for resolving the challenges of information asymmetry. This would ensure better adherence to VC and PE requirements by MSMEs. VC and PE do not only offer finance to SME but further provide much needed technical assistance to SME owner- managers and managers for improved investment management and administration (Finsmes, 2019).

VC and PE investment should be taught in tertiary curriculums for business and entrepreneurship studies. Tertiary education prepare student for business establishment and corporate jobs. On this basis, students majoring in entrepreneurship and business management should be trained about functionalities of the VC and PE industry (Chen & Scott, 2020). Additionally, European Commission (2016) stated that trained entrepreneurs and SME owners proves to be investment ready and thus, stand a better chance at obtaining VC and PE financing. VCs and PEs should invest in MSMEs for greater national development. The results of the study confirmed that for developing countries, VC and PE SME financing can provide a great opportunity for GDP growth. Further, SME financing research proved that greater investment in MSME increases job creation, product development and rejuvenation, as well as the commercialisation of local markets products (Bellavitis, Filatotchev, Kamuriwo & Vanacker, 2016; Caselli & Negri, 2018). This, therefore, calls for VC and PE investors to consider accelerated national development that can be achieved through investing in MSMEs in various economic sectors.

The practical recommendations for the study regarding MSMEs, VCs and PEs, as well as the government and its various stakeholders are as follows:

- a) The government should consider a slight increase of the investment threshold of unlisted investment. VCs and PEs sometimes lose great investment opportunities with high ROI because of a low threshold (3.5%). The suggested ideal maximum threshold is 4%, Based on the results of semi-structured interviews with VC and PE businesses participants of this research, a threshold of 3.5% is often limiting. Consequently, this leads to missed investment opportunities with great potential for business development and profitability. The government and financial regulations stakeholders are therefore urged to consider an increase in the investment threshold. This is leads to increased investment opportunities, more cash flow injected in various economic industries, and overall, national economic development (Mbangu, 2019; London Stock Exchange Group African Advisory Group, 2015; Dwyer, Duncan, & Southam, 2020).
- b) The government should assist MSMEs and VCs and PEs by availing essential investment information for all economic sectors in the country. This would assist SMEs to position

themselves and invest in research to ensure successful VC and PE dealings. The study findings proved that information asymmetry and lack of pertinent information about VC and PE financing proves to be a major challenging factor with most MSME owner-managers and managers. To alleviate this challenge, researchers and SME support institutions confirmed that government's involvement in the dissemination of information to start-ups and small businesses is highly crucial (Abdelhafid & Mohammed, 2019; Pradhan et al., 2017).

- c) MSMEs should invest in business research and development to gain knowledge and essential fundamentals of various markets and industries of operations. The findings confirmed that a major key contributor to poor investment readiness in MSMEs is lack or poor research and development in MSME businesses. Most MSME do not have an active function of research and development. This, therefore, creates challenges in understanding the VC and PE industry and meeting equity financing requirements by MSMEs (Cumming & Johan, 2015; Krzysztof & Sławomir, 2015). Research and development have proven to increase improve business development and increase investment probability in small businesses.
- d) MSMEs must prioritise the alignment of business value and vision with VC and PE firms and comprehending financing requirements thereof. Further, MSMEs should understand priority industries for investors, financing negotiations, deals and contracts and structures of VCs and PE entities. The findings and results from semi-structured interviews with MSMEs and VC and PE firms proved that most small businesses are not acquainted with aligning business values with those of potential investors and proper business valuation. However, research acknowledged that companies that align business values with investors' priority areas of investment stand a greater chance of VC and PE financing (Arundale & Mason, 2020; Krzysztof & Sławomir, 2015).

In terms of theoretical contributions of the study, the study validates the SME financing gap theory and broadens our understanding of the theory, especially from the perspective of an emerging market economy such as Namibia. The theory refers to a situation where the market fails to take cognisance of the financial needs of the MSMEs. Indeed, MSMEs in Namibia have been failing to access finance from PE and VC funders, banks and other financiers, hence the applicability of the financing gap theory to the African context, and more specifically to Namibia. The lack of financing has resulted in high failure rates of Namibian MSMEs.

6.1 Limitations

This research only considered the views of the owner-managers and managers of MSMEs. A balanced viewpoint could have been obtained from middle management employees of MSMEs, and junior personnel could have advanced different insights. Conversely, as a strategy to mitigate this limitation, the researcher encouraged targeted participants who were not available to delegate the task to capable junior personnel. In addition, the study focused only on MSMEs, VCs and PEs in the Khomas regions, and hence the results cannot be generalised to the country at large. To alleviate this limitation as well as to obtain varied information on the subject matter, the researcher contacted VC and PE firms outside the country. An interview with an international VC participant from Germany was therefore scheduled and the session was rated successful.

Furthermore, due to the Covid-19 pandemic, most potential participants could not participate, and face to face interviews were restricted due to issues of isolation, social distancing, government lockdown restrictions and sickness. Subsequently, the majority of semi-structured interviews were conducted through various online platforms such as Zoom and Microsoft Teams.

6.2 Future Research

Although numerous research studies were conducted to investigate challenges facing MSMEs in general, financial challenges, and hurdles faced in obtaining bank financing, there remains a need to investigate issues facing small businesses in VC and PE industry. In this regard, future research could be conducted to advance knowledge and understating of the VC and PE financing for MSMEs in various areas. These areas could include an understanding of the impact of equity investment on MSMEs in other countries and investigating the effectiveness of MSME investment policies and frameworks. Investigation into the above subjects would not only be beneficial to the mentioned parties, however, it would greatly advance national development agendas, which will consequently increase the GDP of a particular country. Investigation into the above subjects would not only be beneficial to the above parties, however, it would greatly advance national development agendas, which will consequently increase the GDP.

Acknowledgements

This paper forms part of a broader study. The authors would like to extend their appreciation to the University of Namibia for allowing Christine S. Aitana to undertake her Master of Business Administration (Entrepreneurship) study, which was completed in 2022.

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