Title:

Government and SMEs in The Maldives and Mauritius

Purpose:

The purpose of this research is to compare and contrast the role of Government in the development of SMEs in The Maldives and Mauritius. Using tourism SMEs, it seeks to identify, analyse and compare strategies deployed by SMEs operating in an ‘enabling’ and a ‘constrained’ business environment.

Design/methodology/approach:

An inductive approach to qualitative research is undertaken using seventeen semi-structured interviews with key stakeholders identified though a stakeholder analysis. Using multiple sources (six Government officials, eight SME owner/managers, one private bank owner, one academic and one resort owner), variations and consensus in the data were identified through thematic analysis.

Findings:

The Maldivian Government is less proactive in supporting its SMEs compared to the Mauritian Government. Its failure to facilitate access to finance and provide business support services has led the Maldivian SMEs to use multiple methods of bootstrapping to sustain existing businesses and/or start new ones. In contrast, despite operating in a more enabling business environment, Mauritian SMEs were found to engage in similar strategies due to lack of trust in Government-led initiatives.

Practical implications:

Policy-makers in island economies can use the findings to inform decision-making in SME development planning.

Originality/value:

While this research adds to the sparse literature on Government and SME development in island economies, it also highlights the relevance of bootstrapping for SMEs operating in economically constrained environments.

Keywords: Island economies, SME development, Government, Bootstrapping, The Maldives, Mauritius.

Article Classification: Research paper

Introduction

Research on the role of Government in Small and Medium Enterprise (SME) development in developing countries has increased significantly over the last decade (see for example Chen et al; 2013; Doh and Kim, 2014; Atherton and Smallbone, 2013; Obeng and Blundel, 2013; Senik et al; 2011). There is growing acknowledgement that SMEs in these contexts are very heterogeneous and require policies that can cater for an uneven economic base. Island economies and their SMEs are further distinct by their reliance on seasonal industries such as Tourism and Hospitality. Their special economic and institutional characteristics are driven by vulnerability based on their 'smallness, remoteness, geographical dispersion, vulnerability to natural disasters, fragility of their ecosystems, constraint on transport and communication, isolation from markets, vulnerability to exogenous economic and financial shocks, small domestic market, lack of natural resources, limited fresh water supply, dependence on import' (Seetanah, 2011: 292-293).

This paper compares and contrasts the role of Government in the development of SMEs in The Maldives and Mauritius. These two neighbour islands are located in the Indian Ocean and are part of sub-Saharan Africa (SSA). Both are currently engaging in an effort to strengthen bilateral relationships (Government of Mauritius, 2013a; Ministry of Foreign Affairs Republic of Maldives, 2013). The first rationale for conducting this comparative analysis is driven by the significant economic challenges faced by The Maldives despite having achieved middle-income country status from Least Developed Country status in January 2011. In 2007, 99% of firms across industries were within the SME definition bracket and recent statistics show that the Maldivian SMEs accounted for 45% of total employment (Department of National Planning, 2012). The Government has recognised that the SME sector is key for the resilience of the economy but a national strategy for its development is yet to be formulated (Ministry of Economic Development Republic of Maldives (MED), 2013). In contrast, Mauritius has successfully accelerated economic development to become an upper middle-income country. Mauritian SMEs are currently contributing to 40% of GDP and employing 54% of the labour force (Ministry of Business, Enterprise, and Cooperatives (MBEC), 2013). The number of SMEs across industries has increased by more than fivefold between 1985 and 2010 accounting for 47% of the labour force in 2010. Underlying this growth, a survey by the Economic Commission for Africa described the policy and regulatory environment of SMEs in Mauritius as 'enabling' and 'improved' compared to other African nations. Given that both islands are dependent on Tourism and face similar challenges (Riaz and Suhejla, 2005), this comparative analysis can create learning opportunities for The Maldives.

The second rationale is related to the dissonance between findings on Government support for SME development in SSA and the scale of entrepreneurial activity in the region. Research shows that overall Government support for SMEs is low in SSA. In cases where these exist, such support programs remain underutilised. These studies include South Africa (for example Olawale and Garwe, 2010; Mazanai and Fatoki, 2011; Fatoki, 2013, 2014), Kenya, Nigeria, Rwanda, Tanzania (Berg and Fuchs, 2013), Mauritius (Padachi et al; 2012; Kasseeah and Thoplan, 2012), Ghana (Dana, 2007; Abor and Biekpe, 2009), Ethiopia (Singh and Belwal, 2008), Togo (Dana, 2007), Eritrea (Rena, 2007) and Botswana (Werbner, 2002). In contrast, a regional report on entrepreneurship in SSA found that 'the region exhibits generally high levels of entrepreneurial activity rates – one of the highest in the world' (Global Enterprise Monitor regional report 2012: 9). The dissonance between these two findings propels the need to further investigate how SMEs continue to grow in such constrained environments.

While much has been written to help our understanding of the role of Government in SME development (Smallbone and Welter, 2001), this paper offers insights into two island economies where this role has been executed differently. To illustrate this, this paper focuses on two important aspects of SME development. First, the role of Government in supporting SMEs and second, the subsequent strategies which SMEs adopt in situations where there is either an 'enabling' or a 'constrained' business environment. The latter focus is closely related to the subsequent learning which takes place in an environment where both opportunities and problems are encountered (Rae, 2000; Taylor and Thorpe, 2004). Hence, while this paper will delve into the role of Governments in both countries, close attention will also be given to the resulting strategies SME engage in. To achieve these, the objectives are a) to investigate the existing role of the Maldivian and the Mauritian Government in SME development, b) to explore the subsequent strategies deployed by SMEs to sustain themselves and c) to make macro-level recommendations to each context.

This paper proceeds as follows. In the next part, a review of the literature on the role of Government in SME development is conducted. This is followed by a description of the methodology and findings. In the last two parts, the findings are discussed in order to highlight the key implications for practice. Finally the paper ends with some concluding remarks and areas of further research.

Literature review

Entrepreneurship is often enabled and/or constrained by wider social, economic, political and institutional context which are not always within the control of the SME. The role of Government in influencing SME development is directly linked with its authority to influence these contexts (Smallbone and Welter, 2001). Although this has been documented by many, two perspectives are observable: firstly, the view that Government plays the role of the facilitator in the business environment via pro-SME policy-making and secondly, the view that these policies have not always been successful. In turn, this has caused SMEs to seek alternative ways to sustain growth. Publications with the former view are legion including work highlighting a) the role of Government in the creation of differential legislations and policies for SMEs (Bennett, 2008; Niska and Vesala, 2013; Nagawa, 2012; Smallbone and Welter, 2001; Dennis, 2011), b) Government business support policies and programmes (Smallbone and Welter, 2001; Berry et al; 2006), c) Government's role in the provision of SME finance (Beck, 2013; Bennett, 2008; de la Torre et al; 2010 and e) Government's emphasis on enterprise and entrepreneurship within society (Smallbone and Welter, 2001). Nevertheless, the challenges faced by SMEs in both developed and developing countries persist. For example, access to finance remains at the top of the list (see Abdulsaleh and Worthington, 2013; Beck, 2007; Price et al; 2013). Studies show that loans from microfinance institutions are too small to cater for the capital needs of SMEs (see Bauchet and Morduch, 2013). The resulting financial gap which is referred to as the "missing middle" (Beck, 2010) is one of the major barriers faced by SMEs in developing countries. It is estimated that within SSA and South Asian regions, the financial gap varies between $80billion-$100billion and $30billion-$40billion respectively (Stein et al., 2010). Overall despite its pro-SME policy-making ability, the second contrasting view that Government has not always been successful in assisting SMEs, is a prominent reality in many developing countries. Evidence from these contexts shows that the majority of laws and regulations for business development remains geared towards larger businesses and lack attention to SMEs (Wyrick et al; 2013; Yong, 2014).

Despite poor Government support, owner/managers of SMEs exhibit resilience and continue to grow their businesses. Much of the literature on 'how' is closely related to their resource acquisition ability (Shane and Venkataraman, 2000). Two of the major Government supports required by SMEs are firstly, a supportive financial environment and secondly, access to business support services. Research found that a plausible explanation for how SMEs are able to sustain growth without reliance on external financial support is 'bootstrapping'. This type of resource acquisition technique was initially used to describe the diminishing reliance upon external financing by improving cash flow through an amalgam of techniques (Winborg and Landstorm, 2001; Ebben, 2009; Irwin and Scott, 2010). The most commonly used bootstrapping strategy is private owner financed-bootstrapping whereby the owner invests his/her own money in the business (Winborg and Landstorm, 2001). The pecking-order theory (Myers, 1984), one of the many theories pertaining to capital structure, states that businesses favour internal funds to taking up debt financing to equity financing offered by Governments (Degryse et al., 2012). However, when forced to use external financing, SMEs prefer the less risky and demanding source, for example debt financing over equity financing. This explains why banks continue to be the SME's main external finance provider (Irwin and Scott, 2010) despite high rejection rates linked with high degrees of risks and uncertainty associated with SMEs (Bauchet and Morduch, 2013) and strong collateral capacities required by lending bodies (Klonowski, 2012).

Another significant problem faced by SMEs is their dependence upon external non-financial business development services, such as access to advice, mentorship, and expertise such as accountancy, consultancy and marketing (Yusoff and Fakhrul, 2012). Both private sector and Government play a leading role in providing these services (Berry et al., 2006). However, research shows that the Government, as an outer source of advice, did not significantly impact on SME growth (Robson and Bennett, 2000) due lack of trust in Government-led services (Curran and Blackburn, 2000; Niska and Vesala, 2013; Wyrick et al; 2013). Literature suggests that bootstrapping also allows SMEs to secure intangible resources owned by others at little or no cost (Winborg and Landstrom, 2001; Lahm and Little, 2005). While relationship-oriented bootstrapping allows SMEs to leverage networks and strategic alliances as complementary in mobilising resources and capabilities (Patel et al., 2011; Windborg and Landstorm, 2001), they can also act as the source through which skills and knowledge can be obtained to maintain or increase competitiveness (Moore and Manring; 2009; Schoonjans et al., 2013). Malmström (2014) underlined the growth level of ventures that partake in collaborative bootstrapping, whereby a greater level of diversification of SMEs' networks augments sources of capital which in turn acts as a buffer during periods of unsteady cash flow (Manolova et al., 2014).

From the above, it can be argued that a) lack of Government support pushes SMEs to look into both their internal and external environments to seek avenues and strategies for bootstrapping the business, while b) despite the existence of Government support SMEs retain the need to seek alternative ways of learning due to lack of trust in Government-led services. While bootstrapping has been thoroughly discussed in relation to Government support for SME development, literature on SME bootstrapping in SSA and island economies is limited.

Methodology

The data presented in this paper was generated from fieldwork conducted in The Maldives and Mauritius over two months in 2013. The researchers adopted an inductive approach to qualitative research (Jonker and Pennink, 2008) where primary data was collected through semi-structured interviews with seventeen participants including twelve from The Maldives and five from Mauritius. This method was chosen for its ability to unearth the inexpressible world of the participants providing invaluable insights (Qu and Dumay (2011).

Selection of participants

Participants were selected using a stakeholder analysis illustrated in Figure 1.The wider environment surrounding SMEs was contextualised using the PESTEL

(Political, Economical, Societal, Technological, Environmental, Legal) framework (Johnson et al., 2009). The number of stakeholders that such a framework can generate is numerous (Schlange, 2009). However, due to time constraints, stakeholders who were perceived as showing at least a high component of either power or interest or both on the subject matter, were identified and interviewed.

Figure 1: Stakeholder analysis for selection of participants (source: Johnson et al., 2009)

The following stakeholders were selected:

The Maldives:

SMEs

SMEs have high levels of interest and stake in the research problem. However, they have low levels of power to influence or enact change. Five SME owner/managers were interviewed as participants 1, 2, 3, 4, 5.

Government

The following Ministries were selected as they had high levels of interest and power in the question at hand.

Ministry of Economic Development (MED)

This ministry oversees economic development and enacts policy pertaining to SME development (Ministry of Economic Development Republic of Maldives, 2013). One official was interviewed as participant 11.

Ministry of Finance and Treasury (MoFT)

The MoFT provides a macroeconomic framework for sustained growth through the use of sound fiscal policy that is non-inflationary. One official from the ministry was interviewed as participant 8.

Ministry of Tourism (MoT)

This ministry is responsible for the long-term development of Tourism and implements laws and regulations pertaining to this industry (Ministry of Tourism Arts and Culture Republic of Maldives, 2013). One official from the ministry was interviewed as participant 9.

Maldives Monetary Authority (MMA)

The MMA regulates and supervises the operation of the financial sector. It aims to promote an environment favourable for the steady economic development of the country. Commercial banking lending practices and prudential regulations are overseen by this institution. One official was interviewed as participant 7.

Commercial banks

SMEs are dependent on banks and the borrower-lender bargaining power (Grunert and Norden, 2012) situates banks as key players with high levels of power and interest. One official from such an institution was interviewed as participant 6.

Island resorts

These constitute the main clients of the local SMEs in this study and are thus critically positioned in the supply chain. Their operations are heavily dependent on the reliability of SMEs and so have some interest in the research problem. However, since they are the main buyers they can exert considerable levels of power. One resort owner was interviewed as participant 10.

Academics

The growing interest of SMEs as important contributors to the economy has spurred considerable interest from academics who in turn can intervene and impact on policy. One local academic was interviewed as participant 12.

Mauritius

SMEs

Three SME owner/managers were interviewed to determine which lever was most instrumental in contributing to their business growth. They are participant 15, 16 and 17.

Ministry of Business, Enterprise, and Cooperatives (MBEC)

This ministry is responsible for SME policy-making. One official was interviewed to determine the agenda of the Government for SME growth and is represented as participant 13.

SMEDA

The Small and Medium Enterprise Development Authority (SMEDA) is responsible for advising the MBEC on issues pertaining to SME development and growth (SMEDA, 2013). One official was interviewed as participant 14.

Data analysis

Data from each interview was analysed thematically using open colour coding (Saunders et al., 2009). The use of multiple sources improved the reliability, robustness and rigor of the data (Bryman, 2004) despite the small sample size. Corresponding themes which highlighted a) the role and perception of Government, b) SMEs' perception of Government's role in their business and c) access to finance and other business services, and d) alternative SME strategies, were identified from relevant participants in each country. These were then brought together, compared and contrasted. This approach was necessary to observe consensus and/or variations from consensus in the data from each context.

Limitations

This study could have benefitted from a larger sample in both countries. However, access to SMEs was quite limited and response rates to participate in the research was quite low. In order to offset this limitation, the use of the stakeholder analysis in identifying the most appropriate participants was adopted.

Findings

An examination of the data revealed that the Government in The Maldives and Mauritius adopt different approaches to facilitating SME development. Poor pro-SME financial and business support initiatives in the case of The Maldives resulted in SME owner/managers deploying financial and collaborative bootstrapping strategies. On the other hand, despite operating in a more supportive environment, Mauritian SME owner/managers were found to engage recurrently in similar bootstrapping strategies to sustain their business. To illustrate the nuances between the two contexts, two areas of Government intervention will be discussed: access to finance and provision of business support services.

Access to finance

In both Mauritius and The Maldives, SMEs have access to two types of financing: debt and equity. Debt financing mostly involves borrowing money from commercial banks. Owner/managers from The Maldives acknowledged that raising finance this way for working capital was the biggest challenge. High collateral and security requirements against loan provisions were described as recurring reasons undermining the SMEs' ability to raise debt. SMEs for the most part were incapable of providing these guarantees. Moreover high interest rates charged on loans were considered too excessive thus weakening SMEs' collateral capacities as well as their position as potential borrowers:

> I think this is one of the hardest places to raise finance for the very reason that there is very high collateral required to start with… You have collateral like facility; you of course will get a loan of course at an interest rate of about 12% to 13% which is also on the higher side but that's OK, even then you still can't (participant 1).

As mentioned earlier, SMEs are of strategic importance to banks (de la Torre et al; 2010) and banks have preferential position as the main SME external financer (Irwin and Scott, 2010). However, findings from The Maldives do not convey the same sentiment. SMEs do not appear to benefit from any relationship lending practice. Instead, profiling SMEs as high and low risk illustrated intolerance. Moreover, long and arduous loan application processes further confirmed lack of support from banks. Furthermore, the recurrent "missing middle" remained a major challenge to the Maldivian SMEs. The participating bank highlighted that lack of business track record heavily impacting on the business' ability to raise debt. They further reported that on most occasions, loan applications were not backed up with any substantial feasibility study. Factors such as manipulation of financial figures to portray business performance, tax evasion, poor accounting standards, poor management practices whereby business owners fail to separate business from personal entity, were advanced as potential reasons for the reduced ability of the Maldivian SMEs to raise loans from banks:

> They are still trying to conceal the figures in a sense so that they don't pay much of tax… it will be of the signs that you are not going to get finance as well because we see you are not performing… What you have to do, you as a Managing Director, you must behave like you are an employee of this

> company… For them business expenses and private expenses is same (participant 6).

In contrast, the SME financing scheme in Mauritius was targeted at facilitating SMEs to raise debt finance through partial credit guarantee. It also required commercial banks to extend loans and overdraft facilities to SMEs (Ministry of Finance and Economic Development, 2012). The Government provides 35% guarantee to banks in case of loss and banks are required to report reasons and details for rejection (Government of Mauritius, 2013b). However, the scheme was still described as too expensive by SME owners:

> The problem is the gearing ratio. They are prepared to give you money but they ask for a strict minimum of 40 to 45%. (participant 16)

In The Maldives, existing Government assisted loan schemes at concessionary rates and low collateral requirements under the MED were mainly for the agricultural sector. None of the participants were eligible for these. Instead, they were restricted to conventional avenues of debt financing. Participants deplored the lack of Government financial support and its overall involvement in promoting pro-SME financing through banks:

> So far actually there has been no help whatsoever from Government…We actually are left to suffer our own fate (participant 1).

The following response was given by a Government official on the matter:

> But at the Central Bank we leave that factor to the banks to take the decision on their own, because we don't intervene in their business as such other than the regulation of prudential matters (participant 7).

The situation is worsened by the MMA's banking prudential regulations (2009) whereby securities against loans have been set at 150% of the loan value. Furthermore, shortcomings in the legal system such as long court processes to recover their money by banks and the use of banks to finance Government deficit has led to a situation where Government has 'crowded-out' the whole lending sector to the detriment of SMEs:

> The banks are quite keen to lend to the Government…So rather than lending to the private sector, the banks feel it is much safer to lend to Government and in

> that way it has crowded out the private sector and the SMEs in particular (participant 8).

Participants also brought up ‘personal faith’ as a key reason for not taking up loans from conventional banks due to the unethical dimension associated with interest payments on loans under Islamic beliefs. As a Muslim country, demand for Islamic financing in The Maldives was prevalent (Salman Alani and Yaacob, 2012):

> I have never gone to any bank for any loan. Until the Islamic Banking has to come to the Maldives, they have interests in the loans, being a Muslim; I would not rather take with interests (participant 4).

Notwithstanding the faith aspect, Islamic financing was also perceived as a viable option for cash strapped businesses faced with expensive debt financing problem. Participant 3 expressed interests in incorporating Islamic financing into his business operations since there are no interest rates and interest payments associated with it. This further signals popularity for Islamic finance:

> I am having idea to look at Islamic banking because of no interest rates (participant 3).

Islamic banking regulation came into force in The Maldives in 2011. At the time of this research there was evidence of a joint effort between the MMA and ISRA (International Shari’ah Research Academy for Islamic Finance) consultancy to establish an Islamic finance regulatory framework in The Maldives. However, this type of financing was described as more expensive than conventional lending and the participating bank showed little eagerness to start offering Islamic products not only because of the logistical implications based on the regulatory framework but also because its headquarter does not offer the products in its home country:

> You need to have a proper studied framework to implement… No, because Head office itself does not offer… Doing it under the same roof can be done but it is quite a problem in the sense that you have to get two separates boards and rules (participant 6).

Hence, although the faith based enthusiasm may drive the demand for such finance (Salman Alani and Yaacob, 2012), the misconception of Islamic financing being cheaper than conventional financing and the ultimate realisation surrounding its true cost-effectiveness (Azimkanov, 2009) may ultimately have significant repercussions as a financing avenue for SMEs in the long-term. Additionally, Kayed (2012) criticised the insignificant role played by Islamic financing institutions (IFIs) around the world in financing SMEs by their tendency to emulate conventional banking practice where they primarily lend to well-established large businesses at the expense of providing credit to SMEs.

The second type of financing available to SMEs is equity financing. This involves bringing investors or partners who provide capital in exchange for shares in the company. In The Maldives, this approach was least employed due to a) the domineering nature of local venture capitalists and b) the business idea not being evaluated on its own merit but instead on the person driving the business. This is consistent with García-Pérez-de-Lema et al (2011) who underlined that reputation, status, and name are inherently associated with equity financing. This was highlighted as a major challenge for business start-ups with no track record of status:

> If ever there is going to be public interest on a business idea alone, there question goes really not for the idea itself but who is behind the idea. Because they look not at the idea but the person who is running the business as a form of trust (participant 1).

In Mauritius, Government introduced the SME partnership scheme and NFR equity fund to diversity the SME portfolio of financing schemes. However, participants expressed no interest in them and lacked trust in the systems:

> I am perfectly aware of it…The threat that your ideas are being used by other people, there are some examples that we have…so we never went towards those organisations. (participant, 16)

Overall, difficulty in accessing finance was found to be more pronounced in The Maldives. The problem was amplified by a) taxation policy which neither favours business start-ups nor well-established ones and b) the local currency policy which requires SMEs to trade in MVR (Maldivian Rufiyaa) only. The former illustrates the Government's priority to raise revenue and reduce the high fiscal deficit through a comprehensive taxation system:

> Frankly, I don't think there was that much focus on what would be the impact on SMEs… The tax system has been seen as a way to lessen or as a means to generate revenue for Government. We have a very high public debt, over 80% of

> GDP but as these things are solved I think then we will look at the SMEs and other businesses (participant 8).

> Most of our clients are SMEs and most are them are in the import business and what they are looking for are dollars and when you can't supply it…sometimes I feel very sad, sorry for them but I can't help them (participant 6)

This type of currency control raised significant trade barriers for SMEs.

Business support services

The MED established the Business Development Support Centre (BDSC) as a support institution to provide SMEs with technical support and business consultation services. The focus of BDSC was to work closely with SME beneficiaries by offering the most adequate support. However, most SMEs owners were unaware of its existence except for participant 2 who further highlighted its ineffectiveness:

> BDSC's are not very effective. Things are being done just for the sake of doing them. No real outcome (participant 2).

Similarly in Mauritius, the MBEC acknowledged the fundamental role of support and advice for the development of SMEs by setting up the MBGS (Mauritius Business Growth Skill Unit) whose purpose is to assist SMEs:

> One of my main partners to do that is the Mauritius Business Grow Skill Unit. If your business is stagnating you will have to provide data to my technicians and they will come and see why there is no growth. The drawbacks will be identified and you will be given assistance to increase your turnover then they will leave you (participant 13).

However, only one of the SME owner/managers was aware of this scheme. For the others, its services were not used due to negative past experiences:

> In the early 2000 those working at SMEDA were jokers with a low intellectual level and I was losing my time (participant 15).

Furthermore, MBGS was not considered as an option due to lack of trust in the institution:

> If you come and reveal your trade secrets, you are finished…it's a danger for us to even disclose our brand (participant 16).

Overall, findings reveal that in both countries, SMEs and Government authorities were operating amid a culture of mistrust. It appears that whilst in The Maldives the trust contention was from the prospective financers onto the SMEs, in Mauritius it was the other way round. This further extended to business support services which were seldom accessed. The following part describes alternative strategies used by both the Maldivian and Mauritian SMEs to sustain their businesses.

Bootstrapping strategies

In both contexts, resource acquisition techniques geared towards diminishing reliance upon external financing were used. The most commonly used bootstrapping strategy was private owner financed-bootstrapping whereby the owner/manager invests his/her own money in the business. This confirms Myers' pecking-order theory whereby businesses were found to favour internal funds to taking up debt financing or equity financing:

> Yes, effectively I've had to take money from my family and some of my family was lending me money, plus myself personally I had life insurance, so I actually used all my life insurances and sold everything that I had to get the company going (participant 16).

In one of the Maldivian cases, the owner/manager started the business alongside a network of other businesses. This type of collaborative bootstrapping allowed a greater level of diversification of this SME's network and consequently created a source of capital:

> We did not take any loan but for me I was personally involved. I know one investor from the city, so he raised the fund…Basically what we do, we credit the SME providers, the Kuwait Fund and the clearance agents. So we told them…with limited finance, we could start a business (participant 2).

Learning by doing was an essential process for entrepreneurs. With time, some acknowledged that banks and/or the Government were not reliable as sources of finance. The following owner/manager describes how his company was now able to access reliable funds most of which are from internal cash flows from his portfolio of businesses:

> So finance is not so hard now. That's really a problem that we have worked through. A long process of seven years of business. But today it's become very

> interesting because we have also learnt there is no real support financially from the banks or Government, no concessions we now set aside money and put it into a pool and then lend our businesses at a higher interest rate (participant 1).

Furthermore, lack of trust in business support services drove SMEs to engage in relationship-oriented bootstrapping. Through leveraging their networks and strategic alliances, SMEs were able also to mobilise intangible resources such as business information and knowledge:

> Actually we don't take business advice but there are some business talks. We try to learn how businesses are conducted (participant 3).

Participant 15 simultaneously sought advice from private consultants and was also mentoring another small company. This fits with the literature which identified that firstly SMEs turn to the private sector for advice and secondly the distrust SMEs generally have regarding Government agencies which give impressions of the agencies' lack of stake in SMEs. There is further concomitancy to the relationship-oriented bootstrapping literature where SMEs in both economies turn within their own networks to seek advice. Such an approach may weaken the Government's efforts to position business support services as credible contributory institutions. Unless SMEs increase their enquiries, the negative perceptions of Government-led business support services may persist further upsetting the alignment of the supply and demand of SME business support services (Matlay et al; 2005). Moreover, in The Maldives, this type of bootstrapping has also become a necessary way of offsetting the shortage of US dollars on the market:

> Actually they are in network with use and sometimes, our major problem is getting dollars because our foreign suppliers have to be paid in dollars. But most of the clients always try to pay in Rufiyaas, so where you get dollars? … We get dollars from our friends and they are refunded and at times they borrow from us (participant 3).

The fact that SMEs are required to trade locally in MVR and have no access to US dollars on the formal market compelled SMEs to source more expensive US dollars from the parallel market. This has also been coined as the 'black market' by participants. Whilst this black market is very context specific, it also has drastic impacts on trading for SMEs:

> The finance minister thought that a local currency policy would benefit the business community as a whole... Do you know it's illegal to trade in foreign currency in the local environment?... you need foreign currency… these international companies are coming in and taking the money out.… We buy everything from abroad, everything they offer, everything is imported. Immediately, a black market was formed (participant 1).

Banks and the Government are aware of its existence but no remedial actions have been proposed. Although relationship bootstrapping helps some SMEs draw on their network to access this 'black market', they pay a higher rate which in turn costs their business more.

Discussion

In the Maldives, the Government plays a minimal role in facilitating access to finance for SMEs including those in the Tourism industry despite the fact that it is a crucial industry for the country's future. The lack of support received from private financers such as banks further compounds the issue. The economic state of The Maldives is evidence that market reforms are necessary. The lack of stability in its macro-economic environment can be reflected in its behaviour towards SMEs and vice-versa. The role of the Government was to create differential impact for firms of different sizes. However, in this context legislations are immune to SMEs. Tax legislation, currency usage policy, interest rates and equity requirements all evidence the Maldivian Government imposing same legislations on all firms without attending to specific needs of SMEs. Moreover, lack of awareness and/or lack of trust in Government-led business support services made these services redundant. On the other hand, the Mauritian Government has successfully intervened in influencing the macro-economic environment of small firms by establishing pro-SME policies and initiatives. Its SME financing scheme shows that it has successfully influenced economic institutions such as banks to support SMEs thus fulfilling its role as the facilitator. Moreover, its SME partnership scheme and NRF equity fund also illustrate its role as a finance supplier despite not being favoured by SMEs. The low taxation regime adds to its aim of stimulating growth in the SME sector. Overall the value placed on enterprising and entrepreneurship in Mauritius is high. Albeit this supportive business environment, the data shows that SMEs still perceive these avenues as expensive and resort to other means of sustaining themselves. Business support services are here again not trusted. Both cases confirmed previous findings on lack of support from Governments and underutilisation of existing business support services in SSA. Furthermore, the culture of mistrust (Curran and Blackburn, 2000; Niska and Vesala, 2013; Wyrick et al; 2013) between SMEs and Government shows that the latter as an outer source of advice did not significantly impact on SME growth as confirmed by previous research (see Robson and Bennett, 2000).

In both countries, SMEs were able to sustain and grow due to their ability to bootstrap the business in multiple ways to guarantee resource acquisition. Using an amalgam of techniques including owner-financed and collaborative bootstrapping, owner/managers were able to avoid private lenders such as banks as well as equity financing with either the Government and/or local venture capitalists. This reduced costs and risks associated with high interest rates and loss of business. The decision to bootstrap the business financially is either based on learnt incidents (as participant 1) and experiences with banks and Government services or access to a network with reliable information on how to bootstrap. This strategy also allowed SMEs to secure intangible resources owned by others at little or no cost. For example, through their networks, owner/managers were able to obtain relevant business advice and information, thus discounting the role of Government-led support services. This type of relationship-bootstrapping allowed SMEs to benefit from access to a trusted and experienced source. A distinct outcome of relationship-bootstrapping was encountered in The Maldives: the shortage of US dollars on the market propelled SMEs to create a parallel 'black market' able to supply the currency. The implications of such informal economic activity on SME growth must not be underestimated. Hjalager (2008) stressed the highly organised and convoluted nature of such activity. This 'black market' was identified as being the greatest barrier for SME growth. Hence while previous studies applauded bootstrapping for keeping the entrepreneur out of debt, this study also highlighted one negative impact of bootstrapping. Its potential of creating a network through which illegal resources may be drawn upon can have significant impact on those who are in it through the trade-offs they have to make as well as on those SMEs who do not have access to these networks.

Implications for practice

Compared to Mauritius, the Maldivian Government has not fully deployed its role as a facilitator of SME development. While it is not envisaged that The Maldives should introduce the same initiatives as in Mauritius bearing into consideration its wider socio-political and economic situation, learning opportunities exist. The Maldivian Government has taken the right steps in setting up the BDSC as advisory body for SME development. However, for proper scrutiny, fair assessment of policy achievements and identification of underperforming agencies, Schaper (2008) advocates for an independent SME commissioner with sufficient critical distance to provide independent commentaries as an impartial arbitrator. The position of the SME commissioner can be leveraged to address the issue of anchoring trust with respect to policymaking and policymakers in general. This could address the currency policy and resulting 'black market' in the country. Debt financing has been underlined as the major predicament to SME growth with the emphasis on collateral requirements and high interest rates. The SME financing scheme proposed by the Mauritian Government is effectively designed to encourage private commercial banks to lend to such SMEs in dire need of concrete funding. The Maldivian Government could offer an analogous SME financing scheme where the banks are provided with Government insurance for the recovery of possible bad debts from lending to SMEs. Furthermore the interest rate pertaining to this scheme could be tracked such that these can be offered at best concessionary rates for SMEs. The collateral laws could be amended to widen the diversity of assets accepted as collaterals. By decreasing the risk associated with SMEs, the ultimate aim of this scheme will be to incentivise banks to lend to SMEs. This scheme can also be extended and customised to encourage Islamic banks, which share the same notoriety of conventional banks in not lending to SMEs (Saeedi, 2011). Furthermore, provision of business support advice is fundamental. Hence, revising the role of BDSC as a credible source of business support as well as the creator of a networking platform.

In the case of Mauritius, a new Government was elected in December 2012 following this paper's fieldwork. In its 2015 budget plan, the Government has amplified its facilitator role for SMEs. A number of initiatives aimed at improving the entrepreneurial ecosystem have been introduced including the launch of a ONE-STOP-SHOP operated by SMEDA where SMEs will obtain all financial, marketing and other business related services under one umbrella organisation, an SME bank to provide seed capital to entrepreneurs without the need for personal guarantee, corporate tax exemption for a period of eight years for business start-ups, an increase in the VAT registration threshold for all SMEs (Ministry of Finance and Economic Development, 2015). Overall access to finance remains central to the tactical approach adopted by the Government for growth of the SME sector in Mauritius. However, the culture of mistrust should not be overlooked. Its persistence can render all new initiatives underutilised. Therefore, a wider consultation process is required to investigate this problem further. The overall data for both countries made it clear that despite available avenues for financing and accessing business support services, bootstrapping remains a fundamental entrepreneurial activity. Another recommendation for both contexts is that alongside facilitating access to finance and business services, their Governments should also consider educating SMEs on bootstrapping and how to leverage both tangible and intangible resources via this process.

Conclusions

The role of Government in SME development is crucial. Both countries analysed in this paper have illustrated this in different ways. However, this study has also provided evidence that SMEs do not perceive the Government as a necessary entity whose support is required in the process of running or starting a business. Instead, SME owner/managers have learnt that there are alternative strategies to deploy, for example bootstrapping. Their family, peers and professional networks are valuable assets which provide unique opportunities to learn from. However, the dynamics of developing countries are such that illegal practices may also emerge when Government does not intervene. Therefore, along with praising bootstrapping and other survival strategies used by SMEs, it is also necessary to look closer into these practices and identify other implications that they may have on SMEs and the wider business environment. Along with adding to the lack of empirical research on SME development in island economies, this paper has also contributed to the existing literature on bootstrapping. Moreover, in the spirit of the current effort of strengthening bilateral relationship between the two islands, this paper constitutes the first academic research to pave the way for future academic treatments of Mauritian and Maldivian SMEs. Last but not least, this study has added to the body of research on Government and SME development. Given that studies on the SSA region have acknowledged the need for more Government intervention through pro-SME policy-making, it is suggested that future research should look deeper into multiple forms of bootstrapping used by entrepreneurs within both the formal and informal sectors.

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