

**AN INVESTIGATION INTO GROWTH CHALLENGES ENCOUNTERED BY  
REGISTERED SMALL AND MEDIUM ENTERPRISES IN KATUTURA CENTRAL  
CONSTITUENCY**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT**

**OF THE REQUIREMENTS FOR THE DEGREE OF**

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**OF**

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**BY**

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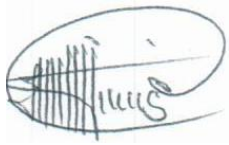
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## DECLARATION

I, the undersigned, Foibe Ndapewa Shilinge, student number 200837486, a Master of Business Administration student, hereby declare that this thesis is my own original work and that all sources have been accurately reported and acknowledged, and that this thesis had not previously in its entirety or in part, been submitted at any academic institution in order to obtain an academic qualification.



17 March 2016

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Signature

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Date

## **DEDICATION**

This project is dedicated to my husband, Mr. Dominicus N. Ugwanga; my sons, Nestor and Tobias; my daughters, Aloycia and Ferciana; my brothers, Natangwe, Gerson & Wilhem; my sisters, Rachel, Aishe & Wilka, and to my parents.

To my husband, sons and daughters, brothers and sisters, you have made this study possible because you have been caring, loving, humble, and supportive. To my parents, you have laid a very strong foundation that made me who I am today.

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## **ABSTRACT**

The study sought to investigate the factors that hamper the growth of registered small and medium enterprises, specifically in Katutura Central Constituency, in order to develop an understanding of the dynamics of SMEs. The study was motivated by the fact that despite the establishment of the SME Incubation Centres in Katutura with the objective of assisting small businesses to grow into formal small and medium enterprises, most of them are still in incubation.

The research study employed a mixed method approach, comprising of the qualitative and quantitative research designs. The quantitative research design enabled the researcher to collect data using questionnaires and convert that data into numerical form so that statistical analyses could be made and conclusions were drawn from the statistical analyses. The qualitative design enabled the researcher to gather data through interviews and focus group discussions with the use of open-ended questions. The population of the study was 500 entrepreneurs and the sample size consisted of seventy five (75) entrepreneurs.

Data was collected after the data collection instrument was approved by the supervisor. A pilot study using 10 respondents was conducted before full scale data collection. The purpose of the pilot study was to refine the questionnaires so that respondents could not have problems in recording the data. Furthermore, it enabled the researcher to obtain some assessment of the questions' validity and the likely reliability of the data that were collected. Data from then (10) piloted respondents was analyzed and results interpreted for correctness of the research instruments. Appropriate modifications were done on the instruments. The modification of the

questionnaire was then followed by full scale data collection. The questionnaires were administered to entrepreneurs around the Katutura Central Constituency.

Qualitative data was analyzed manually by first summarizing the information gathered and then categorized and coded the responses into emerging themes. Quantitative data was then analyzed using a statistical package of Microsoft Excel.

The study revealed that stringent government policies relating to SMEs and lack of subsidies, and micro and market environmental challenges such as competition, inadequate finance, lack of equipment, limited enterprise spaces, and lack of business management skills have contributed to the stagnant process of SMEs growth.

In conclusion, SME sector in Namibia has not flourished and met most expectations. Hence, the issue of lack of access to capital, inadequate entrepreneurial development, disabling regulatory environment as well as lack of effective competitive strategies pose serious challenges that require active government and private sector involvement if the huge potential in this sector is to be harnessed. Therefore, resolutions by both the private and public sectors to address these challenges should be sought. One such notable attempt is in the form of both private and public institutional arrangements to support SMEs by providing business management training. The central government must work hand in hand with the private sector financial services to curb the problems facing SME sector in terms of access to finance.

Further studies are required to establish if the challenges faced in rural areas are similar to those faced by their urban counterparts.

## **CHAPTER ONE**

### **1. INTRODUCTION**

Chapter one provides an overview of the study. It is arranged as follows. Section 1.1 provides an orientation of the proposed study. Section 1.2 focuses on the statement of the problem. Research questions are stated in Section 1.3. Significance of the study is provided in Section 1.4. Section 1.5 outlines limitations of the study.

#### **1.1. Orientation of the proposed study**

In the Industrial Age, it was assumed that economies of scale would enable vertically integrated large enterprises to emerge as permanent winners in the competitive marketplace of a globalized economy. As the 21st century progressed, with the emergence of the knowledge economy, it became increasingly evident that small and medium enterprises were not going to disappear but, worldwide, in most countries, the enterprise sector would be largely composed of small and medium enterprises (SMEs) and even smaller enterprises (Longenecker, Justin, Carlos, Moore, William, & Leslie, 2008).

SMEs are the main source of economic growth in developed and developing countries (Stella, 2011). In the US, the SME sector is said to provide 67% employment and 61% manufacturing sector output respectively. In Korea, there are over 30 million SMEs constituting about 99.9% of the enterprises and employing over 88.1% of the labour force. Similarly, in Kenya SMEs are responsible for about 80% of employment and contributes about 40% to GDP (Stella, 2011). These findings demonstrate that SMEs are an integral part of the economy, critical in spurring socioeconomic development (Stella, 2011).

The Government of Namibia recognised that SMEs can play a vital role in the country's socio-economic development as indicated in National Development Plan Number 2 and Vision 2030. According to the survey conducted by the Namibian Economic Policy Research Unit (NEPRU, 2003), it is evident that this sector is a key sector in poverty alleviation and economic growth in Namibia. Namibian SMEs contribute close to 12 per cent to GDP and employ 20 per cent of the total workforce (Nepru, 2005).

Realising the role that SMEs could play in bridging this gap, government produced a policy paper on SMEs in 1997 entitled "*Namibia: Policy and Programme on Small Business Development*". This policy, amongst others stipulates that government programmes in place should ensure that conditions are favourable for SMEs in Namibia and should flourish. As per the policy's recommendation, government did not guard against the creation of an environment in which small enterprises are pushed out of business by transnational corporations who tend to repatriate their profits to their countries of origin.

During the colonial regime, the growth and development of the SME sector was deliberately hampered by the competition from South African companies which posed a major threat to the Namibian SMEs. Today, Chinese, European and other imports have added pressure on SMEs. Nurturing small entrepreneurs that are labour-intensive may create and sustain more jobs than the larger business sector (Labour Resource and Research Institute, (LaRRI), 2008).

## **1.2. Statement of the problem**

According to Nuyoma (2010), Namibia has witnessed a phenomenal growth in the number of business start-ups during the past two decades. This is, especially true, when it comes to the

operations of small and medium enterprises. Nuyoma (2010) also asserts that concomitantly, it has also been observed that the majority of these businesses cease during the first twenty four months of their existence. Available data indicates that approximately 65% of the small and medium scale businesses belong to this failure group (Nuyoma, 2010; Michael, 2006; Tonderai, 2005 & Tirivangani, 2013). Kikonyogo (2000) emphasises that lack of government policies aimed at reducing transaction costs, security, and competition can hamper the growth of SMEs.

The City of Windhoek established the SME Incubation Centres in Katutura with the objective of assisting small businesses to breed and evolve into formal small and medium enterprises in a period of between two and three years after entering incubation. However, most of the businesses that entered the N\$11-million SME Incubation Centres during its opening in 2002 are still in incubation (Heita, 2013).

It is against this background that the study investigated the factors that hamper the growth of registered small and medium enterprises, specifically in Katutura Central Constituency in order to develop the understanding of the dynamics of SMEs. The purpose of the investigation is not only for the development of supporting programmes and growth strategies for SMEs, but also for the growth of the economy as a whole.

### **1.3 Research Questions**

The following research questions guided the study in investigating the growth challenges encountered by registered small and medium enterprises in Katutura Central Constituency.

1. What are the growth challenges faced by SMEs generally, in the micro, market and macro environment?

2. Do registered SMEs in Katutura Central Constituency in Namibia grow?
3. What are the growth challenges faced by registered SMEs in the micro, market and macro environment in Katutura Central Constituency in Namibia?
4. What are the perceptions of registered SMEs owners regarding Namibian Government policies to ensure the growth of SMEs?
5. How can challenges faced by registered SMEs in Katutura Central Constituency in Namibia be handled?

#### **1.4 Significance of the study**

This study is vital in exploring factors that hamper the growth of registered small and medium enterprises (SMEs) in Namibia, specifically in Katutura Central Constituency. It is hoped that findings of this study will be used by the Government of the Republic of Namibia and commercial banks in developing policies that encourage the growth and sustainability of small and medium enterprises. Non-Governmental Organizations (NGOs) and other development partners dealing with poverty eradication and funding of developmental projects may also find the results useful.

#### **1.5 Limitations of the study**

The researcher faced time and financial constraints because of full time employment. However, to mitigate against time constraints, the researcher applied for a month's leave to collect data. To counter the challenge of inadequate funds, additional financial assistance was sought from friends and relatives.

## **1.6 Chapter's summary**

In this chapter the focus was on the overview and the importance of SMEs around the globe and in Namibia as well. The chapter discusses the background of the research problem, which is the growth challenge that is faced by SMEs in Katutura Central Constituency. The purpose of investigating the growth challenges faced by SMEs is also outlined. It is discussed that the study is vital because it will be used by the Government of the Republic of Namibia, commercial banks, and the Namibia Development Bank in developing policies that encourage the growth and sustainability of small and medium enterprises. Non-Governmental Organizations (NGOs) and other development partners dealing with poverty eradication and funding of developmental projects may also find the results of the study useful. The next chapter reviews the literature of this study.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

This chapter reviews past studies on growth challenges faced by small and medium enterprises in general. Section 2.1 focuses on the definition of an SME and Section 2.2 on the contribution of SMEs to any economy. Section 2.3 focuses on the measures of growth of SMEs in Namibia. Challenges faced by SMEs generally in the micro, market and macro environments are discussed in Section 2.4. Section 2.5 provides the Namibian Government's policies relating to SMEs. The chapter's summary is provided in Section 2.6.

#### **2.1 The definition of an SME**

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 on who is defining the term and the purpose for which the definition is being made.

Kapoor (1997: 3-4) is supported by (Hooi, 2006) who also indicates that there is no accepted worldwide definition of SMEs. In Malaysia, the definitions are solely based on a fixed quantitative measure; for instance the total number of workers, the total number of capital, total assets and lately by determining sales turnover (Hashim & Abdullah, 2000).

The European Union (2012) defines small and medium-sized enterprises (SMEs) as non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries.

The most frequent upper limit designating an SME is 250 employees, as in some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees (European Union 2012).

Financial assets are also used to define SMEs. In the European Union, a new definition came to light on 01 January 2005 applying to all community acts and funding programmes as well as in the field of State aid where SMEs can be granted higher intensity of national and regional aid than large companies. The new definition provides for an increase in the financial ceilings: the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively.

According to Abdel 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 Namibia, the Ministry of Trade and Industry (2010) defines a small enterprise as a business employing between 6-30 employees. Medium enterprises are defined as those employing within the range of 31-100 employees, while micro-businesses are defined as employing between 1-5 employees.

## **2.2 The contribution of SMEs in any economy**

Kushnir, Mirmulstein, & Ramalho (2010) indicate that small and medium enterprises (SMEs) are to be considered the backbone of the economy. These companies represent an essential source of economic growth, vibrant and flexibility in advanced industrialized countries, just like they do in emergent and in developed economies (Kushnir et al., 2010). The same authors further argue that SMEs are the dominant form of business organisations, representing roughly 95 – 99% of all companies. The Organization for Economic Cooperation and Development (2011) points out that SMEs represent more than 95% of enterprises and ensure 60-70% of the jobs.

McClelland (2007) and Harper (2001) (both cited in Boshoff, Theron, & Schutte, 2008) suggest that entrepreneurship has a critical role to play in the economic development of especially poorer nations of the world. This view is supported by Sweeney (2011: 32) who suggests that “the ability of an economy to adapt to change and to continue economic progress would seem to be weakened if there is not a continuing infusion into the total economic system, at a numerically high level, of new products, new markets and new jobs generated by small firms. In addition, a strong small firm sector provides for the widespread and rapid diffusion of technical change and innovation on which economic growth is ultimately based. Hill and McGowan (2009) indicate that small firms and entrepreneurship indeed play a major role in the world economy (Timmons, 2004) and that they constitute the bulk of enterprises in most economies around the globe (Storey, 2004).

There has been a tremendous increase in the number of small firms operating in most of the advanced countries around the globe since the late 1960’s (Burns, 2001), with North America,

Asia and Western Europe “undergoing an entrepreneurial renaissance” (Calvin, 2002). These small firms are considered, by many governments, as critical for the creation of employment and ultimately for the creation of wealth.

Ariyo (2008) stipulates that small businesses are vital to the success of the economy. Not only as they provide the success stories of the future, but also because they meet local needs (for an example hairdresser, financial consultant and emergency plumber). Ariyo (2008) adds that SMEs serve the requirements of larger businesses for an example photography services, printed stationery, catering and routine maintenance. Oteh (2010) concurs with Ariyo (2008) that SMEs are the main source of economic growth in developed and developing countries.

Fida (2008) asserts that SMEs play a significant contribution in the transition of agriculture-led economies to industrial ones, furnishing plain opportunities for processing activities which can generate sustainable sources of revenue and enhance the development process. SMEs build up the expansion of systemic productive capability. Fida (2008) goes further, and says that SMEs help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. Edmiston (2007) is also of the opinion that politicians, academicians and developmental economists are of the view that enhancing small business development and promoting entrepreneurship would be a good strategy to contribute and promote economic development.

Advani (2007) believes that from the socio-economic development viewpoint, SMEs provide a variety of benefits. SMEs have advantages over large-scale enterprises because they can adapt easily to market conditions and they can withstand adverse economic conditions given their

flexible nature. They are more labour intensive than larger firms and they have lower capital costs associated with job creation. This notion is supported by Liedholm & Mead (2007) and Schmitz (2005) who indicate that SMEs play critical roles to ensure market stability, employment and economic growth. The contribution, which small enterprises can make to the national economy and wealth creation need to be recognized by the government from the beginning and be considered as part and parcel of the economic development process.

According to Hill (2011), while SMEs create many jobs, they also destroy a lot of jobs. However, Edmiston (2007) claims that Small and Medium Enterprises which can be defined as small firms with less than 500 employees are an integral part of any national economy. They employ more than half the workforce in the private sector, generate about  $\frac{3}{4}$  of net new jobs each year and produce more than half of the private sector's output. Fletcher (2011) avows that from an economic development point of view, small businesses create almost half of the new jobs in the economy. Hill (2011) further criticizes SMEs by saying that they provide low value added goods and services and have a short life. Sanchez (2006) disagrees with these views and states that one of the main characteristics of the SMEs sector of the economy is its flexibility in production. Based on "small is smart", successful small enterprises continuously introduce new and improved varieties of products.

### **2.2.1 The role played by SMEs in the United States of America**

Longenecker, Justin, Carlos, Moore, William, & Leslie (2008); Elmuti & Kathawala (1999) and Alvarez (1998) provide statistics indicating that the USA's 23 million small businesses continue to be a strong driving force in their economy. The small businesses absorb 52% of the private

work force and contribute 51% to GDP in the USA (Longenecker et al., 2003; Calvin, 2002; Burns, 2001). Elmuti and Kathawala (1999) also suggest that a study conducted by the Small Business Administration in the USA reveal that small business accounted for half of all new innovations in the USA. Oteh (2010) mentions that in the USA, the SME sector is said to provide 67% employment and 61% manufacturing sector output, respectively.

### **2.2.2 The role played by SMEs in the United Kingdom and the European Community**

According to Burns (2001) and Day (2000), small firms in the United Kingdom employ 62% of the labour force and contribute 25% to GDP. In the European Community as a whole, small firms employ 66% of the work force. Burns emphasizes the major role small firms play in the European Community, by citing the employment generated by small firms in various European countries. He suggests that small businesses contribute 79%, 63% and 60% to employment creation in Italy, France and Germany respectively. According to Knutsen (2003), over 99% of the 3.2 million businesses in the UK are small medium sized enterprises (SMEs) and they account for more than two thirds of the business turnover.

Ariyo (2008) indicates that the difference in the contribution to the economic growth lies in the importance attached to the SME sectors by the governments of each country and the role they play in national economic development. In the UK, these businesses not only form the bedrock of the British economy, but they are widely accepted as the main hub of economic activity in the country. They are seen not just as job creators, but as creators of wealth. Top it all, the UK government firmly believes that small and medium sized businesses are crucial to a successful enterprise economy and the government is fully committed to stimulating the creation,

competitiveness and growth of new and small businesses. Ariyo (2008) further avows that the key principles underlying the UK Government's approach include fostering an enterprise culture that encourages innovators and risk takers; providing and maintaining a supportive economic environment; identifying and removing barriers to growth and providing high quality business support for firms at all stages of their development.

It was highlighted by Kauffmann (2005) that with very few exceptions, all of the largest companies in the world started as small enterprises. Supportive economies, had access to the right people and capital, and technology turned small enterprises into giants. Kauffmann (2005) further points out that in practice, it is a very small percentage of small firms which experience this kind of growth but the fact remains that small and medium enterprises remain critical to the UK economy, providing over 67% of the UK's private-sector jobs and contributing over 50% of UK GDP. In the case of developed countries, for example Germany, the economy is characterised as having strong SMEs and about two-thirds of the workers are employed by these enterprises (Kauffmann, 2005).

### **2.2.3 The role played by SMEs in the People's Republic of China and the Asian**

#### **Community**

According to the US Embassy (2002), the growing significance of SMEs in China's economy is worth noting. Chinese and foreign experts estimate that SMEs are now responsible for approximately 60% of China's industrial output, and employ around 75% of the workforce in China's cities and towns. It is believed that SMEs are responsible for creating most new urban jobs, and have created opportunities for workers laid-off from state-owned enterprises that re-enter the workforce. Saru (2007) expands on US Embassy's viewpoint by stating that SMEs are

the major growing force behind the fastest growing economy of China, in terms of contribution to the national GDP (accounting for 40%), scale of assets, diversification of products, and the creation of employment. Saru (2007) adds that, similarly, the role of SMEs is well acknowledged in other countries such as Japan, Korea, and all other industrialised economies in terms of creating employment, reducing poverty and increasing the welfare.

It was reported by Snell and Lau (2006) that in Korea, there are over 30 million SMEs constituting about 99.9% of the enterprises and employing over 88.1% of the labour force. Furthermore, in newly industrialised Asian countries, SMEs have become the driving force in their rapid growth. For example, SMEs account for 99% of all enterprises and 88% of all employees in South Korea. Snell & Lau (2006) further allude that some of the world's leading Korean companies such as Samsung and LG were once small enterprises.

The brief overview of the contribution that small enterprises make towards the economies of the above mentioned countries emphasizes the importance of the small enterprise sector. Governments around the world have realized just how important this sector of the economy is for the future growth of their respective countries.

#### **2.2.4 The role played by SMEs in Africa**

In a study conducted by Stevenson & St-Onge (2005), it is reported that SMEs in Africa have played a significant role in the macro economy. In South Africa, Boshoff, Theron, & Schutte, (2008) conducted a survey and found out that South Africa is the most economically developed African country. SMEs generated more than 55% of all jobs and 22% of the country's Gross Domestic Product (GDP). Gray (2002) asserts that despite the importance of SMEs, SMEs in

other African countries have generally shown asymmetrical development. Unlike that of South Africa and the other powerhouse, Mauritius, two notable examples of countries with vibrant SMEs, most countries have relied on oil or other natural resources for their economic development.

The Department of Trade and Industry (2008) of South Africa suggests that there are more than 800 000 SMEs, absorbing approximately a quarter of the labour force of 15 million people. This is in addition to approximately 3.5 million people who are involved in some type of survivalist ventures. The DTI (2008) believe that small businesses in South Africa account for 60% of all employment and for 40% of GDP. Commonwealth Resources (2008) indicate that agriculture contributes 5% towards South Africa's GDP and employees 10% of total labour; manufacturing contributes 25% towards GDP and employs 28% of total labour, and mining contributes 7.7% towards GDP.

From a South African perspective, the importance of small-to-medium sized enterprises in contributing to national wealth is critical. SMEs are regarded as the ones with the potential for job creation and makes a substantial contribution (35%) to GDP of South Africa (Rwigema and Venter, 2010; Small Business Project, 2013).

For the South African government, the growth and development of the small business sector is also playing a major role in addressing the imbalances of the past (Department of Trade and Industry, 2008) as it is seen as a vehicle to create much needed employment and wealth. Similarly, (Saru, 2007) also points out that in Kenya SMEs are responsible for about 80% of

employment and contributes about 40% to GDP. These examples demonstrate that SMEs are an integral part of the economy critical in spurring socioeconomic development.

The strong interest in entrepreneurship is largely due to findings that new business enterprises are the primary source of new employment opportunities (Boshoff, Theron and Schutte, 2008), and this is indicated by Ndwandwe (2008) who reported that SMEs account for 60% of all employed people in South Africa.

It is reported by Namibia Economic Policy Research Unit (NEPRU, 2010) that SMEs are important to almost all economies in the world, but especially to developing countries like Namibia with major income discrepancies between the rich and the poor, and with a headache of unemployment. On what we may call the “static” front, SMEs contribute to output by participating in the mainstream economy and to the creation of some “decent” jobs especially to the few that runs-the SMEs. This assumption is supported by the Institute for Public Policy Research (IPPR, 2011) that SMEs are the biggest employer and can close the inequality between the rich and the poor. On the other hand, SMEs are the nurseries for the larger firms of the future. Many large firms started as SMEs before they grew large. IPPR (2011) maintains that it is therefore, in this regard that SMEs are the next and important step up for expanding micro enterprises. SMEs contribute directly and often significantly to aggregate savings and investment of any nation, and they are involved in the development of appropriate technology also. With increasing competition within the SMEs, new solutions will be brought forth across different sectors (MTI, 2008, quoted in LaRRI 2010: 14-15).

In Namibia, there is a general consensus that the development of the SME sector offers great opportunities for the attainment of sustainable socio-economic development (LaRRi, 2008; Tonin, 2008). This has been recognised in the Namibia Vision 2030 which clearly states that SMEs should act as the locomotives promoting “human development, equitable and balanced growth, with a growing industrial sector.”

In 2005 the Institute for Public Policy Research (IPPR) reported that SMEs account for 20% of employment in Namibia, and contribute 12% of GDP (Arnold, 2005; Tjirera, 2011). LaRRi (2008) reported a considerable contribution in employment creation from the SME sector in Namibia. The report indicates that the small business sector was estimated to provide around 60,000 full-time jobs in Namibia, making it a significant employment creation sector. In this regard Mwilima (2010) states that in Namibia, SMEs provide some employment and incomes to 160,000 people, representing approximately one-third of the nation’s workforce. In terms of full-time employment, this sector currently employs about 60,000 people. In Namibia, the majority of SMEs are mainly found in the retailing sector selling foodstuffs and household products.

It was reported by the United Nations Industrial Development Organization (UNIDO), 2010 that for developing countries like Namibia, integration into the global economy through economic liberalisation, deregulation, and democratisation is seen as the paramount way to eradicate poverty and inequality. Significant to this process, is the development of a private sector, in which SMEs can play a central role. The United Nations Industrial Development Organization (UNIDO), 2010 report further reveals that SMEs have an inclination to employ more labour-intensive production processes than large enterprises. Consequently, they contribute significantly

to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty. SMEs can become a major contributor to private sector employment.

Namibia Chamber of Commerce and industry (2011) mentions that SMEs play a significant contribution in the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process. The Chamber also points out that SMEs shore up the expansion of systemic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. However, the Chamber cautions that, such linkages are very crucial for the attraction of foreign direct investment (FDI). Investing larger corporations look for sound domestic suppliers for their supply chains. The Chamber concludes by saying there are a number of factors responsible for the importance of SMEs in Namibia. First, SMEs bolster an entrepreneurial spirit and put forward flexibility in the economy. Second, SMEs emanate the fastest growing export sub-sectors, such as maize farming and construction. Third, they can support the poverty alleviation endeavours through employment generation process. Above all, SMEs are more efficient in resource allocation as compared to that of large scale companies from a social point of view. They provide for and facilitate for a more number of people.

According to Gaomeb during a Bank of Namibia Symposium (2012), Namibia's economy is an economy that can easily be grown by SMEs. However, efforts have remained restricted focusing on the large enterprises, and neglecting SMEs which are the back bone of the economy. For

instance, institutions established to facilitate business activities, have been focusing their efforts on large companies leaving the SMEs. SMEs are a distinctive mainstay of the economy that requires owing special treatment (Bank of Namibia Symposium, 2012).

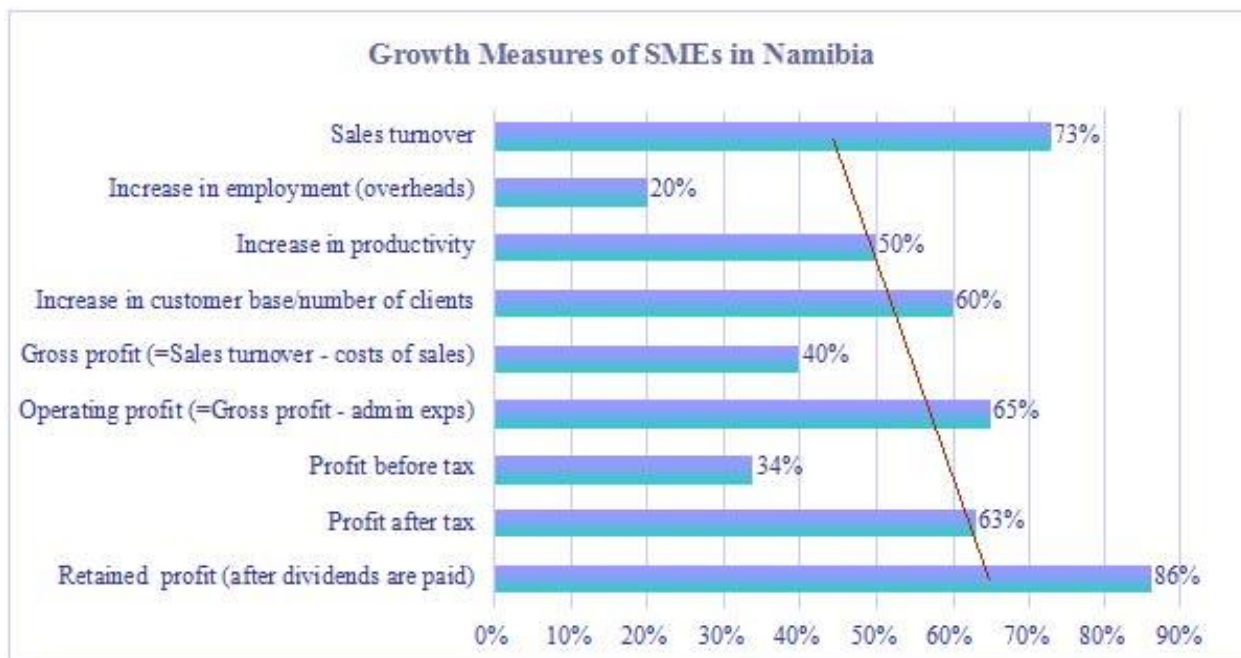
### **2.3 The measures of growth of SMEs in Namibia**

In order to grow, small firms must evolve their organization, incorporating changes to management structure, operational planning, control, and communication processes (Hanks, 2000), without impairing the firm's competitive advantage. Failure to make these changes may result in harm to the business through stagnation, negative growth, loss of customers, and failure to introduce new products, potentially closing the business (Churchill and Lewis 2003; Hambrick and Crozier 2005).

According to Asa & Navneel (2014), there is variation on preferred monetary and non- monetary growth measures by different firms studied in Namibia. The graph below portrays the preferences on measures of growth from the study conducted on Namibian SMEs from different industries. While the Ministry of Trade in Namibia prefer to define and categorize growth of SMEs on number of employees, however, the study shows that SMEs do not prefer to use number of employees to measure their growth. In fact, they view the number of employees as an overhead, which means the quantity of employees in SMEs in not much a strategic contributor to their growth but the quality of employees carrying out day by day business operations is what matters.

The linear trend line in the graph is referred to as “50/50 vector”. The 50/50 vector separates the measures on the range of 50% apiece to exhibit the most preferred growth measures at above

50% and least preferred growth measures below 50%. Retained profit is the most preferred measure that Namibian SMEs use to assess their growth, and is the predominant source of financing among growing SMEs. In addition, sales turnover, operating profit, profit after tax, increase in customer base/number of clients and increase in productivity are most preferred growth measures, respectively (Asa & Navneel, 2014).



Source: Asa & Navneel (2014)

### **Analysis of factors that determine sustainable growth of small firms in Namibia**

<b>Variables</b>	<b>Items</b>
Customer Relations/Service	1 Price, 2 Service quality, 3 Responsiveness, 4 After-sales service, 5 Number of regular customers, 6 Dependence on products, 7 Customer contact, 8 Customer retention, 9 Brand image/reputation, 10 Market channels

<b>Variables</b>	<b>Items</b>
Markets/Competition	Market barriers, 2 Niche markets, 3 Diversification
Government Relations and Networks	1 Governments, 2 External networks, 3 Sources of finance
Organizations, Leadership, and Human Resource Management	1. Procurement, 2. New business planning, 3. Management strategy, 4. Exploration of new markets, 5. Organizational management, 6. Research and development
Business Strategies	1. Product differentiation, 2 Cost leadership, 3 Market concentration, 4 Technology leadership, 5 Type of sales, 6 Pricing, 7 Outsourcing, 8 Customer relations, 9 Service, 10 Advertisement, 11 OEM use, 12 Product quality, 13 Flexibility, 14 Delivery
Products and Innovation	1 R&D investment, 2 Number of researchers, 3 Number of employees with a master's degree, 4 Cost of developing new products, 5 Cost of improving products, 6 Intellectual property rights
Internationalization	1. Time to internationalization, 2 Global alliances/joint ventures, 3 Number of overseas branch offices

Source: Asa & Navneel (2014)

### **2.3.1 Hidden Champions Analysis**

To identify the determinants of successful small firms growth, (Asa & Navneel, 2014) classifies the variables into seven categories adapted based on those for Simon's hidden champions of the 21<sup>st</sup> century: (1) customer relations/service, (2) markets/competition, (3) government relations

and networks, (4) organizations, leadership, and human resource management, (5) business strategies, (6) products and innovation, and (7) internationalization. The critical success factors to become high performing SMEs are determined based on distinctive behaviour which explain their growth patterns.

Hence, rather than focusing on the firms' demography such as firm size, age or gender of owner, the behaviour of small firms was more concentrated in (Asa & Navneel, 2014)'s study. These categories were employed to determine not only the performance of hidden champions but also that of general and internationalized SMEs although in their study, the internalization of small firms was found to be weak and insignificant.

Below are the critical factors that need consideration in maintaining the growth of small and medium enterprises in Namibia.

#### **2.3.1.1 Customer relations or service**

Simon (2009) argues that closeness to customers helps the hidden champions' innovation effort. Closeness to customers means to have tight relations with the customers, and spatial proximity through decentralization is a way of maintaining good relations (Simon, 2009). The main reason for staying close with customers is to secure repeated purchases. This is an expected finding since it points to the essence of customer relationship which in the end is profit earning through continuous business from existing customers.

### **2.3.1.2 Markets/Competition**

These internal competencies are linked with external opportunities that are in the market. The hidden champions are focused on a niche market, where they make use of their strong competitive advantage and market presence. This market presence also gives them closeness to customers, which makes sure the company understands customers' needs and can use this data in their innovation process. Innovation ensures the competitive position and together with customer relations it makes sure that technology and customer needs are coherent. This feature gives the hidden champions a strong advantage that they can transfer to other regions all over the country and thereby ensuring growth and economies of scale which lowers the cost, and strengthens the competitive advantage further. Asa & Navneel (2014)' study found SMEs that are strong at these market features achieved growth. The regression model shows the significance of P-value 0.00 and has likeliness of 2.8 times in achieving growth than those that do not enjoy such market features.

### **2.3.1.3 Government Relations and Networks**

According to Asa & Navneel (2014), maintaining a good relationship with the government guarantees business survival over period of time. The government is an important source of SME financing and other business supports such as training and education. Networking has become the art of success in today's business environment. Networking connects the firm to government, customers, and suppliers and even to other businesses to form strategic alliances for resources and capabilities acquisitions towards sustainable competitive advantage and consequently the growth of the firm. This variable is found to be significant and the firms that have high degree of

government relations and networks are 3.8 times likeliness to achieve growth than those with low degree of relations (Asa & Navneel, 2014).

#### **2.3.1.4 Organizations, Leadership, and Human Resource Management**

This measure is important because it determines how the firm operates whereby goals and objectives always come first (Asa & Navneel, 2014). For hidden champions, leadership means inspiring employees to be best, to become a market leader. Simon's hidden champions strongly emphasize the personalities of the leaders, which he has divided into two groups: founding entrepreneurs and entrepreneurs of perfection (Simon, 2009, p.300). Among the founding entrepreneurs, Simon (2009, p.301) states that they "tend to have five traits in common: Unity of person and purpose, single mindedness, fearless, stamina and perseverance, and the ability inspire others. As for the entrepreneurs of perfection, they are the new generation of Chief Executive Officers that take over after the founding entrepreneurs. They are well educated, possess excellent English abilities, and they move with great self-confidence around the international business stage (Simon, 2009, p.304). Asa & Navneel (2014)'s study found positive results showing a significance of 0.00 and odds showing the likeliness of 3.0 times for firms with high degree of this variable to achieve growth than those with the low degree scenario.

#### **2.3.1.5 Business Strategies**

Asa & Navneel (2014) state that business planning and objectives were related positively to firm growth, indicating that faster growing firms often had business planning and objectives. Marketing strategies, for instance advertisements and market concentration were related positively to firm growth, with some factors being important and some not important in the study. Technological sophistications, particularly in firms operating in IT industry were found to

be important in achieving firm growth. Training programmes for employees both internal and external to embrace flexibility were also found to be a feature of successful firms. Odds show 2.3 times to achieve growth from firms with high degree of well implemented strategies that features as a guiding tool of business operations (Asa & Navneel, 2014).

#### **2.3.1.6 Products and Innovation**

Growth is linked to a company's ability to innovate (Nelson, 2008 and Winter, 2002). Moreover, to sustain growth, firms need to constantly respond to their customers' needs in novel and precise ways. Asa & Navneel (2014)'s study revealed that there is no sufficient empirical evidence that demonstrates a link between innovative activity and growth among small firms in Namibia. However, the important evidence found is that small firms with high educated employees, to be precise at master's degree level and invest in market research were more likely (3.2 times) to achieve some sort of growth by improving products to meet customers' needs.

#### **2.3.1.7 Internationalization**

Internationalization of Namibian SMEs was found to be quite low. Asa & Navneel (2014) emphasise that entrepreneurial spirit is the key to job creation, improving competitiveness and economic growth in Namibia. After all, the growth of small firms in developing countries depends on government role in creating an enabling environment with favourable market conditions combined with some support to young dynamic entrepreneurs which in return significantly contribute to employment creation and economic growth.

### **2.4 Challenges faced by SMEs generally in the micro, market and macro environments**

The Small and Medium Enterprises has special features compared with the larger organizations. SMEs must consider the motivations, constraints and uncertainties facing smaller firms and

recognize that these factors differ from those facing larger firms. According to Westhead and Storey (2006), characteristics which distinguish small organizations from larger ones other than size is that of uncertainty. For the small organization external uncertainty has affected the most such as lack of power and influence in a market place, larger customer and vulnerability. Therefore, the SMEs seem unpredictable and ruthless market. Hence, uncertainties have become a major problem in the small organizations (Westhead & Storey 2006).

In many Western economies, such as the US and UK, banks also reduced their lending (loans and overdrafts) to SMEs in a drive to reduce risk. This falling finance trend has continued as SMEs have themselves reduced their demand for external funding as the recession has continued (Williams, 2012).

Michael (2006) believes that starting a small enterprise is always risky, and the chance of success is slim. According to the U.S.A Small Business Administration (2005), over 50% of small businesses fail in the first year and 95% fail within the first five years. Michael (2006) gives the following reasons for small enterprises' failure: lack of experience, insufficient capital (money), poor location, poor inventory management, over-investment in fixed assets, poor credit arrangements, personal use of business funds, unexpected growth. Gustav (2010) adds two more reasons: competition, and low sales.

It is generally recognized that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. These include: lack of managerial training and experience, inadequate education

and skills, lack of credit, national policy and regulatory environment, technological change, poor infrastructure and scanty markets information (Hill, 2011).

Sacerdoti (2005) highlights that surveys and studies conducted across the world over different time periods provide compelling evidence that a vast number of small businesses fail in the first few years. The majority of failures occur in the first two years while only a handful succeeds to complete their first five years. Sacerdoti (2005) further argues that experts outline various reasons why this happens, but overall most of them point out some common pitfalls into which small enterprise start-ups easily tumble into.

World Bank Enterprise Survey (2006) reports that SMEs in low and middle income countries perceive access to financing as a major obstacle to growth and development, indicating that most of the financial instruments discussed above are not easily available in most of these countries. The World Bank Enterprise Survey (2006) results indicate that SMEs in developing countries are more likely to report that access to finance is a major obstacle to their development than SMEs in developed countries.

According to Oteh (2010), one of the major difficulties SMEs come across, however, is the issue of access to finance. SMEs, especially in developing countries, suffer from lack of access to appropriate funds from both the money and capital markets. This is due in part to the perception of higher risks resulting in high mortality rate of the business, information asymmetry, poorly prepared project proposals, inadequate collateral, absence of, or unverifiable history of past credit(s) obtained and lack of adequate historical records of the company's transaction.

Ramsden (2011) outlines several challenges experienced by SMEs in developing countries, including cumbersome business regulations, insufficient infrastructure, corruption, lack of access to finance and management capacity for an example, the need for skills across a wide range of disciplines, many of which are specialized or technical. He also pointed out that the smallest firms are most severely affected by these constraints. Although SMEs often start with internal sources of funding (such as savings), they tend to require external funding as they grow. Access to such funding was mentioned as a major obstacle to SME growth and development.

Edmiston (2004) postulates that one of the most significant challenges is the negative perceptions towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Lack of planning, inadequate financing and poor management have been cited as the main causes of failure of small enterprises (Longenecker, Justin, Carlos, Moore, William, & Leslie, 2006).

According to Beck, Demirgüç-Kunt, Laeven & Maksimovic, (2006), access to and cost of finance is often ranked as one of most constraining feature of the business environment by SMEs. In their research (Beck et al, 2006) indicate that the cost of finance is rated by over 35% of small and medium enterprises as a major growth constraint especially in developing countries. More other characteristics of the business environment, including tax rates and macroeconomic instability, are also rated by many SMEs as major growth constraints.

OECD Development Centre (2005) reports that when it comes to the influx of Asian investors in the case of Chinese businesses in general, many are likely to think that Chinese companies

operating in Africa are mostly related to oil or other natural resources sectors. However, 80% of Chinese companies currently in Africa are SMEs. Chinese businesses are likely to enter where most other foreign businesses do not consider it worthwhile to do business, because there are low profit margins and weak supply chains. Chinese businesses see this as an opportunity and Africa as a new market. The problem is that the increasing penetration of China in the African market has also brought about several negative consequences. OECD Development Centre (2005) furthermore revealed that most importantly, Chinese SMEs lack an understanding of African business, as they do not try to integrate into the host countries. The most significant consequence is that as a result, the strong presence of Chinese SMEs forces local firms out of business. Thus, the penetration of Chinese companies threatens to undermine the development of local (African) SMEs.

Thorniley (2010) states that despite the importance of SMEs, barriers exist for SMEs in Africa. Most notably, many African countries lack the governmental capacity necessary to properly support the development of local SMEs. What is worse is that, some African Governments impose harsh regulations on local SMEs. As an example, in Ethiopia, many local SMEs complain that regulation is too tight. They feel that it is too difficult to obtain a licence. Thorniley (2010) adds that, proof of premises and requirements for large amounts of capital and high qualifications stifle growth. SMEs are also heavily taxed. This makes it difficult for SMEs to emerge from the local sector.

Okpara (2011) concurs with Thorniley (2010) who indicates that some governments actually present quite an ironic attitude towards their own local SMEs. For example, in Ghana, after the

discovery of oil in the Sekondi-Takoradi region, many local businesses related to both the oil sector and related industries such as gas refinery have emerged. Thus, many new SMEs have tried to enter the market. However, it is said that the existing legal system provides a more favorable environment for international companies. It is, therefore, impossible for local SMEs to compete with international firms that have greater know-how and capital. Thus, the Ghanaian government is supporting foreign investment rather than local growth. Okpara (2011) further argues that there is another complaint from local Ghanaian SMEs that the bidding process seems to favor foreign companies. Local SMEs complain that information about contracts is not made available to local providers. This situation is closely related to corruption and the agreements signed behind closed doors between businesses and governments. Locals perceive that there is no transparency in this regard.

According to KPMG (2011), SMEs in Ghana and other countries try to finance their fixed assets with long-term debt, and their current assets with short-term debt. Since SMEs with low asset structure have greater difficulty accessing long-term debt, the only option is to fall on short-term debt finance. In Ghana, long term finance providers typically require landed property as collateral in granting credit (Joshua & Nicholas, 2009).

According to Gray (2002), in some countries such as the Democratic Republic of the Congo, most local SMEs went bankrupt due to the civil war. Long-lasting civil war has undermined the foundations for many SMEs. Gray (2002) continues that to further complicate matters, in many countries, lack of infrastructure and environmental conditions such as unattractive tax regimes and legal systems, small local markets, and corruption have hampered the development of SMEs.

All of these factors have resulted in an uncertain environment for local entrepreneurs. As a result, local businesses tend to stay in the informal sector and do not contribute to national economic growth.

According to Stella (2011), despite the important contribution to economic growth by SMEs, in Kenya, SMEs continue to face numerous challenges including; inadequate infrastructural facilities, challenges with attracting skilled manpower, high rate of enterprise mortality, lack of a facilitative operating environment, restricted market access, and onerous regulatory requirements. Stella (2011) adds that one of the main areas of concern is access to funding. According to a survey of top 100 SMEs in Kenya, most SMEs rely heavily on savings or bank loans for expansion capital (KPMG, 2011).

Despite SMEs' significance, past statistics indicate that three out of five small businesses in Kenya, particularly SMEs in Kisumu town, fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). However, it is generally recognised that SMEs face unique problems, which affect their growth and profitability and, hence, diminish their ability to contribute effectively to sustainable development. Many of the problems cited have implications for technological choice. These problems include lack of access to credit, inadequate managerial and technical skills, and low levels of education, poor market information, inhibitive regulatory environments, and lack of access to technology (Harper 2008; ILO, 2009; House, Ikiara, & McCormic, 2005).

According to Ariyo (2008), Nigeria's SMEs experienced a lot of problems and hardships. This is not just as an effect of the economic downturn. There are a number of bottlenecks, including

serious under capitalization with difficulty in gaining access to bank credits and other financial markets; corruption and a lack of transparency; very high bureaucratic costs; but most damagingly, a seemingly lack of government interest in and support for the roles that SMEs play in national economic development and competitiveness. However, SMEs are criticized for their high rate of bankruptcy (Ariyo, 2008).

According to Okpara (2011), financial experts say about 80 percent of small and medium enterprises in Nigeria fail within the first five years of their existence due to lack of experience and other wrong business practices. He attributed inability of SMEs to access finance from banks and other financial institutions to lack of proper structures. In a study done in Uganda, access to finance is the major constraint faced by SMEs followed by corruption, infrastructure and taxation (Oteh, 2009).

Gaomeb (2012) outlines that lack of business and managerial skills can magnify financial barriers for SMEs. Low levels of financial literacy can prevent SMEs from adequately assessing and understanding different financing options and from navigating complex loan application procedures. Similarly, the fact that SMEs' accounting and financial statements are often not transparent makes them (at least in the perception of many bankers), risky borrowers who thus make for less attractive clients (Gaomeb, 2012).

Access to finance has been acknowledged by many as one of the major barriers to the development and growth of small businesses in Namibia. The 2007 International Monetary Fund (IMF) country report on Assessment of Financial System Stability, found that SME access to finance remains limited in Namibia (IMF, 2007). The limited accessibility to financing options

for SMEs is a result of a lack of appropriate collateral, the underdevelopment of leasing and factoring services, the comparably small supply of private equity and venture capital, and the ineffective use of specialised financial institutions (Nakusera, 2008).

Tonderai (2005) highlights that in Namibia, according to statistics, nearly 70 per cent of loan applications by SMEs do not qualify for financing and 80 per cent of all SMEs fail. Despite an ever-improving environment in which SMEs operate, one glaring statistic that still haunts the sector is the fact that according to Bank Windhoek Report (2013), 75% of new SMEs continue to fail in their first year of operation. The main reason given for such frequent failures is a lack of proper planning and the commercial bank has offered a list of helpful tips to assist upcoming entrepreneurs in bettering their chances of success.

SMEs require adequate financing to meet the needs at each stage of their life cycle, from creation through operation, development, expansion, and beyond. Financing is necessary to help them set up and enhance their operations, develop new products, and invest in new staff or production facilities (Stella, 2011).

The existence of a financing gap in the economy is confirmed through research by the Parliamentary Standing Committee on Economics, Natural Resources and Public Administration (2009); the World Bank (2006), Knutsen (2003), as well as the Namibia Chamber of Commerce and Industry (2010).

More than 40 per cent of Micro, Small and Medium Enterprises (MSMEs) in the country identify access to finance as the most serious obstacle to growth. Access to finance and the cost of credit,

both prominently feature as challenges faced by the sector. Stringent collateral requirements are more of a challenge among small to medium enterprises, followed by cost of credit (Demirgüç-Kunt, 2013). The twin challenges of the cost of borrowing and access to finance have to be considered when devising SME financing strategies. Generally, in Africa, there are supply side, demand side and institutional constraints to financing SMEs (Proparco, 2009).

According to Nuyoma (2010), there are three factors that hamper SME funding, namely demand-side constraints, supply-side constraints and lending infrastructure, policy and institutional constraints. If those constraints are adequately addressed, more SMEs in Namibia would be able to get access to funding.

World Bank Enterprise Surveys (2006:09) recommends that capacity building of SMEs in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training is shown to have positive impact on SMEs' growth.

Ramsden (2010) alludes that various support strategies are needed to effect SME growth and development. These include financial services that will meet SME needs, effective collateral regimes that will contribute to banks lending to and supporting SMEs more willingly and a supportive legal framework for SMEs. An interesting example cited is China which works on the use of movable collateral registries to overcome the challenge of collateral experienced by SMEs. Some of these suggestions are echoed in the Namibian studies.

Arnold, Grossmann, Mwatotele, Stork, and Tobias (2005: 15) suggest the introduction of special financial services for small businesses and the systematic promotion of linkages between larger

private firms of the SMEs as such linkages hardly exist. The authors also allude to the need to undertake regular SME development and impact assessments to continuously assess the effectiveness of the support measures taken. This is certainly a key challenge in Namibia where comprehensive and reliable data are hard to come by and often already outdated by the time the reports are released.

Weidlich (2014) asserts that lack of access to finance, particularly bridging capital for SMEs in Namibia remains a major obstacle. Many SMEs in Namibia are unable to obtain bank loans or attract larger credit facilities from financial institutions due to lack of collateral.

Tonderai (2005) highlights that in Namibia, according to statistics, nearly 70 per cent of loan applications from SMEs do not qualify. This has a negative impact on the growth of SMEs because they cannot be able to expand and finance operation activities. Shiimi (2012) asserts that lack of local SMEs protection from unfair foreign competition compromises the growth and development of the sector. He further advocates that an example of such protection could be in the form of appropriate regulation which will make it difficult for bigger businesses to enter the market and crowd out SMEs. He gave an example of Angola, where businesses to a certain size require a ministerial council's approval.

Gaomeb (2012) is supported by Tirivangani (2011) who indicates in his report that Small to Medium Scale Enterprises in Namibia are still defaulting on their repayment obligations despite Government's invigorated calls for banks to up funding. Tirivangani (2011) reported that this comes despite the notion that SMEs have the potential to drive the country's economy and boost

job creation in Namibia and at the back of the establishment of a Small to Medium Enterprise bank.

A survey conducted by Timmons (2013), shows contrasting repayment rates by SMEs, with First National Bank of Namibia recording a reasonable repayment rate of 67% while Bank Windhoek acknowledges that SMEs are slightly on the wrong side of debt service recording an average 8%. However, the Development Bank of Namibia says the most difficult thing when dealing with SMEs is the lack of adequate financial information concerning unavailability of comprehensive information on the intended project.

According to Sasman (2012), “SMEs face peculiar challenges mainly due to their size. SMEs being small, they have some advantages of being more flexible to adapt to changes in the business environment. SMEs being small also have disadvantages. “One of the disadvantages is that because SMEs have small balance sheets, they have little financial resources to fall back on in times of need. The result can be an inability to offer collateral when needed to raise finance, or the inability to take on larger business opportunities.” Sasman (2012) also adds on that most SMEs failed to provide convincing operations and business plans because of skills shortage and sometimes inability to follow business principles.

Bank Windhoek Corporate Communications Manager, Van Rooyen whose organisation deals with SMEs, in his address at the (SME Expo, 2012) in Windhoek, states that “Obviously, all defaulters of the SME Branch are SMEs because the current default rate is 68%.”

A study conducted by (Nuyoma, 2010); reveals that Namibia shows that small firms are discriminated against relatively large firms in most cases due to experience. Large scale firms can cope and solve their hurdles due to possessing sound experience and financial position. SMEs, due to their small size and the resulting peculiarities are far less capable of adjusting and carrying on successful business which in most cases require push start from the procurement company. Authors like (Michael, 2006; Tonderai, 2005 & Tirivangani, 2013) are of the opinion that there are also some hidden and apparent obstacles in the path of growth of SMEs in Namibia. The most important are; law and order situation; financial constraints; energy crisis; taxation problems; labour issues; lack of coordination and regular information exchange mechanism among institutions.

### **2.5 Namibian Government's policies relating to SMEs**

According to the Ministry of Trade and Industry (2012), SMEs in Namibia face constraints to their development and their rate of failure is high, particularly among the new sectors. The policy framework of 1997 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 (Ministry of Trade and Industry, 2012).

Ministry of Trade and Industry (2012) reveals that, since the Windhoek Chamber of Commerce complained about an invasion of Chinese SMEs, regulations have been changed. All foreign businesses in public transport and hair salons, which Chinese businesses have dominated, are now regulated under a new permit system. The new permit system states that new entrepreneurs have to comply with local registration requirements. These are examples of how the role of African Governments is important when it comes to protection of local SMEs. These are all passive responses, and instead, Governments need to be more pro-active in creating favourable environments for their own SMEs (Ministry of Trade and Industry, 2012)..

The Ministry of Trade and Industry (MTI, 2012) recognises the development of the SME sector as a means of reducing inequalities within the socio-economic environment of Namibia. The SME sector is also empowering previously disadvantaged Namibians, as well as diversifying the economy and promoting economic growth (MTI, 2012). To stimulate growth of the SME sector, the MTI's SME policies and programs are implemented through various departments and agencies to address the deficiencies in the system. In essence, the SME policy framework focuses on three key areas of intervention: deregulation and incentives; proactive programs; and institutional support (MTI, 1997).

The then Trade and Industry Minister, Dr Hage Geingob, in his address at the Eenhana Trade and Business Expo (2012), stated that government, through the Ministry of Trade and Industry, would promote SMEs because it recognized the critical role that businesses played in the socio-economic development and economic diversification of the country.

Dr Geingob said the government had put in place various policies and programmes for the development of SMEs, such as sites and premises, equipment aid scheme, training and mentorship. He further said that such initiatives were meant to help emerging small and medium-sized businesses.

According to the Namibia Policy and Programme on Small Business Development (1997), the Ministry of Trade and Industry will take action to reduce bottlenecks in local market by reinforcing structures to implement single market measures on time and correctly. It will include network regulation, effective enforcement and speedy conflict resolution. The ministry will also improve the business environment in particular for SMEs, through pursuing market monitoring, reducing administrative barriers, removing tax obstacles and supporting entrepreneurship, and making it easier and less costly for Namibian business and consumers to profit from partnerships by offering harmonised solutions for consumer contracts. Nevertheless, all the above have never been addressed.

The overall objectives of the Programme on Small Business Development (1997) are to contribute to the strengthening of industrial capacities of Namibian SMEs to face the double-challenge of regional and world integration and, in particular, in the context of trade liberalization and thereby to support efforts to reduce poverty. Specifically, in the context of the liberalization of trade worldwide, the programme aims to support the dynamics of upgrading and modernization of industries and related services. It is also aimed to improve the industries' competitiveness, growth, job creation and access to national, regional and international markets.

The policy contributes to the strengthening of industrial capacities of Namibian SMEs to face the double-challenge of regional and world integration and, in particular, in the context of trade liberalization and thereby to support efforts to reduce poverty. Another objective is to support the dynamics of upgrading and modernization of industries and related services, and to improve their competitiveness, growth, job creation and access to national, regional and international markets within the framework of globalization and economic diversification. The above objectives are in line with the SADC Regional Indicative Strategies Development Plan (RISDP), the Namibian National Development Plan 4 (NDP 4), Namibian National Industrial Policy Framework, as well as the Manufacturing Strategy Framework.

Namibia Policy and Programme on Small Business Development (1997) further outlines that the Ministry of Trade and Industry will strengthen institutional and programme management capacities of the major stakeholders through reinforced capacities of the technical support institutions, business advice and consultancy centres by providing business development services to local producers. The Ministry will also strive for the establishment and strengthening of financial mechanisms and products for SMEs' competitiveness improvement and upgrading;

Currently, the MTI is developing an Industrial Upgrading and Modernization Programme (IUMP) which aims at supporting the improvement and expansion of industrial activities in key economic sectors. In October 2013 a review of the SME policy was commissioned to redefine policy interventions and ensure that the programs are more responsive to the current needs of the SME sector and culminate in the creation of a holistic SME support service (Timmons, 2013). Notwithstanding these developments, there are still significant challenges perceived to be

limiting SME growth. This can be confirmed as some Namibians continue to blame the SMEs regulatory frameworks (Timmons, 2013). Gaomeb (2012) highlights that there are other challenges such as the regulatory environment which is not favorable to serve as an incentive to SMEs growth.

According to Windhoek Chamber of Commerce and Industry Branch (2012), SMEs cannot generate economies of scale because their transaction costs as share of total costs or revenues are higher relative to large businesses. The Government policies aimed at reducing transaction costs can stimulate growth of SMEs. The Government policies in support of SMEs should focus on creating positive externalities for SMEs in the form of level credit markets, security, competition and a low-cost equitable legal system. These policies can be implemented in the long run and their impact would also be in the long run. However, most government policies focus on different set of incentives (Windhoek Chamber of Commerce and Industry Branch, 2012).

The Chamber further criticises that Government policies' focus on investment and tax incentives. However, these policies are not effective in the long run and do not meet the expectations of the businesses. Such efforts tend to support unprofitable activities and are inefficient. On the other hand, governments can create an environment which will be effective in the long run such as improving education, training and development of SME clusters.

Gaomeb (2012), claims that government policies must protect domestic SMEs from foreign competition. Liberal access for imported goods and services to Namibian markets is likely to undermine SME chances of success. A recent study into Chinese investments in Namibia, found

that the welcoming attitude towards Chinese investments that seemed prevalent amongst Namibian politicians and government officials was not shared by Namibia's small entrepreneurs (Bank of Namibia Symposium, 2010).

A Labour Resource and Research Institute (LaRRI, 2008) study points out that in 2008, a group of indigenous business people in Northern Namibia had publicly voiced their outrage over what they termed unfair competition from Chinese traders. The group's chairman Epafras Mukwiilongo stated that, "some of Chinese get subsidies from their government. They can afford to sell their products at a very low price and local entrepreneurs do not have any type of protection. The group chairman further states that Chinese investors are taking all the business opportunities from the local people. The government is telling the youth that they should go and establish SMEs, but how does government expect these people to compete against skilled and experienced business people if they are not given any type of protection (LaRRI, 2008)?"

The Foreign Investment Act of 1990 that makes provision for the promotion of foreign investments in Namibia, reads as follows, "Subject to the provisions of this Section 3(1) and the compliance with any formalities or requirements prescribed by any law in relation to the relevant business activity; a foreign national may invest and engage in any business activity in Namibia which any Namibian may undertake." This statement is in contradiction with the SME policy framework that focuses on key areas of intervention such as deregulation of the Namibia market by protecting infant industry from foreign businesses. The Policy restricts Foreign Direct Investment and Free Trade Area (FTA) (MTI, 1997). Namibia has still not signed the FTA as required by the European Union because of domestic businesses protection. Edmiston (2007)

concur that small enterprises are more flexible and better able to adapt to market conditions. Therefore, it is important to create a conducive environment in which small enterprises can operate, innovate and create needed jobs as a strategy to better economic development.

Sacerdoti's (2013) proposal for the creation of an enabling environment for SMEs is based on market-friendly, supply-side interventions. His paper does not provide an analysis of how liberalised economies and fierce competition may undermine the development and growth of SMEs. Nakusera (2008) points out that the "South-East Asian Tigers", for example, advanced their economic growth on the basis of state interventions in the economy, coupled with systematic support and protection for local companies. This only changed gradually once local companies had grown and were firmly established; and able to survive international competition. Such an approach may hold relevant lessons for Namibia since our markets are dominated by imports in virtually all sectors (Nakusera, 2008).

## **2.5 Chapter Summary**

In this chapter the focus is on defining an SME, understanding the concepts of the importance of small and medium enterprises. An exposition of the measures of growth of SMEs in Namibia, challenges faced by SMEs generally in the micro, market and macro environment and the Namibian Government's policies relating to SMEs was given. The discussion is mainly done on SMEs' contribution in the US, UK, Asia and few countries in Africa including Namibia. It has been confirmed by many authors that the small business sector is a viable vehicle, in the economy supported by relevant statistics. While authors agree on the importance of the small business sector, they also take note of the growth challenges faced by the SME sector.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

Chapter Three focuses on the methodology that was employed in this study. The chapter is divided into the following sections. Research design is discussed in Section 3.1. Section 3.2 has detailed the population from which the study obtained its findings. Sampling technique is outlined in Section 3.3. Section 3.4 depicts research instruments and measures used to collect data. Section 3.5 portrays the procedure undertaken to collect the data. Section 3.6 displays the analytical technique the research used to produce the final results.

#### **3.1 Research Design**

This study employed a mixed method approach, which comprises of the qualitative and quantitative research designs. The quantitative research design enabled the researcher to collect data using questionnaires and convert the data into numerical form so that statistical analyses can be made and conclusions drawn. The qualitative design enabled the researcher to gather data through interviews and focus group discussions with the use of open-ended questions.

#### **3.2 Population**

The population of this study consists of registered SMEs operating from Soweto Markets and Dr. Libertina Amadhila incubators within Katutura Central Constituency. Tirivangani (2013), reports that the number of registered enterprises operating at the Libertina Amadhila and Soweto Market Incubation Centres is 500. The selected incubators accommodate a number of tenants who engage in many different enterprises.

### 3.3 Sample

According to Cresswell (1994), the sample size of a statistical sample is the number of observations that constitutes it. It is typically denoted by  $n$ , a positive integer (natural number). Sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for the purpose of determining parameters or characteristics of the whole population (Zikmund, 2000). The latter further explains that sampling methods are classified as either probability or non-probability. In probability samples, each member of the population has a known non-zero probability of being selected. Probability methods include random sampling, systematic sampling, and stratified sampling. In non-probability sampling, members are selected from the population in some non-random manner. These include convenience sampling, judgment sampling, quota sampling, and snowball sampling (Zikmund, 2000).

The cluster sampling technique was used to choose the sample from the population of this study. The reason for using this technique is to ensure a high degree of representation of the population under study. The population was divided into clusters, depending on the similarity of the businesses they operate; for example clothing, salon and manufacturing. Respondents were randomly selected from clusters. The sample size consisted of seventy five (75) entrepreneurs.

The choice of the sample size was governed by among other things; 15% weighted of the total population of the study ( $500 \times 15\% = 75$ ), the confidence one has in the validity and generalisation of the data to be collected, a tolerable margin of error, and ultimately the size of the total population from which the sample was drawn.

### **3.4 Research Instruments**

Questionnaires were used for data collection and were self-administered and retrieved. Reasons for using questionnaires for data collection were that; large amounts of data can be collected from a large number of people in a short period of time and in a relatively cost effective way. The questionnaire items such as wording, naming, and questions chosen for the questionnaire used in this study were precise, clear, simple, unambiguous and easy to understand. Questionnaires comprised mainly close-ended and a few open-ended questions on selected variables.

### **3.5 Research Procedure**

Relevant authorisation from The University of Namibia, Namibia Business School and Small and Medium Enterprise owners was sought. A pilot study using 10 respondents was conducted soon after the data collection instrument was approved by the supervisor. The purpose of the pilot study, according to Saunders et al. (2000), and Cooper & Emory, (2001), is to refine the questionnaire so that respondents will have no problems in recording the data. Furthermore, it enables the researcher to obtain some assessment of the questions' validity and the likely reliability of the data that will be collected. Data from ten (10) respondents were analysed and the results was interpreted for correctness of the research instruments. This was then given to the supervisor who read and made corrections and improvements to ensure its validity.

Appropriate modification was then done on the instruments. This was then be followed by the full scale data collection. This was done by administering the questionnaires to entrepreneurs around the Katutura Central Constituency. This was done in a period of three weeks. Both

primary and secondary data was gathered. Primary data was collected from respondents and secondary data was collected from books, journals, magazines, newspapers, pamphlets, documents and the internet. The reason for gathering secondary data was to provide a baseline with which collected primary data results could be compared to.

### **3.6 Data Analysis**

The data entry process started as soon as questionnaires were collected from the field. Qualitative data was analyzed manually by first summarizing the information gathered and followed by categorization and coding into emerging themes. The quantitative data were then analyzed using a statistical package of Microsoft Excel to increase the accuracy of the results. Data generated from close-ended questions were analysed using descriptive statistics techniques.

The purpose of using descriptive statistics was to enable the researcher to describe what the data showed on graphic analysis. For example, 80% of respondents agreed that lack of finance was the primary challenge that hampered the growth of their enterprises. Graphs, charts and tables were used to present quantitative data.

Qualitative data was categorised and sorted into themes or patterns, ideas, concepts or phrases in order to attach meaning and significance to the findings. The narrative analysis technique was used to analyse complex textual descriptions of data that had been gathered from secondary sources, and from open-ended questions.

### **3.7 Research Ethics**

The following research ethics were strictly adhered to during data collection. SME owners' consent was sought and obtained before data was collected from the SMEs located within the Katutura Central Constituency. Oral consent was obtained from each respondent before any interview or discussion was conducted. Confidentiality was also assured to the respondents and was observed by ensuring that unauthorized persons had no access to the data collected. Respondents' names or identity was not linked to any research materials, and that they were not identified in any report or reports that resulted from the research. Data collected were solely used for educational purposes on the growth of SMEs, with specific reference to Namibia. The research was independent and impartial, and did not tarnish the image of the Namibian Government nor anybody, nor any institution by publishing controversial information.

### **3.8 Chapter summary**

Chapter Three focused on the research methodology that was employed in this study. The mixed method approach comprising qualitative and quantitative research designs was discussed. The population and sample of the study were clearly indicated. The chapter discussed instruments that were used to collect primary and secondary data. Interviews and questionnaires were used to collect primary data. Secondary data was extracted from books, journal articles, magazines, research reports, and pamphlets. The research procedure that was followed in order to execute the study was also outlined. Data analysis techniques that used were to analyse the data were also highlighted.

## CHAPTER 4

### 4. DATA ANALYSES AND DISCUSSION

This chapter presents the results of the analysis of the responses made to the interviews, focus group discussions, and questionnaire schedules administered to the sampled entrepreneurs operating small and medium enterprises within Katutura Central Constituency. The Chapter is divided into the following sections. Section 4.1 provides the response rate. Section 4.2 shows respondents' demographical data. Section 4.3 presents an analysis of micro environmental challenges on SMEs. Section 4.4 is about market environmental challenges on SMEs while Section 4.5 provides an analysis of macro environmental challenges. The Chapter summary is given in Sections 4.6.

#### 4.1 Response Rate

Table 1 below shows the response rate.

Sample of the research study	Number of self-administered questionnaires	Number of retrieved questionnaires	Number of group discussion for 5 entrepreneurs	Number of interviews conducted	Response rate
75	60	46	5 people x 3 group discussions	10	95%
<b>Total Respondents</b>					<b>71</b>

**Table 1. Number of respondents**

Table 1 above shows that, forty six (46) filled questionnaires were received from respondents; ten (10) face-to-face interviews were contacted, and three focus group of five (5) entrepreneurs were formed. The rate of response is 95% of the total sample of 75.

## 4.2 Demographical data of the entrepreneurs

The aim of this finding was to outline the demographic information of the respondents, type of enterprises they operate, duration of operating their enterprises, and registration of the enterprises. It aimed to validate the research topic in terms of registration of SMEs, and the problem statement in terms of the duration of operating an enterprise.

### 4.2.1 Gender of respondents

The gender of the respondents was analysed and the results are shown in Table 2 below.

Gender	Number of respondents	%
Male	29	40
Female	42	60
Total	71	100

**Table 2. Respondents by gender**

It is indicated by the number of respondents that females that operate small and medium enterprises are more than men entrepreneurs.

### 4.2.2 Age of respondents

Table 3 below shows the age of respondents.

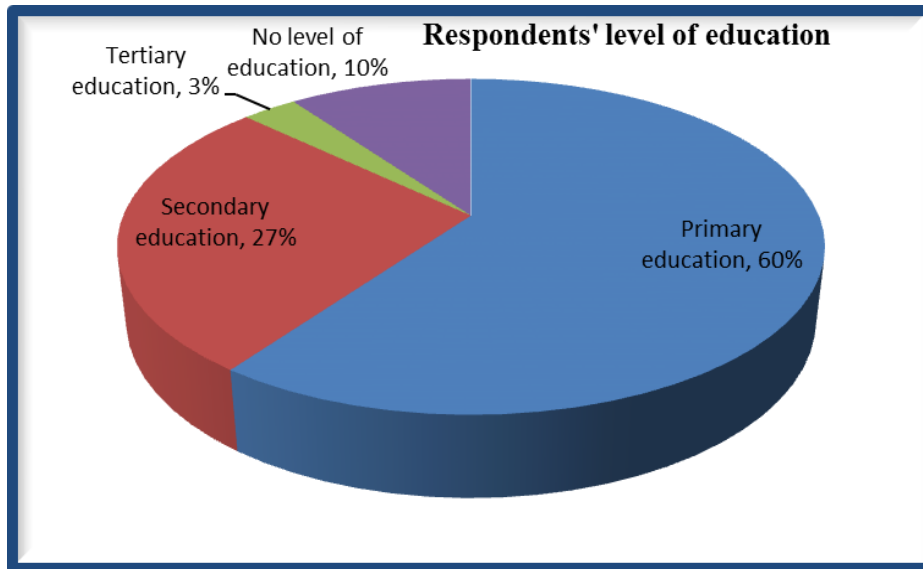
<b>Respondents age group</b>	<b>Number of respondents</b>	<b>%</b>
18 - 25	7	9.9
26 – 35	16	23
36 - 45	27	38
46 – 65	17	23.9
66 and above	4	5.6
<b>Total</b>	<b>71</b>	<b>100</b>

**Table 3. Age of respondents (n = 71)**

According to Table 3 above, the majority of the entrepreneurs are within the age range of 36-45 years that scored the highest number of 27 respondents. The age group of 46 – 65 scored the second highest number of 17 respondents while the age group of 26 – 35 was the third in the row with 16 respondents. The age group of 18-25 had only 7 respondents and the age group of 66 and above was recorded with the least number of 6 respondents. The findings of this study indicate that the average age of the entrepreneurs in Katutura Central Constituency who participated in this study, was approximately 40 years of age.

#### **4.2.3 Level of education**

Figure 1 below displays the level of education of the respondents

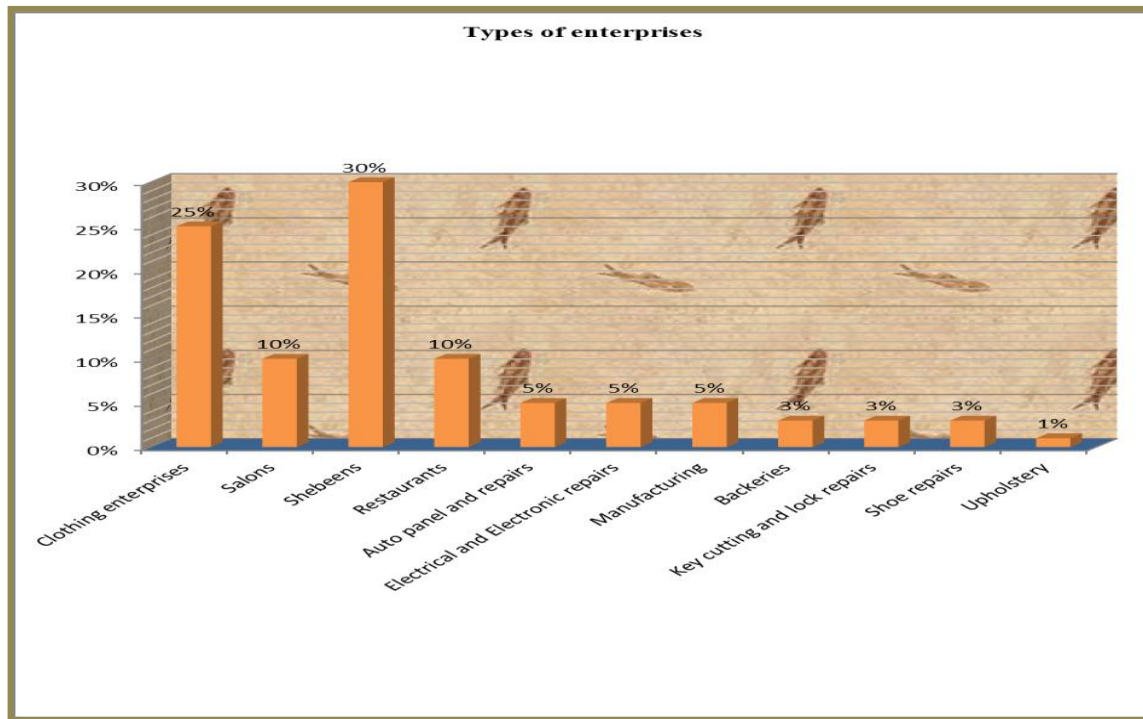


**Figure 1. Respondents' level of education**

The level of education of the respondents was sought in order to establish the level of literacy of entrepreneurs. Figure 1 above shows that 60% of the respondents had a primary level of education; 27% had attained secondary level of education, and 3% had attained a university level of education. Only 10% had no education level. Hall (2005) suggested that the level of education and the attendance of management training courses is also an important aspect in terms of small firm survival.

#### **4.2.4 Types of enterprises**

Figure 2 below shows the types of small and medium enterprises that are operated by the respondents.



**Figure 2. Types of enterprises**

Thirty (30) percent of the respondents as shown in Figure 2 above indicated that they operate shebeens; 25% of the respondents operate clothing enterprises; 10% operate salons and 5% each are engaged in restaurant, auto panel, electrical and electronic repairs and manufacturing. Entrepreneurs operating, key cutting and lock repair are 3%. Another 3% constitute entrepreneurs in the shoe repair industry, 2% are operating bakeries, and only 1% percent is in upholstery.

The shebeen industry scored the highest percentage, seconded by clothing. This indicates that the two industries have many competitors compared to upholstery and bakery. These findings can be supported by Gaomeb (2011) who narrated that Namibians must identify products and services of SMEs where they are marginally competitive or marginally uncompetitive. Since they are marginally competitive globally; they may still be competitive domestically and

regionally and hence can still become another peg for the economy. Such industries may be construction, maintenance, carpentry, transport, ICT and body care. Gaomeb (2011) further narrates that there are products and services where Namibian entrepreneurs are not competitive, and where the prospects for becoming competitive are quite remote.

#### 4.2.5 The length of operating the enterprise

Figure 3 below illustrates number of years that respondents operated their enterprises.

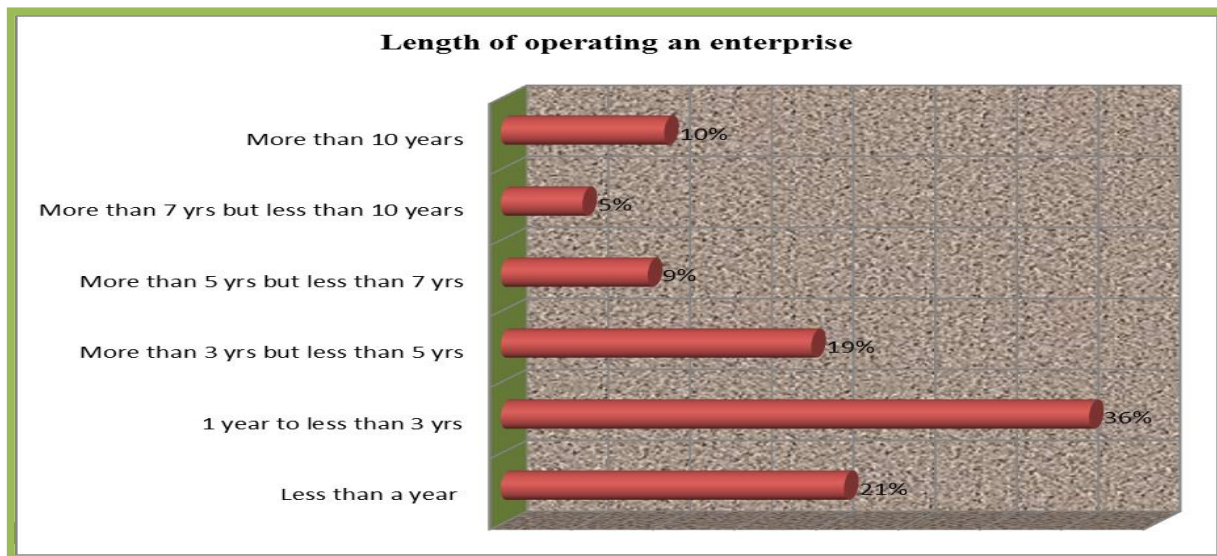
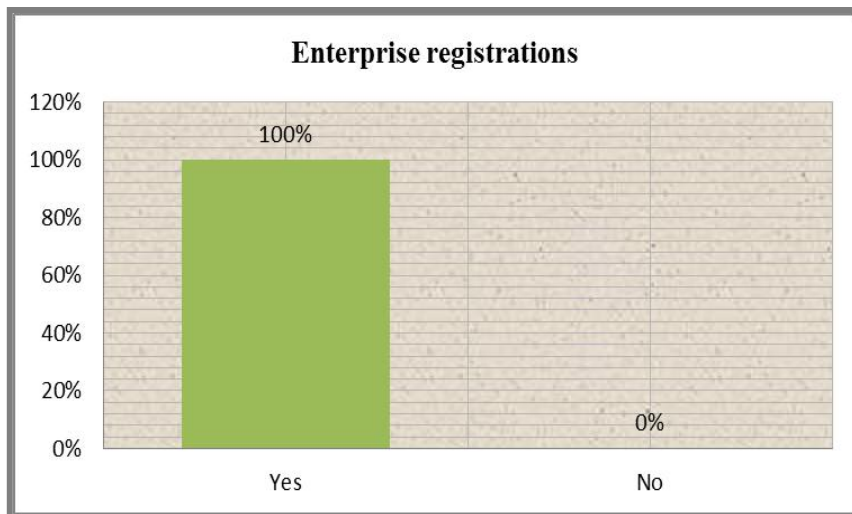


Figure 3 above reveals that 36 percent of the respondents indicated that they had operated their enterprises for a period between one and three years, and 21 percent of the respondents had only operated for less than a year. Those respondents who had been operating their businesses between 3 and 10 years constituted 33 percent of the sample. Those who had been in operation for more than 10 years were only 10 percent of the sample. The data shows that 57 percent of the enterprises have been in existence for less than three years.

#### 4.2.6 Registration of enterprises

Figure 4 below exhibits the percentage of small and medium enterprises that are registered with the Ministry of Trade and Industry.

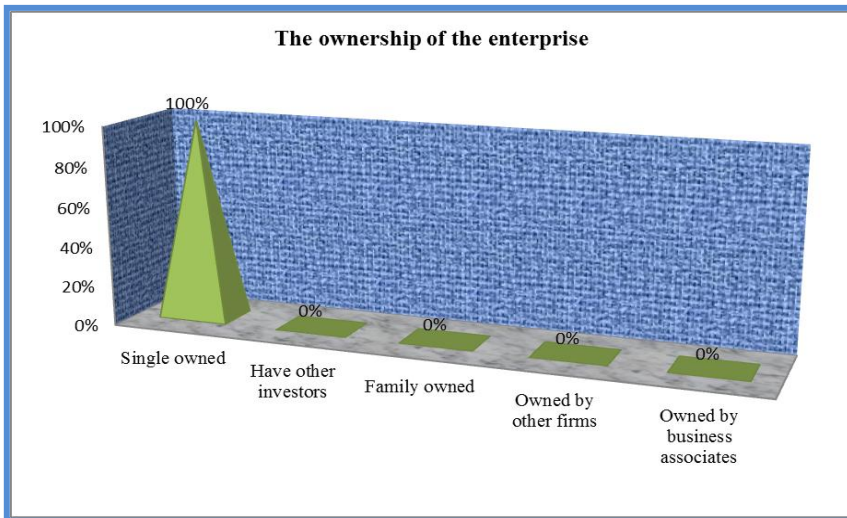


#### Figure 4. Registration of enterprises

The overwhelming majority of 100% indicated that their enterprises were registered with the Ministry of Trade and Industry. The outcome is displayed on Figure 4 above.

#### 4.2.6 Ownership of enterprises

Respondents were asked to indicate the owners of the enterprises they were operating. Responses are analysed and shown in Figure 5 below.



**Figure 5. Ownership of the enterprise**

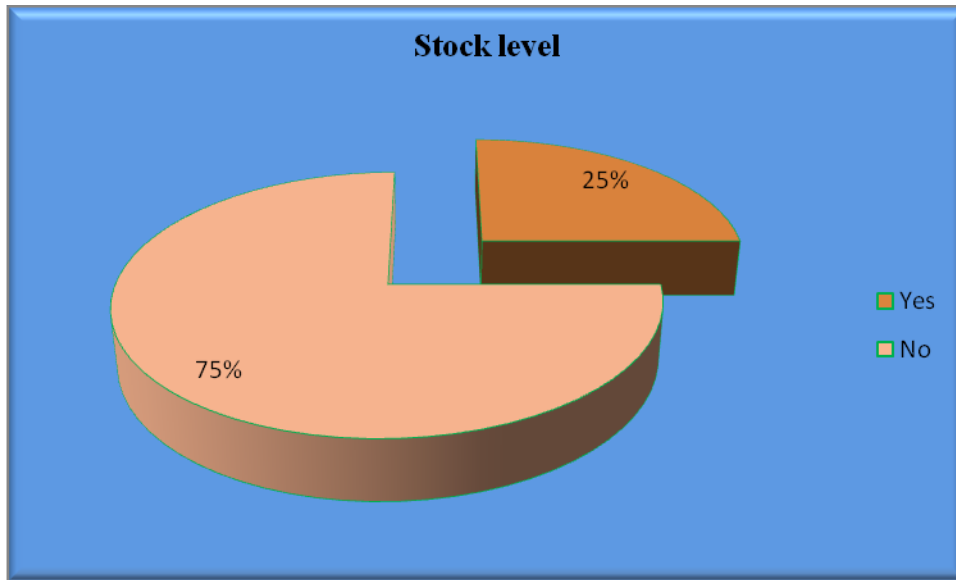
The study also sought to find out whether entrepreneurs had other investors, owned by the family, owned by other firms or owned by business associates. An overwhelming 100% of the respondents indicated that they were the owners of the enterprises they are operating.

### 4.3 Micro environmental challenges

The aim of this finding was to establish whether SMEs are growing or not. The growth is measured by an increase in production of goods, stock level, sales, number of employees, equipment base, vehicle base, and profit earned by SMEs. This finding addresses research Question number two (2).

#### 4.3.1 Stock levels increased or not

Figure 6 below displays whether respondents had increased the level of their stock since the establishment of their enterprises.



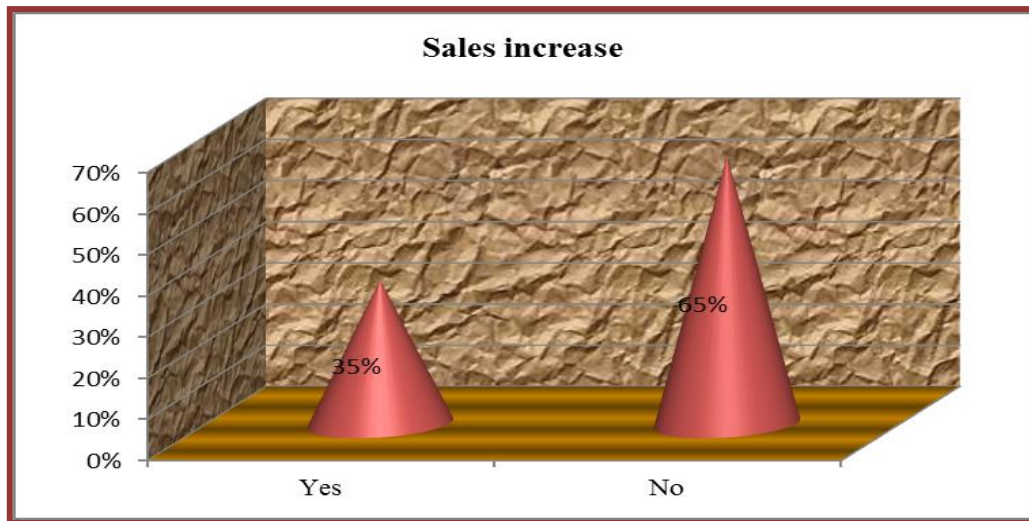
**Figure 6. The level of stocks increased**

Respondents were asked to confirm whether their stock had increased or not since the establishment of their enterprises. A follow up question was raised to establish why their stocks had not increased. The results are presented on the pie chart on Figure 6 above.

Figure 6 above shows that 75% of the respondents confirmed that they had not increased their stock since the inception of their enterprises; 25% of the respondents, indicated that they had increased their stock. Megginson (2003) believes that the owner-managers' ability to plan is imperative for future growth and survival of the enterprise. The respondents (75%) that had not increased their stocks indicated that they had not made enough profit to buy more stock, and the profit that they earned was usually used to sustain them and not to increase the stock.

#### **4.3.2 Sales levels increased or not**

Figure 7 below depicts the percentage of respondents that have increased their sales and those had not increased their sales since the inception of their enterprises.

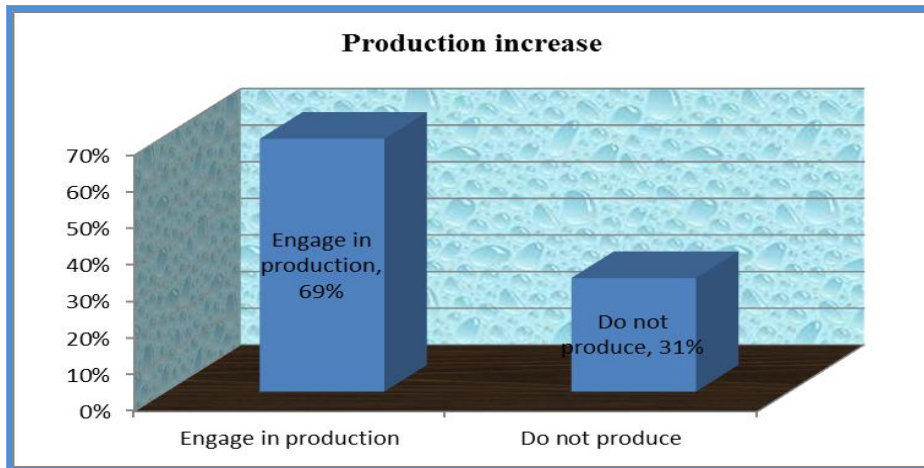


**Figure 7. Respondents that increased and those had not increase their sales**

An analysis to determine if there was an increase in sales since the set-up of their enterprises, displayed in Figure 7, indicated that 65 percent of respondents had never increased their sales. The performance of their enterprises was slow down due to fewer customers, stiff competition and more homogeneous products at the same place. Thirty five (35) percent of the respondents had increased their sales.

#### **4.3.3 Percentage of respondents that are producing goods**

Figure 8 portrays the percentages of respondents that producing their goods and respondents that did not producing their goods.

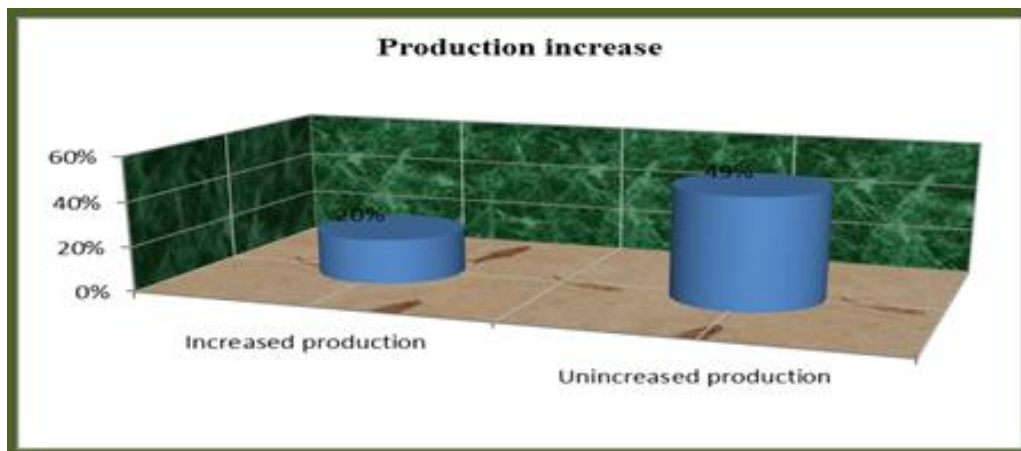


**Figure 8. Respondents that producing and that did not producing their goods**

The results in Figure 8 above show that only 69 percent of respondents are engaged in production and 31 percent were not producing any goods.

#### 4.3.3.1 Level of production attained

Figure 9 presents the outcome of the analysis of respondents that increased their production or not.



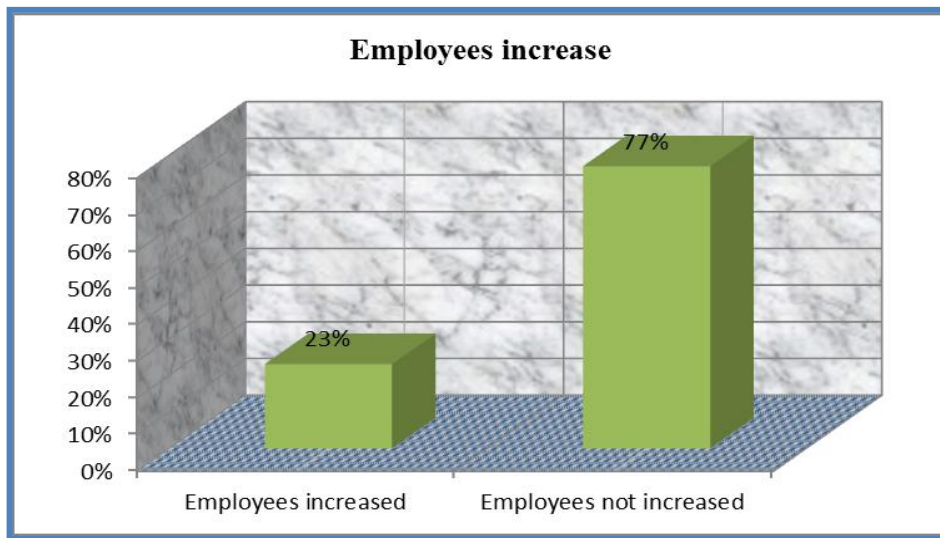
**Figure 9. Respondents that had increased their production and that had not**

Figure 9 above shows that out of 69 percent of respondents that engaged in production, only 20 percent confirmed that they had increased their production, while 49 percent stated that they had never increased their production.

The 49 percent respondents further expressed that it was very difficult to increase production because there was a decline in sales in some months leaving them with more stock. Respondents further highlighted that they did not have machines and tools to produce more stock and the enterprises' space was also a limiting factor.

#### 4.3.4 Number of employees recruited

Figure 10 shows the percentage of respondents that had increased their employees during the operations of their enterprises.



**Figure 10. Respondents that had increased their employees and those had not increased their employees**

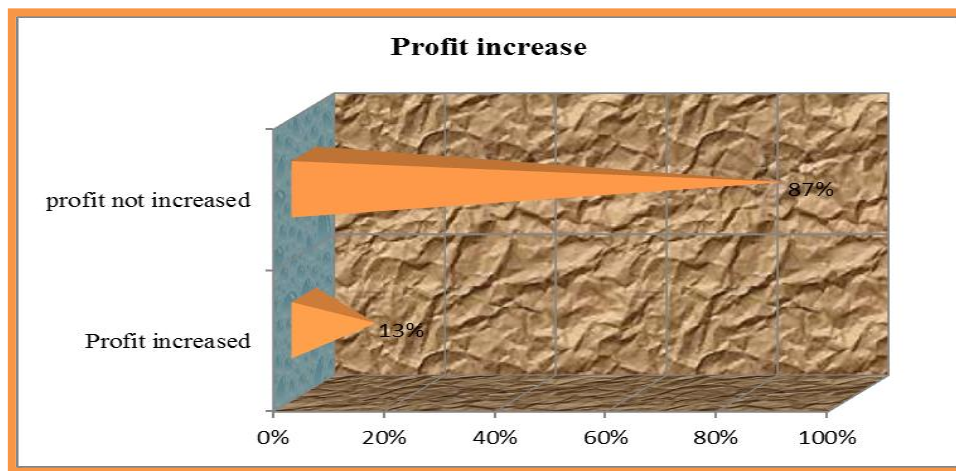
To determine whether the number of employees had increased since the SMEs had been established; 77% of respondents indicated that the number of their employees had not increased

since the setting up of their enterprises. Twenty three (23) percent confirmed that they had increased the number of employees.

The reasons for not recruiting more employees were that: The size of the enterprises did not require the owner to recruit more than two people; there was insufficient money to pay salaries; the workload was not too much and employees' turnover was too high and costly.

#### 4.3.5 Profit earned since the establishment of the enterprise

Figure 11 displays the percentage of the respondents that earned profit and that did not earned any profit since the establishment of their enterprises.



**Figure 11. Respondents that increased their profit and those had not increase their profit**

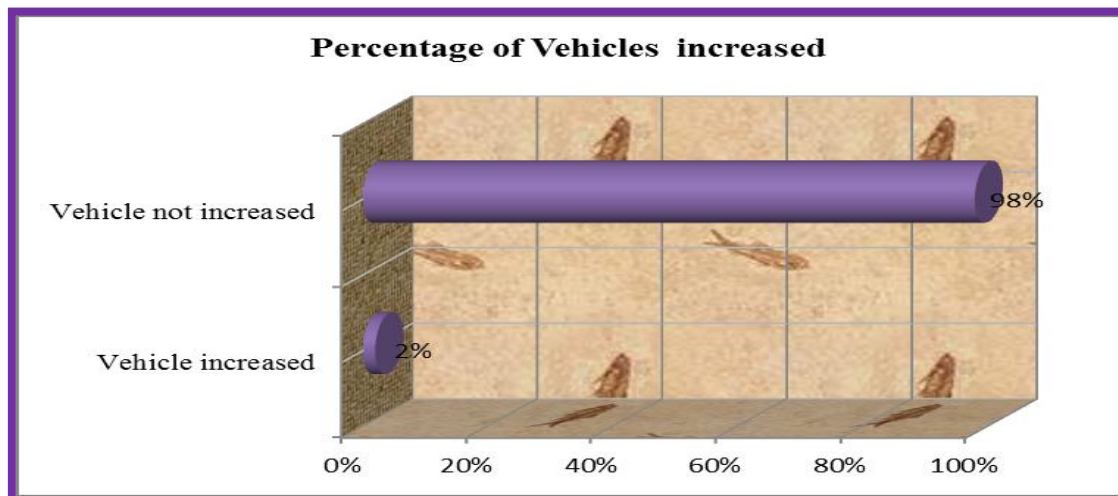
As shown in Figure 11 above, 87% of respondents confirmed that they had not earned profit while 13% of respondents had earned profit. The 87 percent explained that it was very hard to earn profit because of the following reasons. Firstly, the prices of raw materials were ever increasing. Secondly, the sales were not good all the time. In some days the entrepreneur would

not even sell a single product. Stock sometimes got wasted especially in the catering industry due to perishability of food especially vegetables.

Finally, rental fees for the incubations were also high, hence, the operation expenses were taking a big portion of the money earned from the sales.

#### 4.3.6 Vehicle base that were increased and that were not increased

Figure 12 below shows respondents that had increased the level of vehicle base and that were not increased their vehicle base.



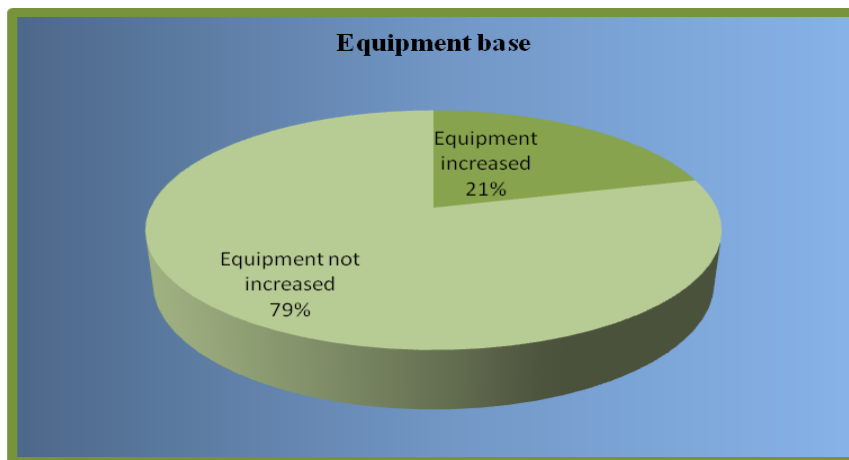
**Figure 12. Percentages of vehicle base that were increased and that did not increased**

As indicated in Figure 12 above, 98 percent of the respondents confirmed that they had not increased the number of their vehicles since the inception of their businesses. They stated that vehicles were very expensive and the money earned from the sales was not enough to buy a vehicle. They further explained that they were not qualified to buy vehicles via financial

institutions or get loans from other sources. Two (2) percent of the respondents indicated that they had managed to increase the number of their vehicles.

#### 4.3.7 Level of equipment base that were increased

Figure 13 below illustrates the percentages of respondents that had increased their equipment base and those had not increased their equipment during the operations of their enterprises.



**Figure 13. Respondents that had increased their equipment base and those had not increased their equipment**

Respondents were asked whether they had increased the number of their equipment since the establishment of their enterprises. The data in Figure 13 above indicates that 79 percent indicated that they had not increased the number of their equipment because, equipment was very expensive and they did not have enough money to buy additional equipment. They also highlighted that the government was very reluctant in assisting them with equipment. Twenty one (21) percent of the respondents confirmed that they had increased their equipment.

#### 4.4 Market environment challenges

The purpose of this finding was to establish the challenges that were faced by the SMEs under study. It aimed to find out whether competition, access to loans, repayment of loans, lack of reliable suppliers, homogeneous goods in the market, and potential customers are some of the challenges faced by SMEs in Katutura Central Constituency. It addresses research Question number three (3).

##### 4.4.1 Number of customers attracted

Figure 14 below shows whether the number of customers had increased since the establishment of respondent's enterprises.



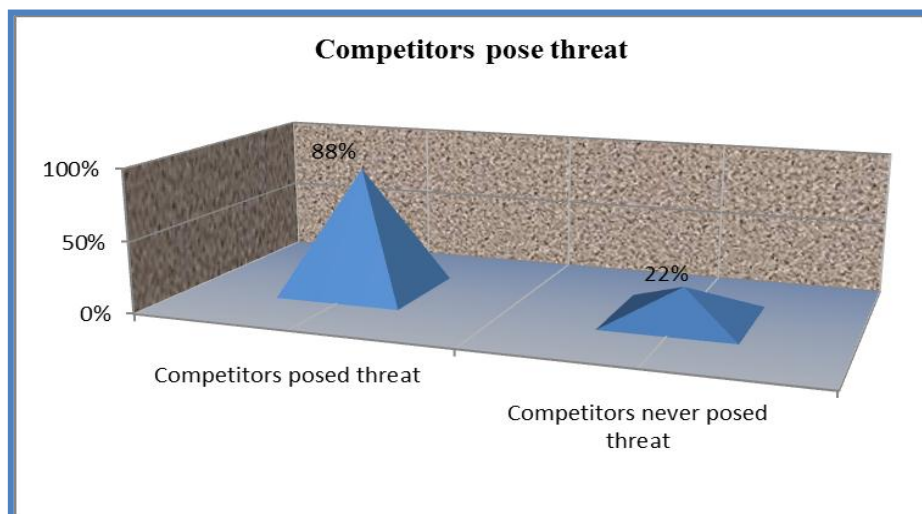
**Figure 14. Respondents that had increased their customers**

As illustrated in Figure 14 above, seventy (70) percent of the respondents indicated that the number of their customers had not been increased. They pointed out that it was difficult to attract customers from their competitors.

Only 30 percent of the respondent that are engaged in specialised industries such as upholstery, auto panel and repair, electrical and electronic repairs, key cutting and lock repairs were experiencing an increase in the number of their customers.

#### 4.4.2 Threat posed by competitors

Figure 15 below displays respondents that had experienced threat from competitors and those had not experienced any threat from competitors.

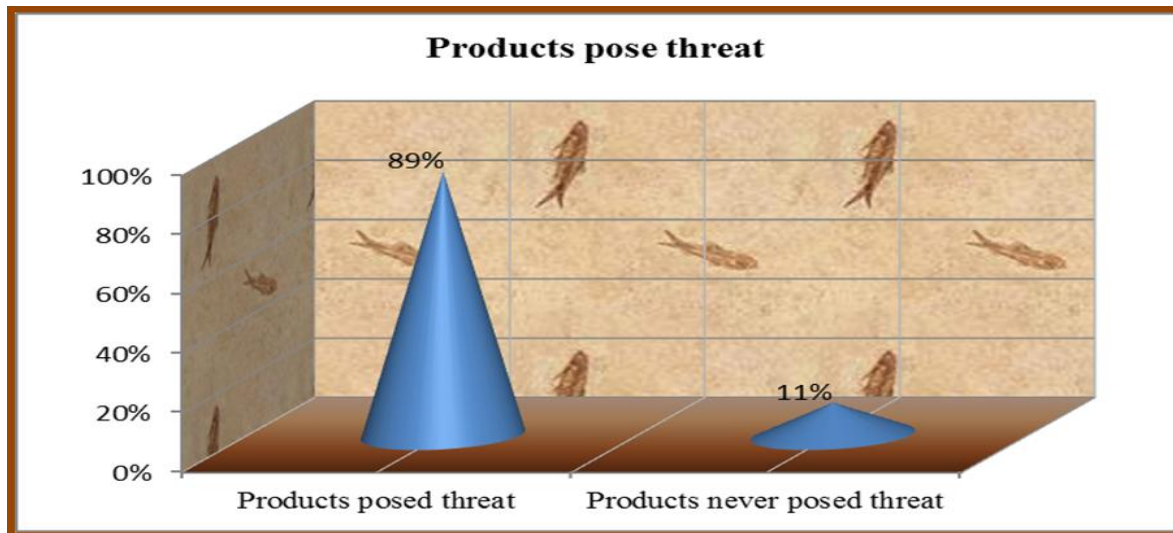


**Figure 15. Respondents that experienced threats from their competitors**

On whether competitors were posing threats to the entrepreneurs under study or not; Figure 15 above, confirmed that 88 percent of the respondents indicated that competitors were posing threats to their enterprises. They stressed that competitors' selling prices were forcing them to cut their prices. They further alluded that more competitors were entering the market, so, the market was saturated. Twenty two (22) percent of the respondents underlined that their competitors never posed a threat to them.

#### 4.4.3 Threat posed by similar products in the market place

Figure 16 below portrays whether homogeneous and substitute products had posed threats to the respondents' products or goods.



**Figure 16. Threat posed by similar products in the market place**

The analysis on Figure 16 above, shows that 89 percent of the respondents confirmed that similar products in the market were posing a threat to their products. Customers can buy anywhere as similar products are all over the incubation centres. Many products sold by entrepreneurs were targeting a small number of customers and some products were cheaper below the market prices. Eleven (11) percent of respondents denied facing any threats posed by similar products in the market place.

#### 4.4.4 Suppliers deliver orders on time

Figure 17 below depicts respondents that had suppliers and those had no suppliers.

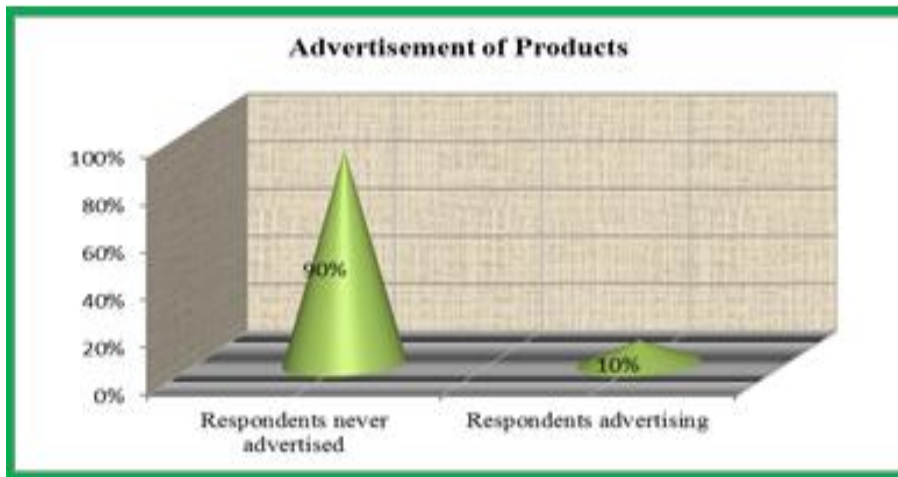


**Figure 17. Respondents that had suppliers**

Results presented in Figure 17 above shows that 100% of the respondents established that they did not have suppliers but they buy directly from retailers. They confirmed that they were not buying from one retailer but from many retailers depending on their prices.

#### 4.4.5 Entrepreneurs advertising their products

Figure 18 below shows respondents that had advertised their goods and services and those had not advertised their products.

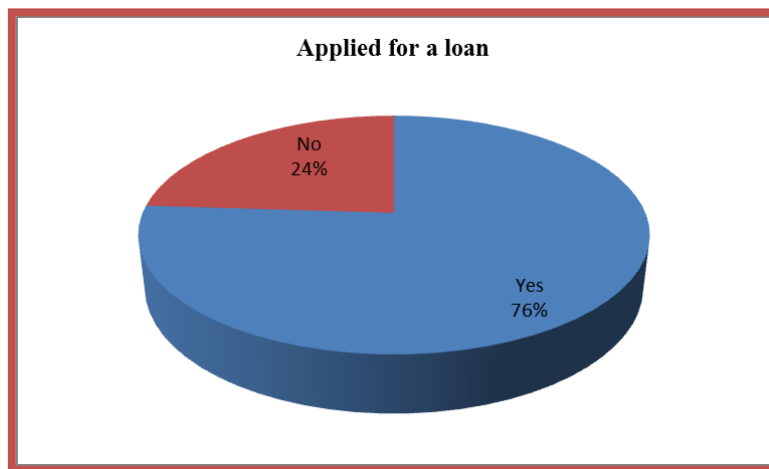


**Figure 18. Advertisement of goods and services**

The study as indicated in Figure 18 above, discovered that 90% of respondents do not advertise their products. They indicated that customers know about their products and services from other customers. Ten (10) percent of the respondents indicated that they had been advertising their products.

#### **4.4.6. Application for bank loans**

Figure 19 below displays the analysed data of respondents that applied for loans and those had not applied loans.

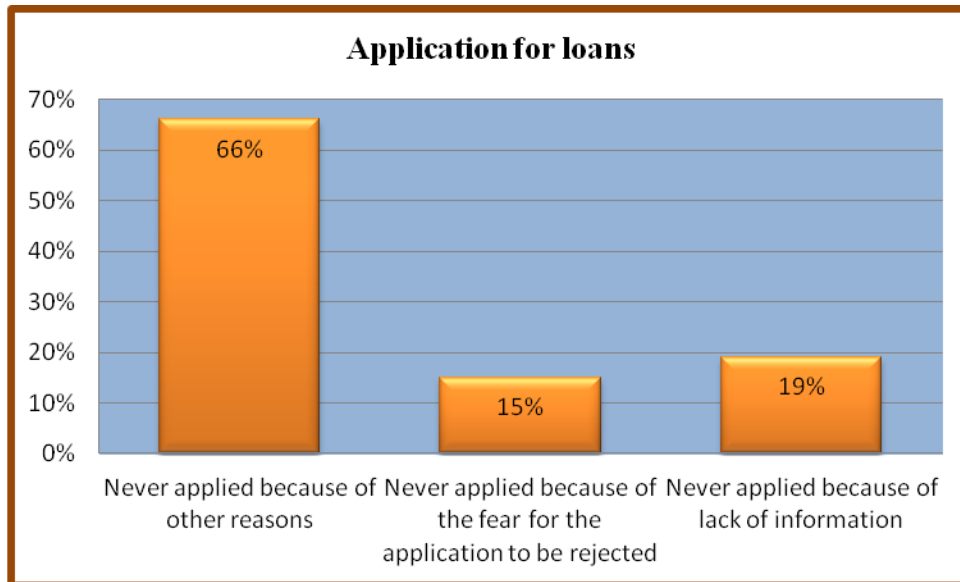


**Figure 19. Application for bank loans**

Figure 19 above, shows that 76 percent of the respondents confirmed that they had applied for loans while 24 percent had not made any applications for loans.

##### **4.4.6.1 Reasons for not applying loans**

Figure 20 below displays reasons why respondents had never applied for a loan for not applying loans.

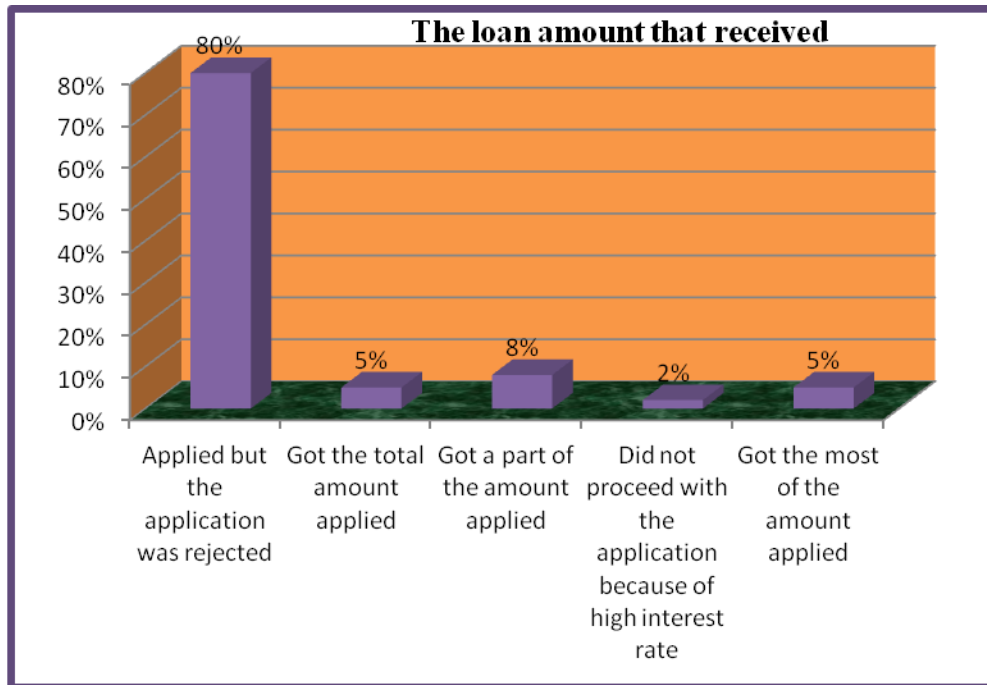


**Figure 20. Reasons why respondents had not applied for loans**

Figure 20 above indicates the respondents that did not apply for loans. Sixty (66) percent of the respondents that did not apply for loans indicated that they had never applied for loans because they did not want to take risk of re-paying the loans for a long period. They further stressed that loans are very expensive because of high interest rates. Fifteen (15) percent of the respondents indicated that they had never applied for bank loans because they were afraid that their applications would be rejected, and 19 percent of the respondents indicated that they never applied because of lack of information.

#### **4.4.7 Receipt of bank loans**

Figure 21 below indicates the outcome of the loans applications.

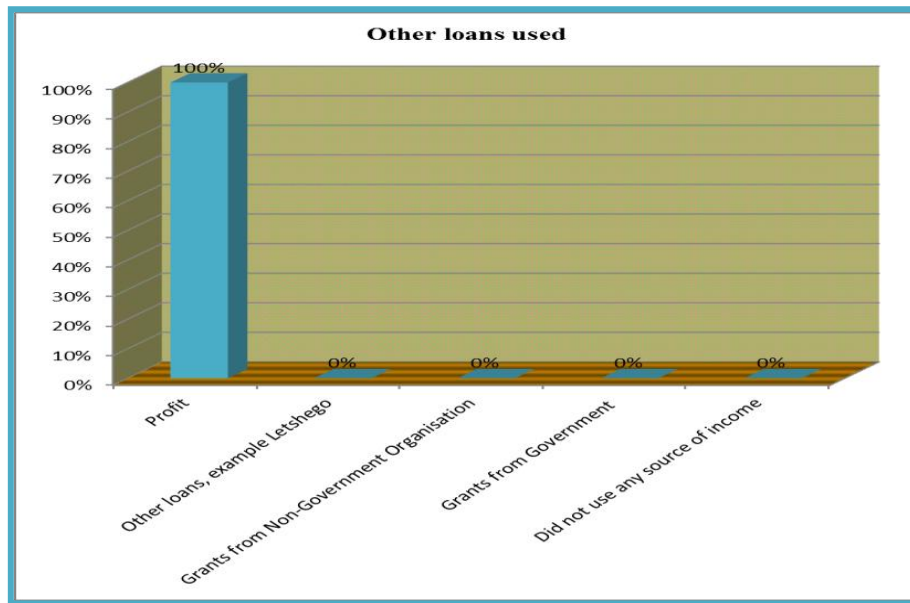


**Figure 21. Outcome of the loans applications**

From the findings on the extent to which entrepreneurs under study had received bank loans that they had applied for, 80 percent of the respondents as shown in Figure 21 above, indicated that their loan applications had been rejected because of lack of collateral. Two (2) percent of the respondents had not proceeded with their loan applications because of high interest rates. Eight (8) percent of the respondents indicated that they got a limited part of the loan amount they had applied for. Five (5) percent of respondents got the most of the loan amount they had applied for and another 5 percent of respondents indicated that they had got the total amount of the loan they had applied for.

#### 4.4.8 Other types of finance used to finance the enterprises

Figure 22 below displays the analysis of other loans used by respondents to finance their enterprises.

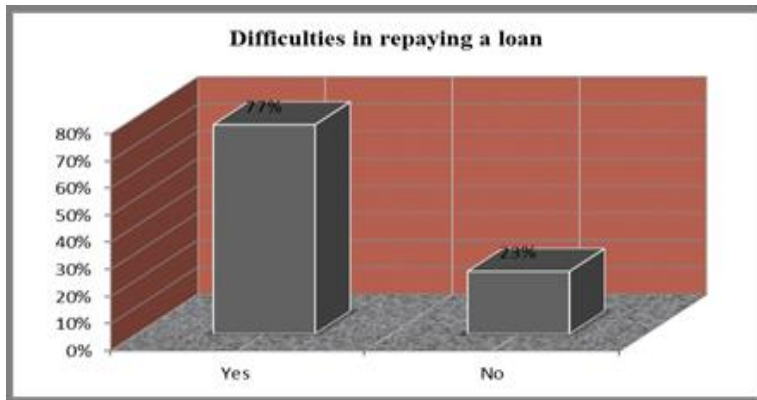


**Figure 22. Other types of finance used to finance the enterprises**

Respondents were asked whether they had used other types of finance or not to grow their enterprises. A 100% of the respondents said that they had used their profit to grow their enterprises and no other types of finance.

#### 4.4.9 Repayment of the loans

Figure 23 below shows respondents that were faced difficulties on the repayment of the loans.

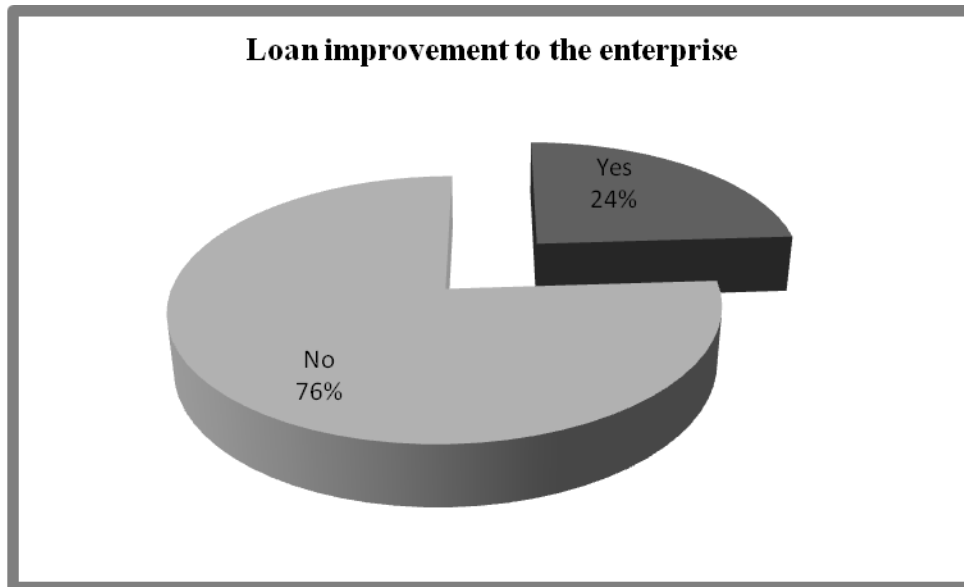


**Figure 23. Respondents that faced difficulties in repaying the loans**

It was found out by this study as displayed in Figure 23 above, that 77% of the respondents that had secured bank loans had been facing difficulties in repaying their loans. They outlined that interest rates are very high and the repaying period is long. The money that is earned is not enough to repay the loan and to maintain the enterprise. Twenty three (23) percent of the respondents acknowledged that they did not face any difficulties to repay their loans.

#### **4.4.10 Improvement on the growth of business by the loans**

Figure 24 illustrate whether the loans had improved the growth of the small and medium enterprises.



**Figure 24. Improvement to the growth of business by the loans**

As indicated in Figure 24 above, it was established that 24% of the respondents that were granted bank loans had improved the growth of their enterprises. Seventy six (76) percent of the bank loan recipients had indicated their dissatisfaction that the bank loans did not improve the growth of their enterprises. The loans had been used to finance other expenses such as; maintenance, rent, and production costs (labour, material, water and electricity and other overhead costs).

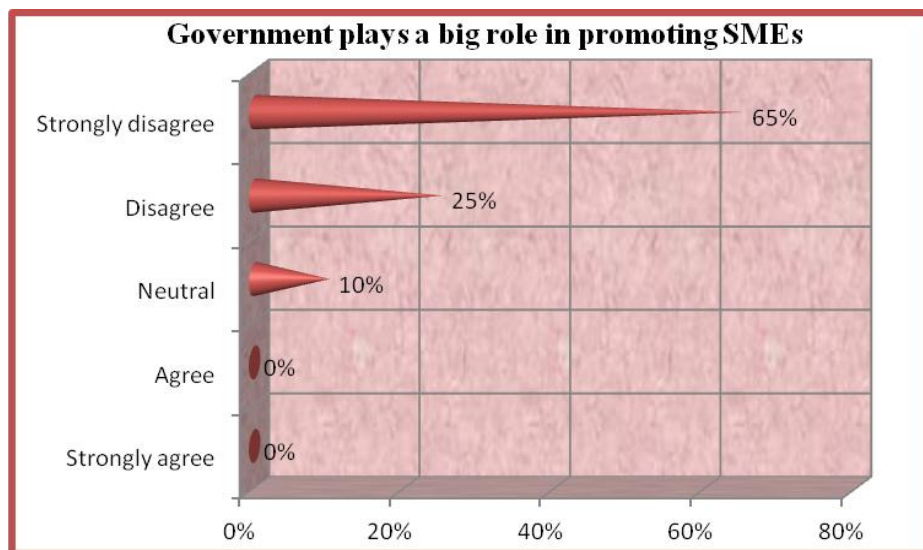
#### **4.5 Macro environmental challenges**

Respondents' perceptions of government's policies relating to SMEs

The purpose of this finding was to determine whether government policies are in favour of SMEs development and promote SMEs' growth. It aimed to determine whether the business environment is conducive to SMEs to do business without unfair competitions. Moreover, it was also meant to find out whether local SMEs were protected against foreign entrepreneurs by

government policies. In addition, it aimed to establish whether government subsidises SMEs in terms of low tax, loan accessibility, and collateral provision. Furthermore, it focused on whether the government provides business management training to SME operators in order to enable them to grow their enterprises. This finding addresses research Question number four (4).

#### 4.5.1 Government plays a big role in promoting establishment of SMEs

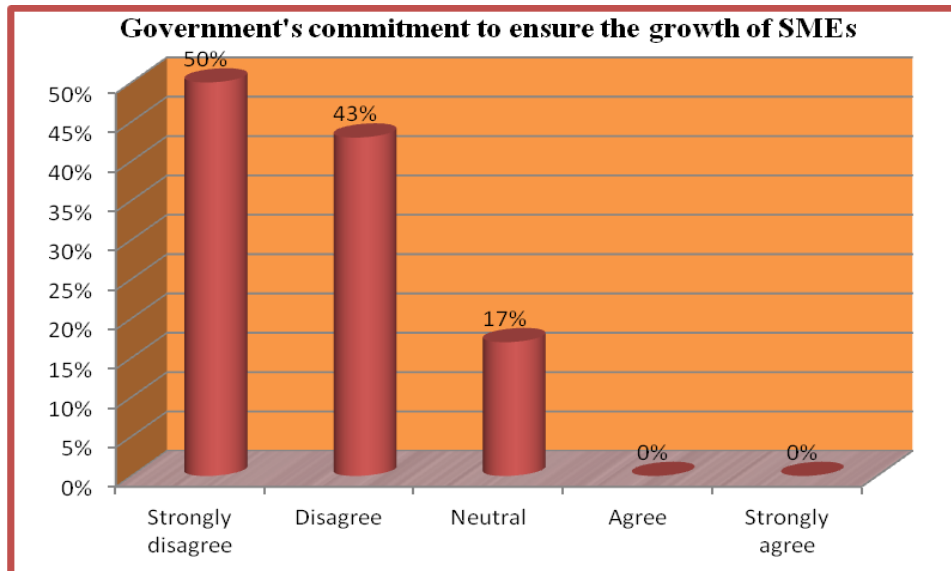


**Figure 25. Government roles in promoting establishment of SMEs**

Figure 25 above shows that 65% and 25% of the respondents strongly disagreed and disagreed respectively, that the Government plays a big role in promoting the establishment of enterprises in Namibia. Ten (10) percent of respondents neither agreed nor disagreed (neutral), and none of the respondents agreed nor strongly agreed with the statement.

#### 4.5.2 Government's commitment to ensure the growth of SMEs

Figure 26 portrays the analysis of whether government was committed to ensure the growth of SMEs.

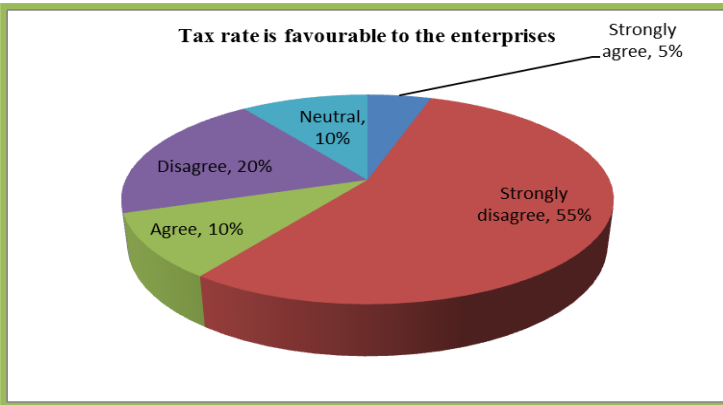


**Figure 26. Government's commitment towards the growth of SMEs**

It is illustrated on Figure 26 above that 50 percent of the respondents strongly disagreed that the Government is committed to ensure the growth of small and medium enterprises in Namibia. Forty three 43 percent of the respondents disagreed with the statements, seventeen (17) percent of the respondents were neutral and none of the respondents strongly agreed or agreed with the statement.

#### **4.5.3 Tax rates on enterprises**

Figure 27 below shows the analysis to determine whether tax rates were favourable to the entrepreneurs or not.

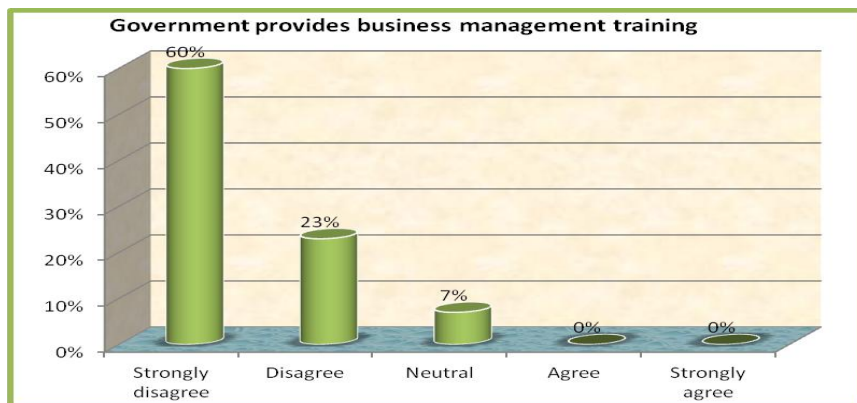


**Figure 27. Tax rates on enterprises**

It is shown on figure 27 above that the the tax rate is not favourable to the enterprises. Only 8% of respondents agreed and 5 % strongly agreed with the assumptions that the tax rate is favourable to enterprises. Nineteen (19) percent of the respondents were neutral, and 70% of the respondents strongly disagreed that the tax rate is favourable to their enterprises.

#### 4.5.4 Business management training

Figure 28 below depicts analysis of the responses on whether government provides business management trainings.

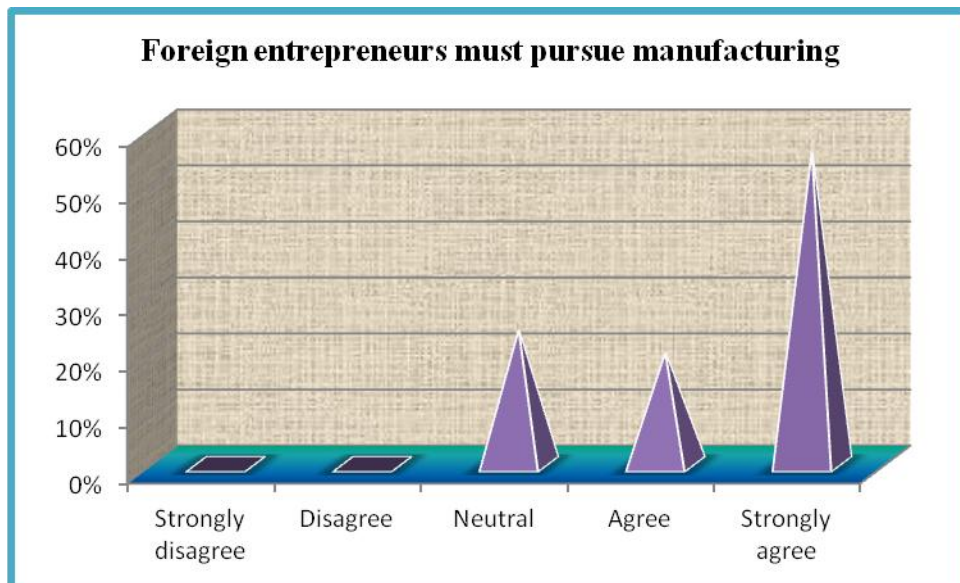


**Figure 28. Government provides business management training**

It is evident as indicated in Figure 28 above, that government did not provide business management training to SME operators. Sixty 60% of respondents strongly disagreed and 23% of respondents disagreed with the statement that Government provides business management trainings to SME operators. Seven (7) percent of respondents were neutral and none of the respondents strongly agreed or agreed with the statement.

#### 4.5.5 Foreign entrepreneurs in manufacturing

Figure 29 below illustrates the analysis of respondents' assumptions on whether foreign entrepreneurs must pursue manufacturing enterprises.



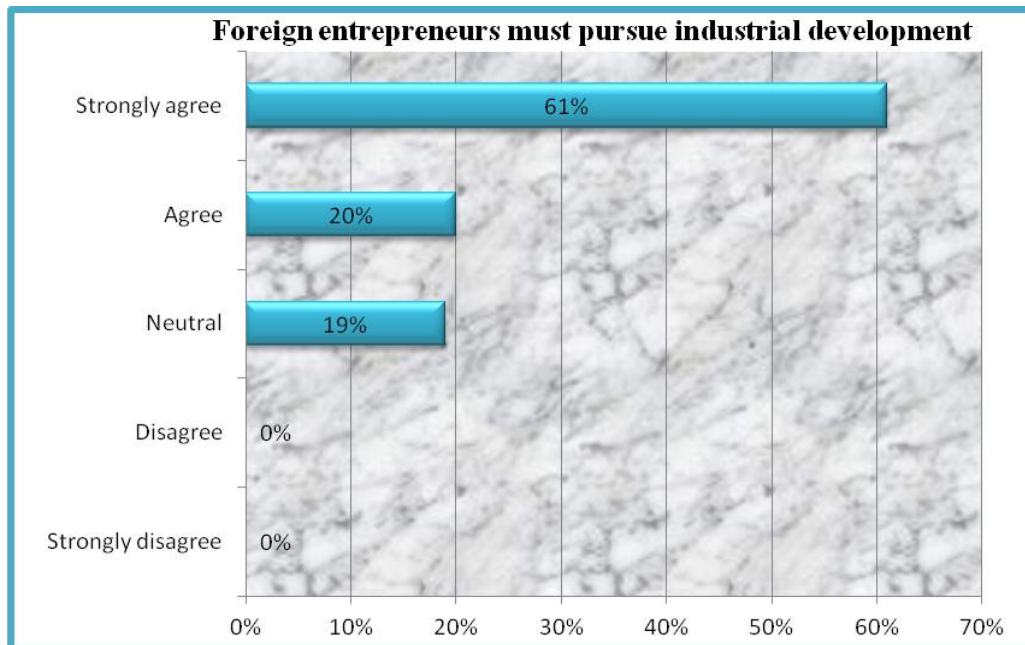
**Figure 29. Foreign entrepreneurs in manufacturing businesses**

The analysis on Figure 29 above, shows that the SME's policy stipulates that foreign entrepreneurs must pursue businesses in manufacturing. This statement was confirmed by 56% of respondents that strongly agreed, 20% agreed, and only 24% of the respondents were unsure

about the policy by indicating that they were neutral. According to the findings, none of the respondents strongly disagreed or disagreed with the statement.

#### 4.5.6 Foreign entrepreneurs in industrial development

Figure 30 below displays the analysis of respondents' assumptions on whether foreigner entrepreneurs must pursue industrial development.



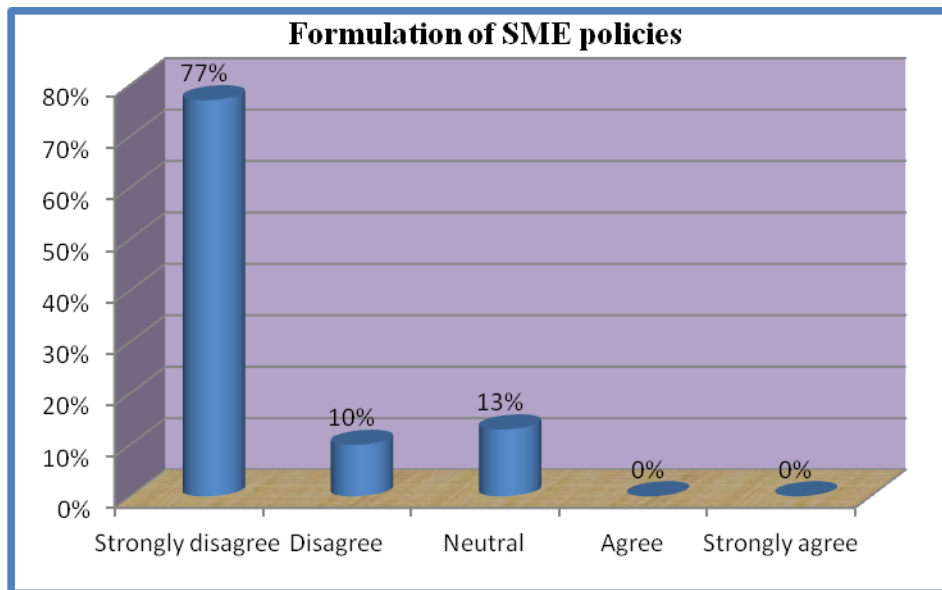
**Figure 30. Foreign entrepreneurs in industrial development**

As shown in Figure 30 above, 61% of the respondents indicated that the SMEs policy stipulates that foreign entrepreneurs must pursue businesses in industrial development. They indicated their agreement with the statement by highlighting that they strongly agreed. Twenty percent of the respondents agreed with the statement while only 19 percent of respondents were unsure by

indicating that they were neutral. None of the respondents strongly disagreed or disagreed with the statement.

#### 4.5.7 Entrepreneurs contribution to the formulation of SME policies

Figure 31 below illustrates responses on whether entrepreneurs had contributed to the formulation of SME policies.

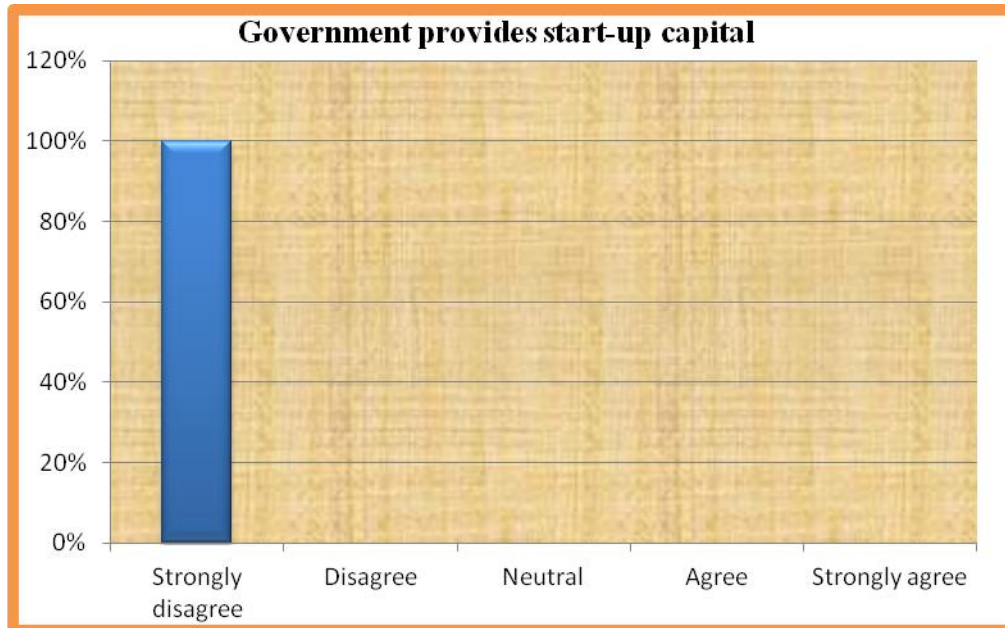


**Figure 31. Formulation of SME policies**

As it is shown in Figure 31 above, 77% of the respondents strongly disagreed that the Government invited SMEs operators to contribute to the formulation of SME policies and ten (10) percent of the respondents indicated that they disagreed with the statement. Thirteen (13) percent of the respondents were neutral, and none of the respondents either strongly agreed or agreed with the statements.

#### 4.5.8 Government provides start-up capital

Figure 32 displays the analysis of responses on whether government provided start-up capital to SME operators.

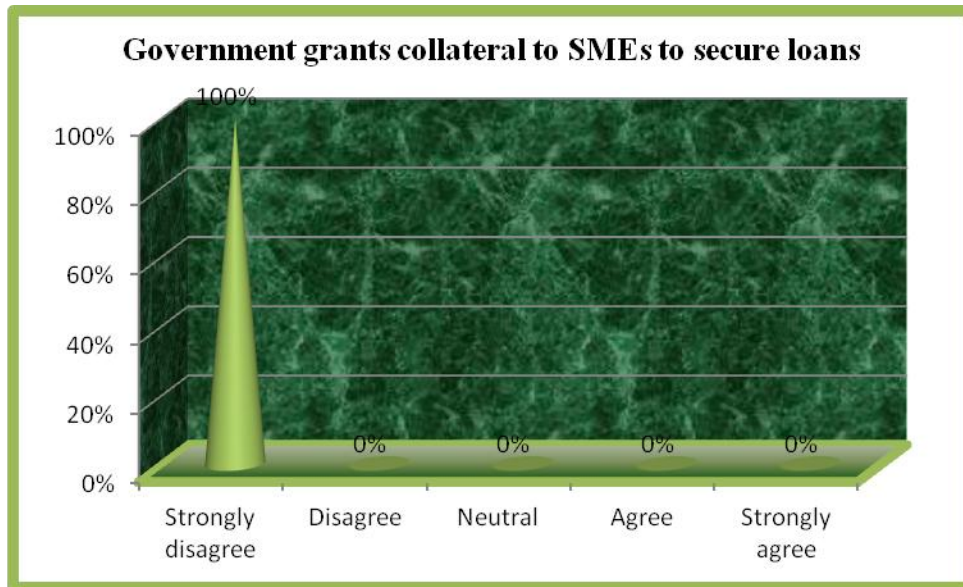


**Figure 32. Government provision of start-up capital**

Figure 32 above, indicated that 100% of the respondents strongly disagreed that Government had provided start-up capital for their enterprises.

#### 4.5.8 Government grants collateral to SMEs

Figure 33 below shows the analysis of data on whether government granted collateral security to entrepreneurs in order to secure loans.



**Figure 33. Government’s provision of collateral to SMEs**

This study revealed as shown in Figure 33 that, 100% of respondents strongly disagreed that Government granted collateral to entrepreneurs to get loans from financial institutions.

#### **4.6 Addressing growth challenges faced by registered SMEs in Katutura Central**

##### **Constituency**

Responses to the question on how growth challenges faced by registered small and medium enterprises in Katutura Central Constituency can be tackled; respondents stressed that Government must provide big business infrastructure that will enable the accommodation of big business operations. Government must also render assistance in terms of equipment and other necessary tools. Facilities must be strategically located so that many people can get access to their enterprises. Government must subsidise SMEs, and it must disseminate information on SME policies. The respondents further highlighted that Government must regulate the prices of input

and rental fees because these prices are ever increasing. Platform to advertise SMEs' products must also be created by the government. It is the government's obligation to see to it that entrepreneurs receive the requisite training. Respondents strictly highlighted that foreigners must be restricted from operating SMEs as local entrepreneurs.

#### **4.7 Chapter summary**

The chapter presented, analysed, and interpreted data collected in the study. Charts, tables and graphs were used to present the analyses of the data. The study revealed that stringent government policies relating to SMEs and lack of subsidies, and other micro and market environmental challenges such as competition, lack of finance, and equipment, limited enterprise spaces, and lack of business management skills have contributed to the stagnant process of SMEs growth.

Chapter 5 focuses on summary, conclusions and recommendations of the study.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

Chapter Five presents the summary of the study, conclusions on the findings of the study and the recommendations aimed to the entrepreneurs and the Government of the Republic of Namibia.

This chapter is divided into the following sections. Section 5.1 details the summary of the study. Conclusions of the findings are indicated in Section 5.2. Recommendations are given in Section 5.3. Section 5.4 presents the limitations of the findings, and the area for further research is highlighted in Section 5.5. Section 5.6 highlights the chapter summary.

#### **5.1 Summary**

The study set out to investigate the growth challenges faced by small and medium enterprises within the Katutura Central Constituency. The aim was to find out why there was mushrooming of SMEs in Windhoek that were not growing to be formal businesses. Some of these SMEs were established more than 10 years ago. The City of Windhoek established the SME Incubation Centres in Katutura with the objective of assisting small businesses to breed and evolve into formal small and medium enterprises in a period of between two and three years after entering incubation. It is confirmed that, most of the businesses that entered the SME Incubation Centres during its opening in 2002 are still in incubation. The investigation was done on government policies related to SMEs, measures of growth of small and medium enterprises in Namibia, growth challenges faced by registered small and medium enterprises in the micro, market and macro environments in Katutura Central Constituency. The measures to tackle the growth challenges faced by registered small and medium enterprises were also suggested.

The research study employed a mixed method approach, comprising of the qualitative and quantitative research designs. Questionnaires and interviews were utilised to collect data. Primary and secondary data were collected. The sample size of 75 respondents was drawn from the population of 500 entrepreneurs.

The major findings of the study were; competition and lack of access to finance are the most challenges that hamper the growth of SMEs. A number of challenging factors such as insufficient capital (money), poor location, characteristics of the business environment (for example, homogeneous products in the market, and prices of homogeneous were also pointed out that they posed threats to the growth of the SMEs. It was also found that the limited accessibility to finance options for SMEs is a result of lack of appropriate collateral and high interest rate on the repayment of loans.

## **5.2 Conclusions**

This study focused mainly on challenges that inhibit the growth of small and medium enterprises (SMEs) in Namibia, specifically in Katutura Central Constituency. Based on the findings, the following conclusions are drawn.

### **1. Research Question One: What are the growth challenges faced by SMEs generally, in the micro, market and macro environment?**

This question was answered by the literature review. It is generally highlighted that SMEs face unique problems, which affect their growth and profitability and, hence, diminish their ability to contribute effectively to sustainable development. These problems include lack of access to

credit, inadequate managerial and technical skills, low levels of education, poor market information, inhibitive regulatory environments, lack of access to technology, and lack of infrastructure. Environmental conditions such as unattractive tax regimes and legal systems, small local markets, and corruption have also hampered the development of SMEs.

**2. Research Question Two: Do registered SMEs in Katutura Central Constituency in Namibia grow?**

Based on findings, it can be concluded that many enterprises were not growing. Growth was measured by identifying some variables such as level of sales, level of production, earned profit, number of employees, customers, vehicles and the equipment base.

**3. Research Question Three: What are the growth challenges faced by registered SMEs in the micro, market and macro environment in Katutura Central Constituency in Namibia?**

Conclusions that can be drawn from this question are that, entrepreneurs that are operating in Katutura Central Constituency faced numerous of growth challenges. Entrepreneurs stressed that competition and lack of access to finance are the most challenges that hamper the growth of their enterprises. They had listed a number of challenging factors such as insufficient capital (money), poor location, characteristics of the business environment (for example, homogeneous products in the market, prices of homogeneous products are very low that forced them to lower their prices, customers' behavior, and no barriers to new entrants. It was

also found that the limited accessibility to finance options for SMEs is a result of lack of appropriate collateral and high interest rate on the repayment of loans.

#### **4. Research Question Four: What are the perceptions of registered SMEs owners regarding Namibian Government policies to ensure the growth of SMEs?**

Based on this research question, it can thus be concluded that entrepreneurs perceived that Government did not play a big role in promoting the growth of enterprises in Namibia. Entrepreneurs indicated that company tax rate is very high. Government does not provide business management trainings to SME operators. Many entrepreneurs confirmed that SME policies stipulate that foreign entrepreneurs must pursue businesses in manufacturing and industrial development. The government does not invite SMEs operators to contribute to the formulation of SME policies. There was no indication from any of the respondents that government granted collateral to entrepreneurs to get loans from financial institutions

## **5.2 Recommendations**

The following recommendations are made, based on the findings and conclusions of the research study.

### **5.2.1 Competition and expansion of enterprise operations**

In view of the above conclusions, based on competition and expansion of enterprise operations, it is recommended that SMEs must have a 'global outlook'. Businesses of all sizes across the globe can interact and share information, technology and products. SMEs must consider micro, market, and macro environmental trends affecting availability of resources,

increasing or decreasing demand for products or services and where there is an unfilled need. This may prove a challenge to SMEs but the government can step in here to provide information on business trends.

### **5.2.2 Planning**

SMEs must be proactive in their planning, including identifying the most attractive, fast-growing markets in order to be competitive and win the market share. SMEs must build relationships with banks and other key financiers of investment and trade, to facilitate introductions between these funding sources and SME clients.

There is also a need for SMEs to get trained in an area that is relevant to the business they operate. This study has clearly shown a few percentages of entrepreneurs with tertiary qualifications. Furthermore, there is a need to improve ways of gathering customer information for the purpose of personalized marketing and service. The more a business owner knows about its customers, the better they can meet their needs.

### **5.2.3 Policy making**

Government policymakers must identify any additional information and support mechanisms that can be targeted towards SMEs to encourage their involvement in fast-growing economies. The government must look for opportunities to reduce unnecessary regulations concerning trade and investment. It must create clear signposting to help SMEs identify and access the full range of financial support available for business activities. The government together with the private sector must develop knowledge and information resources to guide SMEs handle challenges associated with micro, market, and macro environmental activities. Government

must put effort on dissemination of information on SME policies and government initiatives regarding SMEs. Foreigners must be restricted from operating SMEs as local entrepreneurs.

#### **5.2.4 Access to finance**

The central government must work hand in hand with the private sector financial services to curb the problems facing SME sector in terms of access to finance. government together with commercial banks should relax their requirements to borrowers of money. The government and commercial banks should lower their interest rates on borrowed loans in order to boost SMEs operations in the sector. Government must subsidise SMEs and guarantee security provision in terms of collateral.

#### **5.2.5 Inadequate infrastructure**

In view of SMEs' lack of adequate business infrastructure and access to other capital, the Government should above all promote entrepreneurship, facilitate firm start-up and expansion. The government must provide big business infrastructure that will enable accommodation of a big volume of business operations. It must also render assistance in terms of equipment and other necessary tools.

#### **5.2.6 Regulations**

The government must also foster the development of secondary SMEs markets to allow easy entry and exit for investors, easy taxes on capital gains and other earnings.

It must also allow greater use of subsidies options as compensation in small firms. Governments must also foster business networks which will bring together SMEs and prospective investors. Reducing the regulatory burden on SMEs can be one of the greatest spurs to entrepreneurship.

### **5.2.7 Training**

Government should provide training for SMEs in business management. Entrepreneurs should be trained on how to grow their enterprises. They must be trained on how to formulate appropriate business plans in order to explore, grants, loans and other finances.

### **5.3 Limitations of findings**

The study did not get information on whether business plans and cash flow statements had any effect on the access to bank loans. The study did not also probe whether theft and armed robbery were some of the factors that posed a threat to the growth of SMEs.

### **5.4 Area for further research**

Despite numerous studies in the area of SMEs, there is still a lack of understanding regarding the growth challenges faced by small enterprises in Namibia.

Past researches seem to suggest that access to credit has been a major challenge to SMEs. This research study however, established that inadequate government subsidies, competition and poor business management skills are the major growth challenges faced by SMEs in Namibia. Further studies can also be conducted to establish if this is the case in rural areas or rural areas are faced with unique challenges that are not shared by their urban counterparts.

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## APPENDIX 1



### Questionnaire Cover Letter

My name is Foibe Ndapewa Shilinge. I am a student at the Namibia Business School, University of Namibia. I am conducting a research study in partial fulfillment of the requirements for the Master in Business Administration Degree. The topic for my study is **“An investigation of growth challenges encountered by registered small and medium enterprises (SMEs) in Katutura Central Constituency.”** All information will be **STRICTLY CONFIDENTIAL** and will only be used for academic purposes. Your cooperation is requested to make this study a success.

## APPENDIX 2

### RESEARCH QUESTIONNAIRE

#### Instructions for completing the questionnaire

1. Do not write your name on this questionnaire.
2. Answer questions as objectively and as honestly as possible.
3. Indicate your answer by a cross (x) in the relevant spaces that best reflect your answer.
4. Kindly answer only questions that are apply to you.

#### Demographic details

1. Please indicate your gender.

Male [ ] Female [ ]

2. Please indicate your age

18 - 25	
26 – 35	
36 - 45	
46 – 65	
66 and above	

3. What is the highest level of education you have attained?

Grade 1 – Grade 10	
Grade 12	
National Certificate	
National Diploma	
Bachelor's Degree	
Masters Degree	
PhD	

**Profile of the enterprise**

4. Please indicate all the type(s) of enterprise you are in.

salon	
bakery	
upholstery	
clothing	
auto panel beat and spray	
electrical and electronic repairs	
shebeen	
restaurant	
manufacturing	
Other (please specify)	

5. Please indicate the length of time you have been operating your enterprise.

Less than a year	
1 Year – 5 Years	
6 Years – 10 Years	
11 Years – 15 Years	
16 Years – 20 Years	
More than 20 Years	

6. Is your enterprise registered?      Yes [ ] No [ ]

7. Please indicate the owner of the enterprise by crossing the appropriate box.

Single owned	
Have other investors	
Family owned	
Owned by other firms	
Owned by business associates	
Other, please specify	

**Business Growth**

**Micro environmental challenges**

8. Has your stock increased since you set up your enterprise? Yes [ ] No [ ]

9. If the answer to Question 8 was, **No**, why are you not increasing your stock?

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

10. Is there an increase in your sales since you set up your enterprise? Yes [ ] No [ ]

11. If the answer to Question 10 was, **No**, what is hindering the growth of your sales?

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

12. Has your production increased since you set up your enterprise? Yes [ ] No [ ]

13. If the answer to Question 12 was, **No**, give reasons why your production is not increasing?

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

14. Has the number of your employees increased since you set up your enterprise?

Yes [ ] No [ ]

15. If the answer to Question 14 was, **No**, why are you not recruiting more employees?

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

16. Have you earned any profits since you set up your enterprise? Yes [ ] No [ ]

17. If the answer to Question 16 was, **No**, why are you not making profit?

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

18. Has the number of your vehicles increased since the time you set up your enterprise?

Yes [ ] No [ ]

19. If the answer to Question 18 was, **No**, why are you not buying more vehicles?

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

20. Has your equipment increased since you started your enterprise? Yes [ ] No [ ]

21. If the answer to Question 20 was, **No**, why are you not buying more equipment?

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

**Market environmental challenges**

22. Has the number of your customers increased from the time you set up your enterprise?

Yes [ ] No [ ]

23. If the answer to Question 22 was, **No**, why are you not attracting more customers?

.....  
.....

24. Are your competitors posing any threats to your enterprise? Yes [ ] No [ ]

25. If the answer to Question 24 was, **Yes**, please indicate the threats that your competitors are posing to your enterprise.

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

26. Do similar products in the market pose a threat to your products? Yes [ ] No [ ]

27. If the answer to Question 26 was, **Yes**, please indicate your plans to make your products different.

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

28. Do your suppliers deliver sufficient quantities of goods as per your orders? Yes [ ] No [ ]

29. If the answer to Question 28 was, **No**, can you please state why your suppliers are not delivering as required.

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

30. Do your suppliers deliver goods on time? Yes [  ] No [  ]

31. If the answer to Question 30 was, **No**, please indicate why your suppliers are not delivering on time.

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

32. Are you able to negotiate prices with your suppliers? Yes [  ] No [  ]

33. Do you advertise your products? Yes [  ] No [  ]

34. If the answer to Question 33 was, **Yes**, where have you been advertising your products?

.....  
.....

35. If the answer to Question 33 was, **No**, how do you let your customers know about your products?

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

36. Have you ever applied for a bank loan? Yes [  ] No [  ]

37. If you have never applied for a bank loan, give reasons. Please choose from the answers below.

I have never applied because of sufficient internal funds	
I have never applied because I am afraid my application will be rejected.	
I have never applied because of lack of information	
Did not apply for other reasons. Please state the reasons in the spaces provided below.	

.....

.....

.....

.....

.....

38. If you have applied for a loan, indicate whether you received the total amount you applied for or not.

Applied and got total amount applied for	
Applied and got most of the amount applied for	
Applied but only got a limited part of the amount applied for	
Applied but did not proceed because interest rate was too high	
Applied but loan was rejected	

39. If the loan was rejected, please state why it was rejected.

.....

.....

.....

.....

.....  
 .....

40. What are the other types of finance you have used to grow your business?

Profit	
Other loans example, Letshego	
Grants (Non- Government Organisation)	
Grants (Government)	
Did not use any source of finance	

41. If you took a loan for your business, do you face any difficulties in repaying your loan?

Yes [ ]      No [ ]      Not applicable [ ]

42. If the answer to Question 41 was, **Yes**, why are you facing difficulties in repaying your loan?

.....  
 .....

43. Did the loan improve the growth of your business?

Yes [ ]      No [ ]      Not applicable [ ]

**Macro environmental challenges**

**Respondents' perceptions on Government's policies towards SMEs**

Please respond by putting a cross (x) in the relevant spaces that best reflect your answer.  
 Use the following key: 1 = Strongly disagree (SD); 2 = Disagree (D); 3 = Neutral (N); 4 = Agree (A); 5 = Strongly agree (SA).

<b>Namibian Government's policies relating to SMEs</b>	<b>SD 1</b>	<b>D 2</b>	<b>N 3</b>	<b>A 4</b>	<b>SA 5</b>
44. Government plays a big role in promoting establishment of enterprises in Namibia.					

<b>Namibian Government's policies relating to SMEs</b>	<b>SD 1</b>	<b>D 2</b>	<b>N 3</b>	<b>A 4</b>	<b>SA 5</b>
45. Government is committed to ensure the growth of small and medium enterprises.	1	2	3	4	5
46. The tax rate is favourable to my enterprise.	1	2	3	4	5
47. Government provides business management training for SMEs.	1	2	3	4	5
48. The SMEs policy stipulates that foreign entrepreneurs must pursue businesses in manufacturing.	1	2	3	4	5
49. The SMEs policy stipulates that foreign entrepreneurs must pursue business in industrial development.	1	2	3	4	5
50. Government invites SMEs operators to contribute to the formulation of SME policies.	1	2	3	4	5
51. Government has provided start-up capital for my business.	1	2	3	4	5
52. Government grants collateral to get a loan from financial institutions.	1	2	3	4	5

53. How can growth challenges faced by registered small and medium enterprises in Katutura Central Constituency be tackled? .....

.....

.....

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