

**CHALLENGES THAT INHIBIT THE DEVELOPMENT OF THE SMALL AND
MEDIUM ENTERPRISES IN NAMIBIA**

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ABSTRACT

This research paper focused on the constraints that inhibit the development of the Small and Medium Enterprises (SMEs) in Namibia. Due to high unemployment rate and wide gaps of income in Namibia, SMEs development was identified as a means of creating employment opportunities for people with low levels of education and training, who are the majority of the country's population. Specific policies and strategies were designed for active promotion of the SMEs, but still there is a slow response of the SMEs to the policy and programme incentives.

The objective of the study is to determine the reasons behind the slow response of the SMEs in Namibia to the policy and programme incentives aimed at promoting their development. The study used both secondary data and primary data generated through face to face interviews. The study concludes that the biggest issue facing the SMEs is poor implementation of the policies and programmes, which leads to the lack of capacity and skills in the sector. The government is therefore urged to ensure that it addresses the constraints that inhibit the SMEs development, to ensure that the sector plays its role in social and economic development of the country.

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DEDICATION

This book is dedicated to my parents Mr. Roger Kutazo Munyehwa and Mrs. Batena Sepelapela for the wonderful and valuable encouragement which they instilled in me, and the entire family for the great support they offered during my studies.

DECLARATION

I here by declare that the content of the work presented in this Research Paper is a true reflection of my own research findings, and as such, I have acknowledged where I used stakeholders and other people's views. This work has not been submitted for a degree in any other institution of higher learning.

The retrieval or reproduction of any kind or means of the contents in this thesis such as photocopying, recording, and by electronic system, is not allowed without prior permission by the author or the University of Namibia in that behalf.

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LIST OF ABBREVIATIONS

BEE	Black Economic Empowerment
CAP	Common Agriculture Policy
COMESA	Common Market for Eastern and Southern Africa
CMA	Common Monetary Area
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
ICT	Information and Communication Technology
JCC	Joint Consultative Committee
K-Map	Kenyan Management Assistance Programme
LSCE	Learning and Skills Council for England
MTI	Ministry of Trade and Industry
NCCI	Namibia Chamber of Commerce and Industry
NGOs	Non-Governmental Organizations
NEPRU	Namibia Economic Research Unit
NPC	National Planning Commission
NDC	Namibian Development Corporation

PWC	Price Water-House Coopers
RDAs	Regional Developmental Agencies
SADC	Southern African Development Community
SACU	Southern African Customs Union
SMEs	Small and Medium Enterprises
SEDCO	Small Enterprise and Development Company
SDI	Special Development Initiative
SMMEs	Small, Medium and Micro Enterprises
TDCA	Trade Development and Corporation Agreement
USAID	United States Agency for International Development

CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 Introduction

In many developing countries, small and medium enterprises (SMEs) play a significant role in economic growth and development and as such, are explicitly treated as important part of national development plans. Developing countries faced with severe unemployment and wide income gaps see SMEs as a viable strategy for employment creation. Such countries design specific policies and strategies for active promotion of SMEs as important components of their national, regional and local development plans. In other developing countries, policy statements in support of SMEs remain mere statements of intentions and desires, as the instruments for their implementation and frameworks for giving them active support have not been put in place.

According to National Planning Commission (NPC, 1991), Namibia belongs to the former category of developing countries. In spite of a number of policy incentives which the government of Namibia has put in place during the post independence period to promote investment in the economy as a way of creating employment opportunities, unemployment still remains a significant and growing macroeconomic problem in Namibia. In 1991, the rate of unemployment in Namibia, defined as the proportion of people of working age who were actively looking for employment but had not found jobs, was 19.1%. In 1997, this figure had risen to 19.5%, and by the year 2000 it stood at over 20%. Also with a gini coefficient of about 0.7, Namibia has one of the most skewed income distributions in the world.

SMEs are therefore, seen as a way of creating employment opportunities, especially for people with low levels of education and training who form the majority of the unemployed in Namibia, providing income opportunities, especially for people at the lower tail of income distribution, to reduce income inequality, and involving the majority

of the people in productive activities. Namibia's national, regional and local development plans acknowledge the great potentials the SMEs have in terms of contributions to economic growth, employment creation and overall development of the Namibian economy.

1.2 Statement of the Research Problem

As early as 1997, Namibia's Ministry of Trade and Industry had made a step towards ensuring explicit recognition of SMEs in national, regional and local development plans. The Ministry came up with a policy paper on small business development, whose general stance was to promote the development of SMEs, as a way of involving the majority of Namibians in productive activities. The specific objectives of the policy were to increase the real income accruing to the small business sector, diversify productive activities away from low value added and crowded activities and increase the involvement of SMEs in manufacturing activities (Ministry of Trade and Industry, 1997).

To create an enabling environment for the development of SMEs, the government of Namibia had to amend a number of statutes, rules and regulations. Three broad types of measures were put in place to protect small businesses. These included: de-regulations to remove bureaucratic obstacles to the development of small businesses; removal of unfair competition for SMEs and incentives for investing in small businesses. SMEs were to be eligible for the same rates of accelerated depreciation of land, buildings, machinery and plant, as granted to other manufacturing businesses, and the same wage and training incentives, as granted to other manufacturing businesses. Furthermore, sales tax would be imposed on the output of a small business, only if the annual turnover of the small business turned out to be in excess of N\$50 000.00.

National Development Corporation (NDC) was established by the government primarily to finance small businesses. The government regarded the development of SMEs as holding the key to the economic empowerment of a large section of the Namibian population. However, in spite of these initiatives, the contributions of SMEs to growth, employment and development in Namibia are still small and insignificant.

The slow response of SMEs to policy and programme incentives in Namibia raises a number of questions:

- a) Why is the response of SMEs to policy and programme incentives low?
- b) Have all the policy statements of the government of Namibia on the development of SMEs been translated into tangible practical incentives for active development of SMEs?
- c) What other factors seem to be inhibiting the development of

SMEs in Namibia?
- (d) What can be done to ensure active development of SMEs in Namibia?

These are the research questions which this study tries to address.

1.3 Objectives of the Study

The broad objective of this study is to determine the reasons behind the slow response of SMEs in Namibia to policy and programme incentives aimed at promoting their development. This broad objective is broken down into the following specific objectives:

- (a) To determine factors which tend to inhibit growth and development of SMEs in Namibia?
- (b) To identify possible strategies for active development of SMEs in Namibia.

1.4 Significance of the Study

This is the first study to attempt an evaluation of the effectiveness of the policy and programme incentives which have been put in place since independence, to ensure active development of SMEs in Namibia. Previous studies have tended to concentrate on the design of new policy and programme incentives, without evaluating the successes and failures in the implementation of the preceding sets of policy and programme incentives.

1.5 Methodology

This study is based mainly on a qualitative methodological approach, starting with discussions with Namibia's Ministry of Trade and Industry to obtain insights into the policy and programme incentives which the government of the Republic of Namibia has put in place to promote active development of SMEs, and to obtain the perspective of the government with respect to the successes and failures of the initiatives.

This is followed with structured interviews with a representative sample of stakeholders in the SMEs sector and related sectors of the economy, to obtain the perspectives of the other stakeholders with respect to the successes and failures of the policy and programme incentives, and what could be done to ensure active development of SMEs. The study also utilizes review of both theoretical and empirical literature, as well as Policy documents.

1.6 Organization of the Study

The thesis is composed of five chapters. Chapter 1 contains a brief introduction, the research problem and questions, the objectives and the significance of the study, as well as the methodology employed. Chapter 2 is literature review which contains a brief introduction, conceptual framework, definition of SMEs, and experiences of Africa and Southern African Development Community (SADC), which includes South Africa, Swaziland, and Namibian. Chapter 3 discusses the SME sector in Namibia, categories of SMEs in Namibia, informal and formal sector activities. Chapter 4 looks at the SMEs response to policy and programme incentives, data analysis and interpretation, slow response of SMEs to policy, training and programme incentives, and alternative strategies. Chapter 5 provides conclusions and recommendations.

CHAPTER 2

LITERATURE REVIEW

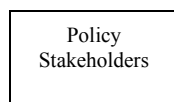
2.1 Introduction

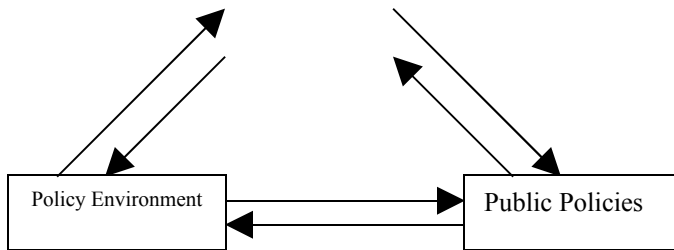
The main focus of this chapter is on the framework for policy analysis. SMEs definitions are presented, and experiences of some African and SADC countries with SMEs are discussed.

2.2 Framework for Policy Analysis

This section looks at the framework for policy analysis which in turn informs our analysis. Elements of policy systems and approaches to policy analysis are discussed. Policy analysts are but one among many different types of actors in policy system. Thus, policy system is the overall institutional pattern within which policies are made. The three elements of a policy system include: public policies, policy stake holders and policy environments as given in Figure 1.

Figure 1. Three elements of a policy system.





Source: Dunn, 1994

From Figure 1, it is clear that the interrelationships among the three elements of a policy system are linked to one another. Dye (1984) defines public policy as whatever government chooses to do or not to do; it reflects the choice of government. If the government chooses to subsidize financial institutions in order for the SMEs operators to obtain loans from these institutions or decides to build dams in all regions, make education a right for all or subsidize health provision, it can do so. All these are policy choices. It should be noted that these policy choices are meant to direct government action in trying to solve different problems that confront it. However, these choices have to be flexible to allow future adjustments in line with the changing environment and needs of the people Dye (1984). Anderson (1994) defines public policy as a purposive course of action followed by an actor or set of actors in dealing with problems or matter of concern. Policy stakeholders include individuals or groups of people who have a stake in a policy because they affect and are affected by government decisions-for example; citizen groups, labor unions, political parties, government agencies, elected leaders, and policy analysts themselves often respond in markedly different ways to the same information about a policy environment (Dunn, 1994). Thus policy environment is the specific context in which events surrounding a policy issue occur, influences and is in turn influenced by policy stakeholders and public policies. Hence policy systems contain processes which are dialectical in nature, meaning that objective and subjective dimensions of policy making are inseparable in practice.

Three approaches to policy analysis include: empirical, valuative, and normative. Empirical approach is concerned with describing the causes and effects of a given public policy. Here the primary question is factual (Does something exist?), and the type of information produced is descriptive. The analyst may describe, explain or predict the role

of the SMEs in the economy of a country and lay out facts about the role of SMEs in the economy of the country. Valutive approach is mainly concerned with determining the worth or value of policies. Here the question is (Of what worth is it?), and the type of information produced is valutive. For example, after providing descriptive information about various kinds of policy incentives to SME operators, the analyst may evaluate different ways in which policy incentives operate, according to their ethical and moral consequences. Finally, the normative approach is an approach concerned with recommending future courses of action (for example, what should be done to assist both emerging and existing SME operators to enhance their business activities?). The type of information produced is descriptive. For example, a policy of guaranteed minimum loan repayable over a period of three years may be recommended as a way to resolve problems of SMEs Operators (Dunn, 1994).

2.3 Defining SMEs

Different authors in different countries have different perspectives of defining SMEs according to suitable situations in their environment. In this chapter the concept of Small and Medium Enterprise is defined and discussed together with other concepts. Kapoor (1997: 3-4) argues that at present there is no universally agreed definition of the small-scale sector, consequently, the definition has many variants depending upon who is doing the defining and the purpose for which the definition is being made.

The various definitions proposed and used are generally based on numbers of employees, turn-over levels, capital base, fixed asset values and degree of “formalization.” For example, as a criterion for providing funding, the government of Zimbabwe defines a small enterprise as a business enterprise with 100 or less employees, a capital base of less than Z\$2 million, and fixed assets valued at less than Z\$3 million. Similarly, small businesses support institutions, such as the Small Enterprises Development Corporation (SEDCO), define a small business as “an enterprise with 50 or less employees, and annual capital credit requirements of less than Z\$10 000” (Kapil, 1997: 4-5).

According to Abdelkarim and Haan (2004: 7) a small and medium enterprise is understood to be an independent business undertaking where operational and administrative management are in the hands of one or two persons, usually the owner (manager) who is responsible for making decisions of the enterprise.

In the Namibian context, according to the Ministry of Trade and Industry (1997: 2) SMEs are defined as given in table 1.

Table 1. Definition of small and medium enterprises

Criteria			
Sector	Employment	Turnover less than N\$000	Capital Employed Less than N\$000
Manufacturing	Less than 10 persons	1, 000.000	500
All Other Businesses	Less than 5 persons	250	100

Source: MTI, 1997

From the above table, a Small and Medium Enterprise is defined as an Enterprise of manufacturing that employs less than 10 persons with a turnover of less than N\$1,000.000 and capital employed of less than N\$500, while all other businesses employ less than 5 persons with a turn over of less than 250 and a capital employed of N\$100.

2.4 Experiences from Africa

With the advent of the economic reform programmes in the world, there has been significant change in governments' attitude towards the private sector, in general, and SMEs, in particular. SMEs are increasingly viewed as an important engine for employment creation and economic growth. In the case of Zimbabwe, SMEs have become a potential vehicle for black economic empowerment, since several people who were formerly disadvantaged have engaged themselves in the SMEs sector.

According to Kapoor (1997:6) almost about 62% of SMEs in Zimbabwe are sole proprietorships within the manufacturing sector and they are involved in food processing activities, dressmaking, brick making and pottery, while in the service sector they are

involved in hair dressing and passenger transport. Other activities of SMEs in Zimbabwe include radio and watch repair, battery charging and shoe repair.

The small enterprise sector develops in response to the growing unemployment and provides a career that people need to enter into the formal sector. According to both traditional Marxist and classical economic theory, small enterprises are expected to be ousted by “modern”, large scale industries. SMEs gradually disappear as a result of industrialization and economic development. Clearly some sub-sectors of small enterprises, like tailoring do compete with industrial products (whether nationally produced or imported) and have only to reduce their levels of activity or restructure (Kapoor, 1997: 7). This is crucial for sub-saharan Africa where SMEs are an important vehicle for economic development.

For example, poverty reduction programme in Ghana has stressed skills and entrepreneurial development of the youth. The programme for the SMEs development has called for expanding traditional apprenticeship training, promoting entrepreneurship among the youth and supporting technology upgrading for master craft people. This led to the self employment creation for the majority of the people after they had completed their apprenticeship training (Haan, 2003: 10).

In Tanzania, the small and medium enterprise development policy was formulated to address constraints facing SMEs and tap the full potential of the sector (www.development_gateway.org). It was also established to serve as a guideline to all stakeholders and thus stimulate the new enterprises to be established and existing ones to grow and become more competitive. The SMEs in Tanzania contribute significantly to the creation of employment, income generation and growth in both rural and urban areas. They are involved in various economic activities such as mining, textile, cereal milling, food processing, woodworks, services, metal works and environmental works (www.development_gateway.org).

However, SMEs in Tanzania are faced with many problems including low skills, low levels of education, poor product quality, poor packaging of finished goods and lack of finance.

According to the Kenyan news media of August 21, 2001, Kenya: (K-Map) a non profit and a corporate funded organization, micro and small enterprises play a critical role in employing more than a third of the work force. Thousands of these small businesses have benefited from the Kenyan Management Assistance Programme (K-MAP), an innovative technical assistance project that connects small enterprises with the expertise of larger ones. K-Map's members are large and medium firms in Kenya with successful track records.

Drawing on their knowledge of good business practices, they offer advice and management training to smaller enterprises through one-on-one counseling and workshops. Clients include entrepreneurs who want to start new businesses as well as those existing ones that are struggling to succeed (*web.worldbank.org*).

According to a 1994 US Agency for International Development (USAID) evaluation, most of the client firms have approximately 6 to 43 employees, \$ 100, 000 to \$ 250, 000 in sales, and \$ 20,000 to \$ 80,000 in assets. K-MAP also provides other services and conducts advocacy campaigns and research on behalf of SMEs.

The approach is clearly working. USAID looked at a sample of 125 K-MAP clients assisted between 1990 and 1992. Their business survival rate within the first two years of operation was 94 percent, an 840 percent improvement.

Moreover, the firms in the sample had boosted their employment by 106 percent and their annual sales by 292 percent, with a 189 percent increase in total assets. What started as a pilot scheme in 1986 has today developed into a major private sector support initiative benefiting small businesses throughout Kenya. It has been run by an international committee of donor and development agencies. Now it is poised to scale up accordingly. K-Map's goal is to restructure as a commercially oriented entity and streamline its

affordable, demand-driven products and services in order to maintain high quality standards and increase its impact (*web.worldbank.org*).

In the late 1980s organizations and groups of individuals working, for example, on development, democracy, human rights or environmental issues, started to make use of computers, modems and telephone lines to exchange information, often under very difficult circumstances. This changed with the 1992 Earth Summit in Rio de Janeiro which introduced a new era of international networking and a new scope of electronic communication among NGO communities in Africa and elsewhere. The summit marked a visible turning point after which NGOs were perceived as innovative and effective users of new communication technologies (Levey, 2002).

According to the Ministry of Trade and Industry, SMEs in Namibia face constraints to their development and their growth rate of failure is high, particularly among the new sectors. The policy framework outlined was designed to unlock the potential of Namibia's small businesses.

It was founded on the knowledge that there were shortages of enterprising endeavors in the country; and that the present under-development of the sector is a legacy of the country's colonial past which left small entrepreneurs poorly placed to take advantage of opportunities for growth and development. The policy framework assumes that the lead role in development will be played by the sector's progressive entrepreneurs. It is their ability to identify and exploit opportunities that the sector's future rests upon (www.mti.gov.na/smedev).

2.5 Experiences from SADC – South Africa and Swaziland

According to the Business Day newspaper, South Africa's economic growth will not reach the 5% to 6% level needed to alleviate poverty and unemployment if the widening gap between the first world formal economy and the peripheral informal economy is not reduced. This is according to annual review on the state of small business development in South Africa (www.bday.co.za).

The trade and industry department has over the past three years been reviewing its institutions, admitting that it had fallen short in its delivery to the development of the business sector. The review finds that small, medium and micro enterprises are making an increasingly significant contribution to the economy.

The sectors attracting most small businesses include: the retail trade; agriculture; manufacturing; community, social and personal services, transport, storage, communications; construction; and financial business services. Government defines micro enterprises as those with a turnover of less than the value added tax registration limit. These are not usually registered for tax or accounting purposes and are run by one to four people.

More than 50% of the total growth in gross domestic product contribution by agriculture, forestry, fishing and construction sectors is by small businesses. A small business as opposed to a micro business operates in a formal market with access to modern technology. It has a co-coordinated managerial structure. This is evidenced by the concentration and registration of small businesses within these sectors. A high percentage of people employed by small businesses is within these sectors.

According to the October 2000 Household Survey concluded in 1999, 10.4 million people were employed in South Africa out of estimated 26.3 million people of working age. Of these, 6.6 million were employed by formal sector, 2.7 million people were employed by the informal sector and 800 000 people were employed by the domestic services sector. Small, medium and micro enterprises employ 53,9% of the people employed in the private sector (www.bday.co.za).

In March 1970, Swaziland established the Small Enterprises Development Company (SEDCO) under the auspices of the Ministry of Enterprise and Employment. SEDCO's mission was to contribute to the creation of wealth and jobs throughout Swaziland by stimulating growth in new, existing and emerging SMEs, through a package of business support services (www.gov.sz/home.asp).

During the year 2002 Swaziland International Trade Fair, 38 entrepreneurs (27 in 2001) exhibited their wares under SEDCO and a total amount of sales was realized equal to E10 233, 50 (E24 595. 50 in 2001) for the business awareness campaigns.

An advertisement was placed with channel Swazi to popularize the option among young people. Handicraft promotion was established with the aim to promote the development of handicraft skills, mainly in the rural areas through extension services. Rural craft producers were trained in order to upgrade their skills and marketing techniques (www.gov.sz/home.asp).

2.6 The Namibian Experience

A study in Namibia by the Joint Consultative Committee (JCC, 2004), a national umbrella body for small and medium enterprises (SMEs) service providers, has called for stronger engagement between Foreign Direct Investment (FDI) specific companies and their sister entrepreneurs in the SMEs sector. This comes in the wake of and quest for enhanced economic development and participation of the general public in the broader framework.

The study notes that SME development in Namibia has been viewed as a form of Black Economic Empowerment (BEE). BEE is giving priorities to previously disadvantaged groups or individuals in the sharing of the country's economic benefits, hence the need to look at a workable broader policy and regulatory approach guiding FDI and SME engagement. It is thus JCC's conviction that only a broad based commitment to our local SMEs sector will eventually lead to an empowered nation inhabited by empowered citizens (*The Namibian: September 1, 2004*).

The small and micro enterprises are a major feature of the economic landscape in all developing countries today. In terms of contribution to the creation of jobs and to the alleviation of poverty, SMEs have been widely recognized (Liedholm and Mead, 1988). It seems, however, that SMEs still play an insignificant role in the Namibia economy. For example, Namibia Manufacturing Survey conducted by the Ministry of Trade and Industry (MTI 1994) revealed that 84 out of 274 enterprises were small, and represented

35% of the total number of businesses surveyed, accounting for less than 2% of manufacturing turnover and less than 6% of employment. With regard to the impact on employment, the study revealed that employment may increase through the establishment of new firms, and also through the expansion of existing firms.

Another hindrance recognized in the literature is the tax structure faced by SMEs. A tax consultant and partner with Price Water-house Cooper (PWC) advised Small and Medium Enterprise (SMEs) to call on various stakeholders to pressurize government to follow the example of some neighboring countries such as South Africa and Swaziland, and introduce tax relaxations for small businesses. She advised SMEs to be familiar with the local tax regulations, as this had a bearing on their businesses (Karuaihe, 2004).

She further said it was a fact that setting up a business was the most difficult period for most small entrepreneurs, and that this period was worsened by immense tax burdens. This was revealed at the small business forum held by Joint Consultative Council (formerly Joint Consultative Committee) for Windhoek-based small businesses, to listen to tax advisers on how they could make the current local tax system work for SMEs.

She called on the government to put in place legislation that was conducive for SMEs development, saying that whilst legislation in South Africa is supportive of local small businesses we are still waiting for this in Namibia. It was unfortunate that tax reliefs did not yet exist for Namibian small businesses, which made it difficult to talk about import substitution (Karuaihe, 2004).

During the discussions it became apparent that the Namibian tax system had a number of loopholes, which required tightening should the state wish to ensure that the taxpayer's money is well managed. The nature of the market under which SMEs operate needs to be considered, since Namibia lacked regional development agencies such as business linkages, vendor development, intermediaries and export market development.

Previous studies on SMEs in some parts of the world have shown real change in the market structure. For example, in the United Kingdom, the business support landscape was altered in England by the creation of business led Regional Development Agencies

(RDAs) and the Learning and Skills Council for England (LSCE), (Simon, Ken, and Stan 2003:416).

The RDAs were an attempt to give a greater influence at the regional level to economic policy. Their key role was in human resource development for small business to create partnership for providers of small business agencies in their regions, and also to ensure that the small business consumers were presented with a seamless collection of services accessed through one-stop shop or through first-stop shop. This resulted in the strong voice of small firms being heard by the government (Simon, Ken, and Stan, 2003).

2.7 Summary

Experiences of other countries have proven that the SME sector can play a central role under proper conditions and with adequate support. Various types of evidence from the countries of the SADC region suggest that considerable potential is present in their SME sectors. However, both experiences elsewhere and economic logic imply that strong and coherent support systems will be necessary if that potential is to be fully realized.

Countries which fail to rectify this lack of incentives may suffer serious social and economic consequences. There have been differential economic gains from participation in the global economy, particularly between developed and developing countries. Much has depended on the manner in which countries have been able to make themselves part of the global economy. Namibia is a country with “very poor people;” most of the population has a per capita income of US\$ 85 per year, and live in rural areas with poor physical infrastructure, services and communication systems (NEPRU 1999).

For the policy framework to succeed, the support the Namibian government provides must be targeted carefully towards those businesses whose growth would contribute most to the achievement of the government’s economic goals. Particular attention has to be given to the SMEs sector on how to avoid a syndrome of dependency whereby

entrepreneurs come to rely on the government's assistance for the profitable operation of their businesses.

It is recognized that the development of both small and medium enterprises (SMEs) would contribute strongly to the country's socio-economic development. The sector has a vital role to play in the socio-economic development of the country. It has a potential to contribute to the achievement of important social objectives, such as job creation, poverty alleviation and promotion of equitable distribution of wealth.

CHAPTER 3

THE SME SECTOR IN NAMIBIA

3.1 Introduction

The previous chapter revised general literature on SMEs in developing countries. The current chapter examines in more detail the SME sector in Namibia.

In some of the developing countries, the overwhelming majority of manufacturing businesses are small enterprises employing less than 10 people. In Namibia, there is less than one hundred formally registered small manufactures and the large business sector outnumbered them by 3 to 1.

The small and medium enterprise sector in Namibia is diverse with structures to be able to support the sustainability of the SMEs, as they widely differ between segments. At present the sector fails to fulfill its potential economic role adequately. Its contribution to GDP is less than 5% as a result of serious constraints to the growth of SMEs (MTI, 1997).

Despite the sector's growth of close to 10% per annum, the ability of the sector to improve on the low levels of income it generates at present is under serious threat. Unless the activities in which they are engaged are diversified, there is a danger that entrepreneurs' income could fall further. Table 3.1 below indicates the approximate total number of participants in the Small Business Sector.

Table 3.1 Participation in the Small Business Sector

Sector	Part or Full-time	Approximate No. of Participants (000)
Informal	Part Time	100,000
Informal	Full Time	50,000
Formal	Full Time	10,000
Total		160,000

Source: MTI, 1997

The size of the sector is growing. Each year, the workforce increases by 16, 500 people. Yet the large, formal sector creates only 3,000-4,000 jobs. The majority of new entrants find themselves with little option but to attempt to earn an income by trading or selling their services, usually in the informal sector. The importance of small businesses to the Namibian economy will thus increase.

For increased and sustained income it is important to create an enabling environment. In creating an enabling environment for the development of small businesses implies the

creation of a favorable overall policy framework for the development of enterprise and the proportion of entrepreneurship. Such a framework needs to create confidence among economic actors in the management of SMEs. This requires stable, well designed policy instruments and mechanisms.

In recognition of the socio-economic role of the SMEs sector and its potential contribution to the country's economic development, the development of small business sector is of national importance.

The small business sector should be accorded priority by the government, in terms of policy formulation, direct support from its own resources and in the mobilization of resources from the donor community. It should be the aim of the government to ensure that the sector plays a major role in bringing about a substantial improvement in incomes provided by small business activities. This will enable the sector's participants to no longer regard their activities as a measure of last resort to survive, but a means for self-advancement and fulfillment.

The focus of such policy instruments and mechanisms should be to increase the opportunities available for adequate wealth creation in the small business sector and to empower entrepreneurs to exploit them effectively. Over the medium term and long term, the aim should be to ensure that the small business sector takes the leading role in economic development and spearhead the drive to create jobs and increase productivity efficiency. In the following section an attempt will be made to delve into SME operations, so as to assist in the analysis of constraints they face. That could pave way to finding possible solutions to their woes.

3.2 Categories of SMEs in Namibia

In identifying the different categories of SMEs, as they are viewed to be the main providers of labour intensive production and a focus of attraction for economic development strategies, it is worthwhile asking what their main activities are, what they do and how they do it. Who are really their target group? What are the products they offer to the people? It is also worthwhile identifying some of the problems that are encountered

in the process of their service delivery, what local development is taking place and, who are the development agents.

Thus from a broad strategy perspective, SMEs in Namibia and their most important distinction, fall between two major categories and these include the informal and the formal sectors. These different categories relate as much to the economic sectors retailing, manufacturing, catering, trade and services. They also differ according to stages of growth viz, start-up, expanding or stagnating. These different aspects of the informal and formal SME sectors will be discussed in the following two subsections.

The creation of an enabling environment for small businesses development is critical to the achievement of effective economic development. Advocacy regarding the legal and regulatory environment for small businesses is necessary at the local and regional levels, where there is a high potential for regulatory constraints to small businesses growth.

3.2.1 Informal Sector Activities

The informal sector includes the large number of people in rural areas who sell agricultural products they grow or handicrafts they make on a part-time basis. Their main source of livelihood is agriculture. The incomes they derive from these activities are typically very low. The activities of those engaged full time in the informal sector also produce low incomes. Most are engaged in low value-added retailing and catering as indicated in Table 3.2

Table 3.2 Business Activities of SMEs in the Informal Sector

ACTIVITIES	PERCENTAGES (%)
Retailing	50%
Catering	30%
Trade and Services	15%
Manufacturing	5%

Source: Ministry of Trade and Industry, 1997

Retailing

Retailing comprises the majority of the sector and includes: hawking, selling food and household products (MTI, 1997). Hawking businesses are small informal businesses which span a very large area of activity and with few features in common. They are family-owned, operate mainly with their own capital, informally employ family members, not officially registered, do not pay taxes, operate without licenses, are subjects to penalizing action from the authorities and are set up on sites originally not meant for business activities. Some operators of stalls have become so successful that they have created “branches” of their businesses and employ “managers” of these branches.

Most of the entrepreneurs in the informal sector are attracted into these businesses as employment creation and income generating. This is in contrast to many other countries where self-employment is preferred to wage employment and entrepreneurs cite the possibility of earning high incomes as the reason for setting up businesses (Ministry of Trade and Industry, 1997).

According to Friedrich (1999: 51), street hawkers and vendors in Namibia are a common sight. They have become part and parcel of the suburban culture and landscape. They satisfy definite needs in society, but are at the same time social risk factors. Hawking businesses are found in homes, at bus stands, at taxi ranks, at cross roads, at hospitals and clinics, at local authority offices, in open spaces, on the pavements and in the back yards of houses. They sell cooked and uncooked food, general merchandize and drinks. Such businesses border on illegality and are subject to health and safety regulations that authorities can use to stop their activities at any time.

However, informal businesses often appear soon after, either at the same place or at another one. It is important to legalize these business activities and create appropriate structures and regulations which encourage rather than curtail them, as they are important economic activities. The hawkers themselves view their activities as survival strategies, and also as definite careers that they have chosen to pursue for their survival.

Therefore, the informal hawking activities should not be judged as a remainder of poverty and lack of modernity, but rather as an environment which provides jobs, creates local incomes and keeps the money circulating in the local community. Hawking is also an economic activity that is neither planned nor imposed from outside the community: it finds its origins in the grassroots entrepreneurial spirit and initiative of the local community (Friedrich 1999: 51).

The high proportion of catering establishments is due to the proliferation of cucashops and Shebeens in the communal areas. The vast majority of these businesses are one-person operations. The proprietor has very limited working capital with which to purchase trading items. Revenue generation is low. Survey reveals that over three-quarters of the small traders in Windhoek had a turnover below N\$50 per day. This low turnover could be described as low due high competition from bigger retail outlets. The incomes of those to whom they sell and the strong competition among small traders keeps margins low and incomes are frequently below N\$10 per day (MTI, 1997).

Other Trades and Services

Trades and other services include: garage owners, plumbers, builders, electricians, welders, carpenters as well as providers of personal services, such as tailors, hair dressers, cleaners, and laundry and repair services. Incomes are not high, typically N\$400-600 a month.

Manufacturing category includes: basketry, wood and stone carving, pottery designing and weaving. It consists of businesses utilizing many of the skills listed under services above, but they make and sell products on their own accounts rather than as a service to others.

The majority of small manufacturers makes and sells handicrafts but there are a small number also who make consumer and industrial products. Manufacturing businesses tend to be larger than retail or service businesses, usually employing 3-4 people, as they are capital intensive. They also generate high turnovers and incomes.

The Katima Mulilo Case Study

Under this section more details will be examined on the geographical situation, the Formal and Informal Sector which plays a key role as a form of employment to the people in Katima Mulilo.

Geographical Description of Katima Mulilo: Katima Mulilo is a small town found in Caprivi Region in the far North Eastern part of Namibia, approximately one thousand five hundred kilometer (1500 km). Caprivi is approximately 19,532 km² length and 11,600km² width. It is divided into three areas e.g. the west, east and southern part and is surrounded by four rivers known as Kwando, Linyanti, Chobe and Zambezi (Trine, 1992). Katima Mulilo has summer rainfall from November to March at an average of 600mm to 700mm a year. Agriculture is a mix of livestock rearing and arable production. The major crops are millet (mahangu), sorghum and maize.

Formal Sector in Katima Mulilo: the major source of household income in the formal sector is provided by the government. Almost three-quarters (73%) of people employed were attached to civil service. Few supermarkets and shops, banks, post office, petrol stations and garages in Katima Mulilo provide employment for Caprivians, but as they are not labour-intensive activities, their contribution to the formal employment is limited. In villages which have schools and clinics, a significant number of people are employed as teachers or nurses. Others are employed as cleaners in schools, clinics, and offices, in which people are prepared to travel to another settlement on a daily or weekly basis to secure a job.

Informal Sector in Katima Mulilo: the informal sector makes an essential contribution to the economic survival of the region's population, and these include: Handcraft, Selling firewood, Reeds and grass, Transportation, Fishing, Cross boarder trade and Beer Brewing.

According to Trine et, al, (1993: 48), the making and selling of wooden handicrafts, baskets and mats made out of reeds, constitutes a vital informal income generating activity. Stalls selling handicrafts are found along the tarred road from Kongola to Katima

Mulilo, and an art center has been established in Katima Mulilo, where people have the opportunity to sell their carving and craft-work. Prices of handicrafts have slowly risen significantly and in some instances they have trebled since 1990.

There is a clear distinction between the handicrafts done by men and those done by women. Whereas wooden handicrafts are seen as a male activity, basket making and mat weaving from reeds are only done by women. One woman claimed that by making and selling baskets she could earn roughly N\$100 per month (ibid: 49).

Another income earning activity is selling firewood, reeds and grass. Firewood is mainly collected by men and sold next to the road. Reeds and grass are mainly collected by women. The reeds are collected from the rivers, then dried and sold for building houses or fences around the homesteads. Grass is sold as roofing material for traditional houses. Firewood is sold for N\$2.50 per bundle each bundle consisting of 6-8 pieces of wood, approximately 30cm long), which for one interviewee generates a monthly income of roughly N\$50.

Households selling reeds claimed that they could earn approximately N\$20 per month through this activity (Trine et al, 1993:49). There are four main routes in eastern Caprivi, all of which are connected to the main town, Katima Mulilo. These are finally, the “golden highway” which consists of 115 km of tarred road from Katima Mulilo to Kongola, the 70 km gravel road from Katima Mulilo to Ngoma, the 80-km gravel road between Katima Mulilo and Linyanti and the sandy route from Katima Mulilo to Schuckmansburg. People owning pick-up trucks (“bakkies”) often act as unofficial taxi drivers and thereby create an income for themselves. These people will drive on a particular stretch of road, giving people lifts on condition that they pay a certain amount of money, depending on the distance traveled. Charges range from 14 to 20 cents per kilometer.

Caprivi is entirely bounded by perennial rivers, and fishing is therefore a main activity in the area, especially in the east. Contrary to other regions in Namibia where rivers are seasonal, fishing in Caprivi is seen as a supplement to the everyday diet in normal years

as well as a source of nutrition in drought years. Fishing is done for own consumption as well as with a view to selling some of what is caught, and 15% of households view fishing as an income-generating activity (Trine et al, 1993:45).

There is a significant cross-border trade in maize from Zambia to eastern Caprivi. The subsidized and therefore cheaper Zambian maize is smuggled into eastern Caprivi and sold unofficially. Transportation of maize is carried out mostly by Zambians who cross the Zambezi River, while Caprivians are involved in its illegal marketing. There is a clear distinction between male and female activities in the informal economy, and beer brewing is one activity undertaken exclusively by women. Selling “seven days” beer is the most important income-generating activity for the women who are not employed in the formal economy.

According to Trine (1993:46), approximately 20% of the households have women brewing and selling “seven days.” A cup of “seven days” costs from 20c, 50c and N\$1.00, and the income earned per month ranges from N\$30 to N\$90. Although considerably less than the lowest salaries of N\$200 reported in the formal economy, selling “seven days” is one of the most lucrative informal income-generating activities.

The next section looks at the formal sector. It compares and contrast the two sectors.

3.2.2 The Formal Sector activities

According to the Ministry of Trade and Industry (1997), small business activities in the formal sector, are larger than their informal sector counterparts in terms of both employment and turnover. The pattern of business activities differs markedly from that of the informal sector. Although there are significant numbers of self-employed individuals, the majority of businesses in the sector employ workers see also (National Planning Commission 1998: 16).

Retailing and catering services are not dominant as a form of business in the formal sector as they are in the informal sector. Namibia’s informal businesses have lower

labour intensity than the small formal businesses, especially mining as indicated in Table 3.3

Table 3.3 Business Activities of SMEs in the Formal Sector

ACTIVITIES	PERCENTAGES
Mining	35%
Retailing	35%
Trade and Services	15%
Manufacturing	5%
Catering	5%

Source: NPC, 1997

Small Scale Mining

Small scale mining covers a wide range of activities involving mining of base metals and semiprecious stones. According to Angula (2000: 10) in the formal sector, small scale mining is an important business activity. The tin mining in Uis area of the Erongo Region closed in 1991. The miners lost their jobs, most people left Uis which was in danger of becoming a ghost town like the well known Kolmanskop near Luderitz. A few people stayed and mined tin in the waste heap of the old mine or by chipping away by hand in the mine it self. They produced little and sold what they could produce at low prices.

In 1994 a group of miners decided to organize themselves to work co-operatively. They obtained financial assistance from an international donor agency to get started. This helped them to get the blasting equipment and materials which they needed to mine more productively. They were also able to buy the equipment they needed for processing the tin into a more refined form. They were able to negotiate better prices for their products. In August 1998, the group was finally registered as a co-operative with a total of 25 members (Angula, 2000: 10).

In Erongo Region small private mines such as the granite and marble works at Karibib, provide employment to a lesser extent. In all instances, the formal businesses are small and appear to hold little potential for significant growth in the future.

In the study by Trine et al, (1993), only 19 adults were recorded as employed within the formal sector of the economy. This figure represents 4.6% of the total number of people belonging to the 51 household surveyed. Although, only an indication of levels of unemployment in the study area, this translates into 15% “of economically active people surveyed (loosely defined as all adults between 19 and 59 years of age) being formally employed.” This figure is extremely low, and is an indication of the extent to which economic hardship contributes to the impact of unemployment on the broader economy of the region.

As a consequence of these factors, together with the negative impact of the current economic recession, the formal sector plays an important but limited role in the economy.

According to Trine (1992:84), the mining and selling of semi-precious gems stones, to tourists in the Spitzkoppe area provide a limited but important source of informal income for local people. Although, only 15.6% of households in the survey recorded as having an income from selling stones of the 15 households surveyed in the Spitzkoppe area, more than half (53%) earned income in this way. Household claimed thus to earn anything between N\$40 and N\$140 per month.

It is important to note that many times as much in some months, and very little indeed in others. The success of selling stones seemed to be most strongly related to the number of tourists visiting the area, and more importantly, whether or not they are foreigners and foreign visitors were reported to be good customers (Trine, 1992:77-84).

Manufacturing and Auto Repair

Manufacturing in the formal sector includes brick and block making of the road pavements, fabricated metalworking, custom designed furniture and bread backing, panel

beaters, welding and plumbing. The average number of employees per establishment among small businesses is seven compared to the service sector.

Businesses that are engaged in construction and metal works have a higher number of male employees, while businesses in the beauty and textile clusters have a larger number of female employees. Women business owners are most frequent in the cluster of textile and leather, body care, health and crèches, food and hospitality, tourism and crafts (Christoph, 2004: 6).

The Automotive Common Facility Center in Ondangwa Industrial Park, provide technical support to small business enterprises engaged in automotives remanufacturing, rebuilding and refurbishing activities in the four Northern regions. The activities of the center include: cylinder block boring and harming cylinder block re-steering, surface grinding (manufacturing), crack shaft grinding, sand blasting, general engineering and value grinding (NDC, 1999: 2-3).

As is the case in the rest of the world, Namibia's small formal businesses have a higher labour intensity than their larger counterparts. For every Namibian dollar invested in them, they create more jobs than larger businesses. As employment creation is a national priority in Namibia, it is clear that the higher the proportion of total investment small businesses receive the better for Namibia. Despite the larger businesses, sole proprietorship is the main form of business in the formal sector as they are in the informal.

In the formal sector, however, there are a significant proportion of private limited companies. The review of Namibia's small business sector confirms that Table 3.1 and 3.2 would encompass the majority of small businesses. It would help give preference to manufacturing, an activity which is currently very poorly developed among small businesses, but which has the potential to generate the highest value-added and hence better incomes (Ministry of Trade and Industry, 1997: 8).

3.3 External Trade and Impact on SMEs

In terms of both volume and value, Namibia's external trade remains heavily biased towards imports of finished goods from South Africa. Exports, on the other hand, are largely "unprocessed primary products," such as minerals, meat and fish. However, there is quite a number of bilateral trade agreements that have been initiated in the process of reducing dependence on South Africa (Republic of Namibia, 1999-2000: 137). Namibia needs to exploit the existing trade networks to expand its manufacturing base. SMEs could be instrumental in fulfilling this task, by engaging activity in value-added exports.

The current process of Common Agricultural Policy (CAP) reform across a number of sectors involves "moving away from a system of price support to a system of direct aid to farmers." The CAP reform may hence reduce the income earned on Namibian beef exports to EU under the Contonou beef protocol. The Agriculture sector in Namibia will have to develop a strategy to take into account these developments in EU beef prices (Republic of Namibia, 1999-2000).

Namibia benefits currently from specific provisions in the Contonou Agreement for imports into the EU of beef and grapes from Namibia. For beef, Namibia has been allocated a quota of 13 000 tones per year. Protocol 4 to Annex V of the Contonou Agreement, which deals with beef and veal, specifies that duties be reduced by 92% for qualifying quantities of beef and veal from the CAP.

According to the Afrol website, Namibia has been exporting raw products with low value added to economies with processing capacities and as a result the composition of Namibia's exports (1999) was as follows: Diamonds 29% of total exports, fish almost 24%, services 21%, Uranium 9% and manufacturing 10%. Namibia's major export markets in 2000 remained the European Union, particularly Spain, the United Kingdom and France, who as a group accounted for about 60% of the total value of exports compared to 27% for South Africa. The largest components in imports were food, beverages, machinery and transport equipment, with South Africa accounting for 85% of the total value. South Africa's share of Namibia's imports has exceeded 80% since 1993. Throughout the 1990s Namibia, in the framework of Lome Convention, has registered a

growing positive trade balance (EURO 354 million in 1999) with the EU (www.afrol.com).

The website also noted that, Namibia is a member of three regional economic groupings, namely Southern African Customs Union (SACU), Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). SACU is an important vehicle for Namibia's regional integration and, coupled with the Common Monetary Area (CMA), represents the deepest integration arrangement providing for duty free access, low transaction costs, significant contribution to the revenue and relief from having to operate an independent customs service.

On the other hand, the customs union has led to polarization of industries in South Africa and a "prize escalation" effect due to the common external tariff fixed by South Africa. However the renegotiated SACU Agreement could offer a greater scope for industrial development and fair trade among customs union member States.

In terms of market potential the SADC market offers Namibia greater prospects with an estimated combined GDP of US\$ 176 billion and current imports from SADC representing 83% and exports 38%.

However, on the flipside Namibia is not only affected by the impact of liberalization arrangements of which it is part, but through its membership of SACU it will also feel the impact of the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa. The TDCA has raised concerns about revenue loss from customs revenue channeled through SACU and increased competition. The increased influx of the European manufactures could harm the Namibian SME sector. (<http://www.afrol.com>).

It is in this regard that Awa (1999: 117) notes that market and marketing strategy is an important section of business operation which financing institutions and investors scrutinize very carefully. Thus, it is critical that business operators understand their market, business operators can sell anything, and for example a good product is not enough to guarantee marketing success. They may produce good products in the world but this does not matter if there are no customers to buy them.

Market analysis and definition can be useful both to the individual with a product idea and to the management of an existing business. Within an existing business the market definition can be used for a new product introduction, it can also provide the existing market in identifying potential new customers and better ways to reach established customers. Of importance are the customers that are identified and are entirely unexpected and the prospect that can be lost for no apparent reason. Investigation on these customers can lead to significant opportunity or growth. Also of interest is significant weakness or strength in the products or services and customer relations between the competitors.

3.4 Summary

This chapter has clearly pointed out the SME sector in Namibia and their difficulties. The solution lies in the exploitation of the opportunities offered by the regional trade arrangements to which Namibia is a member. However, the challenges posed by TDCA are real and falls for concerted effort and strategy to market Namibia products and services.

Considering the specificities of Namibia's economic situation as well as past experience of the country, the country faces significant challenges in sustaining economic growth and ensuring fiscal sustainability. Estimates suggest that small businesses are the major source of employment and incomes in Namibia. They provide some form of employment and incomes for close to 160,000 people, approximately one-third of the national's workforce.

The majority of these are individuals in the subsistence sector of the economy and the employed seeking to supplement incomes by periodically engaging in informal commerce. Nevertheless, it is estimated that the small business sector provides full time employment for upwards of 60,000 people, ranking it alongside Government as the country's principal employer.

CHAPTER 4

SMEs RESPONSE TO POLICY AND PROGRAMME INCENTIVES

4.1. Introduction

As we have seen the framework adapted from Dunn (1984), in the previous chapter, the different categories of SMEs, and some of the constraints they face. This chapter looks at the different incentives provided by the Government and gauge the response of SME to these incentives.

In 1997 the government through the Ministry of Trade and Industry formulated policies and programmes as a strategy to ensure that major obstacles to the SME sector realize its social and economic potentials are eliminated. The aim was to ensure that small businesses have adequate access to the policy and programme incentives for their development. Strategies that were put in place included: policy incentives, programme incentives and training incentives. While under policy incentives, the government's strategy was to ensure that SMEs have access to short and medium-term financial assistance through the micro loan scheme, credit guarantee scheme, seed capital and venture capital, to boost their businesses.

Under programme incentives, facilities such as market structures, business linkage centers, vendors, intermediaries and export market development were established.

Training incentives are some basic training programmes for new entrepreneurs to ensure that SMEs' stakeholders are briefed on some strategies for business development.

As already noted this chapter presents the main findings of the study on factors that appear to have inhibited growth and development of SMEs in spite of the policy and programme incentives. Information was collected using a qualitative methodological approach, starting with discussions with Namibia's Ministry of Trade and Industry, to obtain insights into the policy and programme incentives which the government of the Republic of Namibia has put in place to promote active development of SMEs, and to

obtain the perspective of the government with respect to the successes and failures of the initiatives.

This was followed with unstructured interviews with a representative sample of stakeholders in the SMEs sector and related sectors of the economy, to obtain the perspectives of the other stakeholders with respect to the successes and failures of the policy and programme incentives, and what could be done to ensure active development of SMEs.

4.2. Data Analysis and Interpretation

The following themes have been drawn up to serve as basis of information analysis:

- The slow response of SMEs to policy incentives.
- Slow response of SMEs to programme incentives.
- Slow response to training incentives.
- Alternative strategies.

4.2.1 Slow Response of SMEs to Policy Incentives.

The majority of the entrepreneurs in the SMEs sector expressed concern that they are not aware of the policy incentives. Some SMEs operators expressed ignorance of the existence of policy incentives; they mentioned that if such incentives exist they have not been informed about their existence. This suggests that some policies aimed at improving the performance of SMEs have not been sufficiently disseminated to those who are supposed to benefit from them.

With respect to the credit scheme aimed at improving access of SMEs to credit, some SMEs operators who expressed knowledge of the existence of this policy, explained that they had not tried to take advantage of the policy because of fear of high interest rate which these credit scheme charge.

Yet other SMEs operators thought that the stringent requirements for qualifying for SMEs credit were limiting. The requirements include:

- Security in the bank, the borrower should have an amount of at least N\$1000 in the bank to qualify for the credit scheme of N\$10 000.
- Borrowers should provide a detailed business plan.
- Five to ten years of experience in the business.
- The grace period of paying back the loan which is no more than three years if a person borrows N\$10 000.

If these requirement were limiting, SMEs could take advantage of seed capital, which is an interest free loan. Few SMEs expressed knowledge of the existence of this incentive in Namibia. From our interviews it came to light that even those entrepreneurs who are aware of these schemes, feel that Government should provide funds for free.

Another scheme is Venture capital which was put in place by the government to encourage equity and loan financing to small businesses. The SMEs operators' argument on this scheme is based on the ideology of capitalism. They argue that venture capital creates a wide gap between the rich and the poor, since this aproach promotes a situation where by rich people will become richer, and the poor individuals including those in small businesses to become poorer. They say so for the reason that loans will be granted to people that can prove that they have some money at the bank while those who do not have proofs or financial statements from the bank will suffer.

Entrepreneurs also complained about the elaborate business plan required. A number of SME operators believe that the requirement of writing business proposals affects those who are illiterate and favors those who are literate who are usually the rich individuals. Business plan writing presupposes a broad knowledge and experience, which illiterate entrepreneurs do not have.

4.2.2. Slow Response of SMEs to Programme Incentives.

Programme incentives: is the process where by the Government encourages the involvement of financial institutions in the provision of finance to SMEs at short - long term, and leave the leading role to financial sector in financing the SMEs, and also provide the exemption of General Sales Tax (GST) from SMEs on purchase of capital equipments as well as raw materials. The provision of market structures and site to be used by operators. Stalls are sheds made by local council or municipalities where entrepreneurs keep their goods for selling. People come to view and buy the goods from these sheds.

Entrepreneurs provided a number of reasons why they do not use the market stalls. Among them are – rent of N\$350 per month and distance of stalls from town or city centers. SMEs operators are unable to use the facilities because they consider these fees to be too high for them.

Lack of security was also a reason mentioned by SMEs operators. They expressed fear of theft, especially armed robbery in the market. Marginalization of some regions was mentioned in the sense that the government tends to ignore some of the regions in terms of market development, whilst others are considered for development. Politicians tend to organize developments to their regions in order to get support within their constituencies.

SMEs operators argue that programme initiators always initiate programmes that have been effective in some other parts of the world, usually the developed countries. Thus, foundations of these programmes in their country tend to be in theoretical spheres and have never been put into practice in developing countries.

Most local sellers tend to sell their products close to their target customers even if it is illegal. They argue that business is not about the structure; it is about meeting the needs of the customers, which can be in the streets or under the trees as long as business takes place.

Business Linkages: these are centers where information can be obtained on how to promote, develop and give guidance to SMEs entrepreneurs. Most of SMEs operators argued that there was no proper communication between the entrepreneurs and the

business linkage centers. In their response, they argued that information from these centers could not reach other entrepreneurs, as the SMEs were not highly appreciated by these centers on how they perform and contribute to the development of the country's economy. Yet, most of their messages were too commercial and directed to larger businesses excluding SMEs.

Out of 50% of business operators 5% praised the business linkage centers on the work well done by providing education and training to women and the disabled individuals on how to progress and develop themselves through informal sectors. They provide skills and funds at the same time and serve as a regular supervision, accompanied with guidance and advices of hired personnel by the government through the Ministry of Trade and Industry.

Vendor Development: this is the process of establishing new small businesses in order to expand and diversify existing businesses. Wholesalers and retailers agree to supply goods at discount rate and provide working capital at extended credit condition. Out of 50% SMEs operators 15% acknowledged their concern that every ordering of goods or products tend to be an alternative of a discount as a means to encourage SMEs clients to make a turn and later develop a positive relationship in the business sector.

Even though, these were determined by a number of goods purchased or ordered, the discount rate tends to be measured by the wholesalers not to affect their business, e.g. providing free transport to the client's who purchased some goods or by reducing prizes of products that has been bought in bulks. These tend to be an offer of the recognized clients not to all clients who visit the business of the wholesalers and retailers.

Ten percent (10%) out of fifty percent (50%) replied that there was lack of discount in business by saying every product in a business counts, therefore, when a wholesaler gives a special offer to a client, it's an effort of initiatives and goals of that particular wholesaler to establish more clients. They argued that a successful wholesaler will not consider those offers in which many SMEs tend to regard as discounts.

Intermediaries: One of the important links are intermediaries. They serve to distribute information on their client's products. SMEs operators, however said, intermediaries in the small business activities of Namibia, do not exist at all, especially information agents that aim to market SMEs products. These are done by themselves, meaning the family, friends and through music entertainments.

Otherwise the government is not encouraging much on intermediaries as an agent role player. The media comes in if bad news about such SMEs has struck the business. Since through promotions by media large amount of money has to be paid for space, time and effort which they believe they have made available for a greater benefit.

Export market development: in 1997 the Ministry of Trade and Industry (MTI) was assigned to promote Namibia's export products just to advice in detail on the right strategy suited for Namibian businesses to develop export market (MTI, 1997). Out of fifty percent (50%) SME operators almost forty-five percent (45%) argued that the MTI was not doing well in giving access to SMEs to export their market services or promote their products to other parts of the world. They replied that their products were only promoted when events such as cultural festivals and trade fares were conducted annually at regional level.

Tourists play a role in showing Namibian products to other part of the world. SMEs lack funds to advertise their products at even neighboring countries. Policy statements of the government translated into the SMEs development are of no regular made some follow up to verify if they are followed. Some say they are not aware of them and if they exist, clear explanation and information have to be made available to the SMEs operators usually with an appropriate medium even though they are not implemented.

In addition to the above mentioned reasons, SMEs operators had identified the following factors that inhibit the development of the SMEs in Namibia:

- Officials or decision makers who lack enthusiasm or zeal in Promoting SMEs.
- Low prices demanded by local consumers as a result of their own low levels of living standards.

- Lack of machinery.
- Lack of skills and training in terms of specialization by SMEs.

4.2.3 Slow Response of SMEs to Training Incentives.

Most of the SMEs operators revealed that the transfer of knowledge between role players was limited despite the existence of the educational institutions. There is lack of common and suitable strategies for outreaching the established SMEs and their entrepreneurs. Institutional weakness together with the lack of follow up by the government was stated as cause of this problem.

4.2.4 Entrepreneurship Suggestions

A final question was on what should be done to ensure active development of SMEs in Namibia, which was a very interesting question to the entire sample, because they provided an endless list of solutions. The following alternatives were mentioned, in an order of importance.

- Machines of simple technology varying to businesses also should be provided in a form of achievements to hard working SMEs and in a form of competition awards.
- Large businesses and the government should provide support in terms of materials like sewing machines.
- Provide training in the form of workshops.
- Competition between the SMEs and the large Multinational corporations from abroad should be avoided regulated.

4.3. Other factors leading to slow development of SMEs.

According to the Ministry of Trade and Industry (MTI, 1997), some of the constraints that led to the slow development of the SMEs are mentioned below and these include:

- Apartheid left no real space for the business involvement of Namibian women. Marriage laws reduced women to unions with no contractual capacity at all, even though marriage laws have changed, customary law remains intact and there are cultural, behavioral and traditional constraints which affect women's participation in business, particularly in rural areas. There are also restrictions in terms of access to land.
- Drastic curtailment of property ownership rights of Namibians made it impossible for them to acquire assets that could serve as collateral for loan financing, it also excluded Namibians from the long run process of capital accrual and growth through raising property values and share prizes.
- Type of education opportunities for the acquisition of technical and professional skills to people.
- Total absence of entrepreneurial education or sensitizing for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship.
- Apartheid confined the majority of the Namibian people to homeland areas which were not only the poorest in terms of living standards and business opportunities, but also lacked a dynamic business environment.
- Even outside the homelands the system of apartheid made it impossible for Namibians would be-entrepreneurs to participate in business apprenticeships and partnerships with more established non black controlled enterprises.
- A racially segregated residential area enforced through the Group Areas Act, not only the uprooted millions from the places of residence and business, but also led to large capital losses and virtually destroyed the fabric of small enterprises.
- Segregation increased the distance between residential and working areas, thereby increasing the cost and risk of conducting business.

Due to these historical problems, small business support policies will for a considerable time also have to focus on the particular needs of SMEs and ways to overcome the remaining consequences of that legacy. This does not imply that policies should only focus on black-owned or controlled enterprises or business-infrastructure facilities in

formerly black-reserved towns, but that policy differentiation will have to include affirmative elements.

4.4. Alternative Strategies

Since most of the SMEs operators were unaware of the incentives, they suggest that information should be transmitted through media such as news paper, TV and news radio in order to reach even those in the remote area.

Respondent felt that the development and growth of the SME sector was crucial to the increasing challenges of unemployment and poverty alleviation in the country. Thus, new business ownership and diversification of the country's production should be encouraged. They suggested that there should be a reduction of over-dependence on imports of consumers goods since many of the products can be easily manufactured locally.

There should be an upgrade of internal capacity to promote the use of industrial attachments, or apprenticeships to assist in the process of developing industrial and technical skills within the private sector. Government should support this initiative in the form of long term supply contracts, and since, in the long term, export will be essential for manufacturing to survive in this country, and industry's mission was to actively promote and facilitate accelerated growth and development of the economy through the formation of appropriate policy and legislative instruments in support of private sector operators. Over the next ten years, the Ministry of Trade and Industry should concentrate its efforts on the following activities:

- Diversification of industrial activity to reduce dependency on production and export of primary products.
- Development and diversification of manufacturing activity to produce goods for both local consumption and export, such as, garments, pharmaceuticals, household products, wood products, textbooks and stationery, plastics, electronic components, motor vehicle parts, jewellery and construction materials.

- Spatial distribution of industrial development through, among others, construction and expansion of industrial and EPZ parks and implementation of Spatial Development Initiatives (SDIs).
- Development of competent authority and skills to oversee quality and standards of Namibian products.
- Development of an off-shore banking and financial services sectors.
- Implementation of the export development strategy to increase the volume and variety of export goods.
- Capacity building in trade and investment promotion.
- Capacity building in technical skills for industrial development, including the promotion of industrial attachments. Skills development will be carried out within the context of the need to be regionally and internationally competitive.
- Creation of an innovation and technology centre to assist in product development and quality control.
- Continuous improvement in service provision.
- Computerization and streamlining of company registration.
- Internal capacity building and streamlining of the structure of the Ministry, including strengthening the Ministry's six regional offices.
- Completion of computerization and development in the use of information technology to enhance investment promotion, including production of industrial data, information management and maintenance of the Ministry's website.
- Sectorally-focused investment promotion.
- Strengthening of the Namibian Development Corporation as an agent for industrial development and promoter of manufacturing industry. In this respect, its tasks will include the initiation and development of industries, the carrying out of feasibility studies, and the drawing up of business plans to be used for investment promotion purposes.

4.5 Summary

The government through the Ministry of Trade and Industry initiated and availed policy statements as strategy to ensure that major problems to the sector's inability to realize their social and economic powers are realized. The aim was to ensure that small businesses have adequate access to policy and programmes incentives on business development. Policy strategies that were initiated including policy incentives, programme incentives and training incentives to ensure that SMEs activities in Namibia are encouraged. Yet, more challenges still remain and government will still have to work hard in promoting SMEs.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

This study focused mainly on the challenges that inhibit the development of the small and medium enterprises (SMEs) in Namibia. The broad objective of the study was to determine the reasons behind the slow response of the SMEs in Namibia to policy and programme incentives aimed at their development. Since SMEs were recognized as a means for job creation.

The study has been based on unstructured interviews with various groups of stakeholders namely, Ministry of Trade and Industry (MTI), Namibia Chamber of Commerce and Industry (NCCI), Soweto Market Information Center, SMEs Project Section of the Ministry and SME operators. Some of the research questions that were used for data collection include: as to why is the response of the SMEs to policy and programme incentives slow? And what could be done as alternatives to ensure active development of the SMEs in Namibia.

Under **policy incentives**, the study has found that the factors that inhibit the development of SMEs in Namibia are:

- Lack of dissemination of information. It has been found that most of the SMEs operators are unaware of the policy incentives.
- High interest rate was also found as a problem to the business operator. They could not temper to borrow some funds in the sense that the credit scheme charged higher interest rate.
- Experience of five to ten years in the business sector failed many new SMEs operators to access to the scheme, since most of them did not have such wide experience.
- Business Plan and cash flow statement was a problem to be provided to the money lenders.
- Security was identified as a reason for slow response to the incentives, as they were required to provide evidence from the bank that they have funds in their bank account; but could not produce any bank statement to present to bank loans.

Programme incentives

Under programme incentives, the study has found many reasons as to why SMEs are slow in response to the programme and these include:

- Rental fees which are high, SMEs operators find it difficult to rent a stand to a tune of N\$350.00 per month, since their rate of return was very low.
- Market Site: distance problem was identified, the tendency of government to locate the market structure at a far distance, this to them is a problem, since they find it difficult to travel long distances carrying goods in their hands.
- Lack of transport – long distance to transport goods to the market hinder them from utilizing the sites provided for.
- Theft and armed robbery was identified in this study as a problem to the development of the SMEs sector. SMEs operators complained that their goods

were stolen from time to time, therefore, the environment was not safe in terms of security.

- Marginalization and isolation problem was also identified that, some regions are marginalized in terms of market development; therefore, they are unable to advance in their business activities. They say some politicians tend to organize development to their regions in return for votes for winning people in their constituencies.

Training incentives

Under this programme, the study has found that the requirement for qualifying to training programmes was too high, since some do not possess the educational qualifications for entry required for entry.

It was found that there was lack of common and suitable strategies for out reach for established SMEs together with the lack of follow up by government.

5.2. Recommendations

In light of these various factors mentioned above, the study recommends the following regarding the different incentives.

Policy incentives

Under this programme in order for the SMEs operators to be improved, the study recommends the following:

- The lack of dissemination of information be improved. The government should take serious measures in informing SMEs operators about the existence of policy and programme incentives.
- Security; the government together with the Commercial bank, should loosen their requirements to borrowers of money.
- Government and the commercial banks may try to lower their interest rate on borrowed loans in order to attract new SMEs operators in the sector.

- Government should put tight security to protect goods of the SMEs operators, in order to prevent robbery and theft.
- Government should also reduce the number of years to qualify for loan scheme from the expected five to ten years experience to a minimum of one to three years experience.

Programme incentives

In order to restructure market incentives, the study recommends the following:

- Rental charges as mentioned earlier, be lowered from N\$350 per month, to at least N\$200 or N\$250 per month.
- On the issue of market site, government should try its best to locate the market structure at the site which is easily reachable by SMEs operators to avoid the distance problem.
- On the issue of transport, government should try to provide a subsidized public transport to meet half way the needs of the SMEs operators.
- On the issue of marginalization and isolation, competition, nepotism, tribalism and regionalism by government officials should be reigned in.

Training incentives

Under this programme, the study recommends that proper communication and dissemination of information be well organized through media, such as Newspaper, TV, Radio stations and through information centre offices.

- Strategies such as putting more emphasis on workshops and training be stressed. At least reduce the minimum requirements for entry to workshops.
- Educational institutions, be strengthened to include SME training in their curriculum.
- Refresher courses should also be conducted for SME operators.

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APENDICES 1: DEFINITION OF CONCEPTS

Bakeries: these are small modern bakeries and village bakeries that consist of home made brick ovens.

Black Economic Empowerment is a growth strategy targeting the economy of the country's weakest point. It is a pragmatic growth strategy that aims to realize the country's full economic potentials and not simply a moral initiative that seeks to redress the wrongs of the past (www.southafrica).

Budget is the simplest means of directing and controlling a small enterprise. It is the one planning tool essential for effective operation. It links the business plan to business reality because it does not only projects the business direction, but it is a means of tracing the flow of money into, through and out of the business and help the owner determine how to use scarce resources (Harris, 2002).

Business Linkages: these are centers where information can be obtained on how to promote, develop and give guidance to SMEs entrepreneurs.

Business plan: a business plan is a formal document that describes a business and its environment's short and long term objectives, and the intended means and methods for achieving those objectives (JCC, 2003). A business plan is a tool for the whole organization, which might assist it (particularly people that might lend or give money to the organization). So it is a story that should be clear to all involved as plan is written for will depend on the organization and how far it is aiming to look ahead. At a minimum, a plan should be for at least one year.

Clothes sellers: these are business operators selling clothes in the air under a tree. Normally they sell second hand clothing; at times they sell new clothing.

Co-operatives: a co-operative is a group of people who come together with common interest in business services, or group of people with same idea in creating employment for themselves.

Credit is the provision of capital by lender to borrower with legal agreement for the repayment of specific amount over a given period. With regard to credit, managerial coordination is believed to play an important role in defining the criteria for utilization of a loan, as well as in incorporating the repayment process into life of the enterprise. Once loan has been received, repayment is not an optional ingredient of credibility and viability of the business, but is of vital importance, (Friedrich 1983: 15).

Credit Guarantee Company: is a company established to help in granting loans to emerging business operators.

Cuca shops: is temporary structure made out of zinc and differs from bottle store since, bottle store is permanent structure made out zinc and bricks.

Deregulation: is the removing of unnecessarily restrictive regulations which inhibit economic activities. It can involve amending or replacing existing regulatory and administrative requirements with a view to simplify the regulatory framework, by reducing the burdens on business and other development, innovation and enterprise. It does not mean removal or reduction of necessary standards within the market related environment, consumer and labour protection, but involve resisting the introduction of new legislation which is restrictive or complex to the market economy system.

Entrepreneur: is a person with the ability to see and evaluate business opportunities, gather the necessary resources to take advantage of those opportunities, and initiate action to ensure business success. He/She mobilizes resources and combines them into a viable business undertaking depending on his or her education and training received both outside and inside the formal educational system (Abdel and Haan 2003/2004: 9).

Food sellers: these are people involved in selling cooked or fried food staffs such as fish, porridge and meat.

Formal Sector: are larger than informal sector and include business activities such as mining, retailing, trade and services, manufacturing and catering.

Hawkers: these are business people who sell their products at organized open markets.

Informal sector: includes the large number of people in rural areas who sell agricultural products they grow or handicrafts they make on a part-time basis. Their main source of livelihood is agriculture. The incomes they derive from these activities are typically very low.

Manufacturing in the formal sector: includes brick and block making of the road pavements, fabricated metalworking, custom designed furniture and bread backing, panel beaters, welding and plumbing. The average number of employees per establishment among small businesses is seven and the average turnover is over N\$50,000 of fulltime employees compared to the service sector.

Manufacturing in the informal sector: includes basketry, wood and stone carving, pottery designing and weaving. It consists of businesses utilizing many of the skills but they make and sell products on their own accounts rather than as a service to others. The majority of small manufacturers makes and sells handicrafts but there are a small number also who make consumer and industrial products.

Policy analysis: is the examination of the content of policy, for example if we consider SME / health policy, we have to look into all sections and subsections of the policy to see if they really address the SME / health issues. It focuses on the causes, content, and consequences of government action and generates knowledge for policy and knowledge of policy (Gordon, 1977). It is a process of researching / analyzing public problems to provide policy makers with specific information about the range of available policy options advantages and disadvantages of different approaches (Fox and Meyer, 1996).

Policy Environment: is the specific context in which events surrounding a policy issue occur.

Programme incentives: is the process where by the Government encourages the involvement of financial institutions in the provision of finance to SMEs at short - long term, and leave the leading role to financial sector in financing the SMEs, and also

provide the exemption of General Sales Tax (GST) from SMEs on purchase of capital equipments as well as raw materials. The provision of market structures and site to be used by operators.

Policy stakeholder: Individuals or groups who have a stake in a policy because they affect and are affected by government decisions

Policy System: The overall institutional pattern within which policies are made. The three elements of a policy system are public policy, policy stakeholders, and policy environments

Public Policy: is what ever government chooses to do or not to do, it reflects the choice of government. If government chooses to build dams in all regions, make education a right for all or subsidize health provision. All these are policy. It should be noted that these policy choices are meant to direct government action in trying to solve different problems that confront it. However, these choices have to be flexible to allow future adjustments inline with the changing environment and needs of these people (Dye, 1984).

Retailing: comprises the majority of the sector and includes: hawking, selling food and household products (MTI, 1997). Hawking businesses are small informal businesses which span a very large area of activity and with few features in common. They are family-owned, operate mainly with their own capital, informally employ family members, not officially registered, do not pay taxes, operate without licenses, are subjects to penalizing action from the authorities and are set up on sites originally not meant for business activities.

Small and medium enterprise: is understood to be an independent business undertaking where operational and administrative management are in the hands of one or two persons usually the owner / manager who are responsible for making major decisions of the enterprise (Abdelkarim, and Haan, 2004: 37). Thus whether an enterprise will be considered small or medium depends on the structure and size distribution of enterprises in the sector and in the country concerned.

Vendor Development: this is the process of establishing new small businesses in order to expand and diversify existing businesses. Wholesalers and retailers agree to supply goods at discount rate and provide working capital at extended credit condition.

APENDICES 2: CHECK LIST OF QUESTIONS FOR SME INTERVIEW

Introduction

My name is Horrack Kutazo Joani. I am an MPPA student at UNAM. I am doing a research paper as part of my MPPA training. I am interested in SME development and contributions to national development in term of employment creation etc. I will ask you some questions which will assist me in writing my paper. All information obtained from you will be confidential.

1. Please tell me when did you start this business?

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2. What motivated you to start this business?

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3. Would you prefer formal employment?

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4. How many people do you employ?

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5. What is your turnover?

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6. What are the constraints you face in your business?

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7. Are you aware of policy and programme incentives?

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8. Have you taken advantages of policy and programme incentives, if not why?

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9. Why is the response of SMEs to policy incentives low?

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10. Describe how the following policy incentives played a role in the SMEs development.

- (a) Micro loan scheme (small loans), for informal sector to borrow money
Between N\$10,000.00 – N20, 000.00

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- (b) Credit guarantee scheme (larger loans), for government and commercial
Banks to lend money to small business.

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- (c) Seed capital (interest free loans), to entrepreneurs for market research,
Investigate source of raw materials and plant equipment.

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- (d) Venture capital, to encourage equity and loan financing to small business.

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11. Why the response of SMEs to programme incentives low?

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12. Describe how the following programme incentives played a role in the SMs development.

- (a) Market sites and market structures with shades to be rented by
Entrepreneurs.

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- (b) Business linkage centers e.g. office for NGO, NDC, MTI and local
Authority for guiding SMEs to their needs.

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(c) Vendor development programme, wholesalers & retailers to supply goods at Discount rate and provide working capital support by extending credit term.

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(d) Development of intermediaries / agents to market the products of SMEs.

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(e) Export market development by giving access to SMEs business to export Market services or promote Namibia's export.

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13. In you own view; explain if the above policies have been implemented Accordingly.

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14. What other factors seem to be inhibiting the development of SMEs in Namibia?

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15. What do you think could be done to ensure active development of SMEs in Namibia?

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16. Any other comments

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 Your cooperation shall be highly appreciated. Thank you.

APENDICES 3: CHECK LIST OF RECORDED SMEs BUSINESS

Type of SMEs that were contacted	Place where SMEs Operators are situated							
	Katutura Central	Windhoe k North	Single Quarter	Katima Mulilo	Khomasdal	Wanaheda	Okuryangava	Katutura East
Hair Salon	5	3	4	6	2	2	3	4
Hawkers	3		2	3		1	2	3
Shoe repair	7	2	8	4	1	6	5	2
Vegetable sellers	3		6	3		7	3	3
Welders	4	2	2	2	1	3	2	2
Wood cavers				3		1		
Wood sellers				4				
Watch repair	2	1	1	2	1			1
Radio repair	2		1	2	1	2	1	
Car wash	3	1		1		2		2
Barbershop	4	1	2	1		2	2	1
Cucca shops	2	1	4	5	3	1	2	1
Panel beater	3		2			1	1	2
Retailer	2	4	1				2	1
Dry cleaning	2	3	1	1	1	1	2	2