Small and Medium Enterprises in Namibia

- A Brief Situational Analysis -

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**EXECUTIVE SUMMARY**

The SME sector covers a wide variation of different types of enterprises regarding class of business, income, number of employees, time of operation etc. This situational analysis aims at giving an overview over this wide area in Namibia focusing on general characteristics and on features of specific groups.

In Namibia the SME sector is in comparison with other African countries small. Nevertheless the Namibian government estimates this sector as a great potential for the socio-economic development of the country in terms of economic growth or poverty alleviation.

The contribution of the SME sector to the Gross Domestic Product (GDP) in 2003 was about 11% and the share of the labour force employed full-time in this sector was about 20% in the same period. Here the emphasis is on “full-time” as part-time workers or employees on occasional basis are not considered. Including them leads to a rough estimation of about 33%.

About 25% of the SMEs are not registered at any authority and thus build the informal sector. These informal SMEs are mostly found in rural areas especially Khomas, Oshana and Ohangwena (together more than 90%) and operate mostly as wholesalers and retailers (47%) or as producers of food and beverages (19%). The reasons for the informality are lack of knowledge and the perception of registration as a disadvantage for business operation (e.g. due to rules which have to be applied).

An interesting detail is that the cluster with the highest number of SMEs, the food sector, is one of the categories with the lowest average contribution to the GDP and the highest degree of informality.

The SME sector can also be divided into manufacturing and service providing businesses. Comparing these two groups the manufacturing SMEs have less average income, less average workers employed and contribute to a lesser extent to the GDP. The latter is caused by the fact that the total number of manufacturing businesses is fewer than the number of service providing SMEs.

Regarding rural and urban businesses the urban ones have considerable higher average income per capita: it is about three times higher than that of rural workers.

The performance and development of SMEs is influenced by many different factors. The most important ones are the entrepreneurial mind of the operator (innovativeness, competitive, aggressiveness, risk taking), the management abilities (long-term vision, activeness instead of reactiveness) and the financial situation. Lack of finance is often seen as one of the main problems for SMEs. This lack is caused by different factors. Firstly many entrepreneurs perceive lending money negatively or are not aware of the different credit facilities where they might get cash from. Thus only about 10% ever approached such an institute. Secondly most SMEs are estimated not to be bankable by the credit institutes. Therefore only 21% of the entrepreneurs who asked for money were given a credit. The combination of these two aspects lead to the lack of finance many SMEs suffer from.

Regarding REs the SME sector is considered to have a great potential to use renewable energies for productive purposes. Potential appliances are found in all classes of business. It is emphasized that the application of REs requires accessible technical support for maintenance and repairing issues. As in 2006 the Namibian Off-grid Energy Master Plan (OGEMP) was implemented which envisages the establishment of energy shops in off-grid areas, it is a possibility that these services are provided by the energy shops.

As it was already mentioned before the SME sector consists of a multitude of different types of businesses. Due to this diversity the features of a specific SME can differ greatly from the described characteristics above.
1 Introduction

This paper aims to provide a general overview of Namibia’s SME sector. In particular it looks at how much the SME sector in Namibia impacts on GDP and the labour market in terms of employment and income;

- The different business categories SMEs focus on,
- The reasons why people join the small business sector,
- Reasons for SME informality,
- The average income of SMEs,
- The factors influencing SME development,
- The scope for alternative energy technologies in SMEs as well as
- The national approach towards addressing energy needs in informal, pre-grid and off-grid settlements.

Analysing Namibia’s SME sector will face the challenge of defining and demarcating the sector and to distinguish formal and informal as well as micro, small and medium enterprises. The main problem is setting the criteria for defining and measuring SMEs. These criteria may for example be the number of employees, the turnover, capital employment and whether the business is registered or not. A SME in Namibia can be anything from a street vendor selling kapana (fried meat stripes), a person repairing shoes from a shack in an informal settlement area to the company manufacturing solar-technologies with a respectable capital employment.

The Namibian Government puts great hope into the role small and medium enterprises should play in economic growth and recognises the vital role which small and medium enterprises can play in Namibia’s socio-economic development. SMEs are sometimes even seen as the ultimate means for job creation, income generation, economic growth and poverty alleviation (by way of example, Namibia’s shebeen [informal liquor outlets] association claims that an estimated 75 000 people are employed in Namibian shebeens, making it the highest employer after the civil service). SMEs feature prominently in the Namibian Development Plans (NDP) as well as Government’s long-term development document, Vision 2030. For example, the following SME related objectives are contained in the NDPII:

- Facilitating the increase of the SME sector’s contribution to GDP from 5% to 10% by 2006,
- Facilitating the increase of the average income of the SME sector by 10% by 2006,
- 35% of SMEs run by women.

The SME sector is also seen as contributing to the following overall development targets of the NDPII:

- Increasing investment by 4.1% per year between 2001-2006,
- Increasing employment by 2.6% a year over the period 1999-2006,
- Increasing the number of manufacturing jobs from 6.4% to 20% of total employment.
Despite the recognition, the approach to the development and growth of this sector has been haphazard and unsatisfying. A national SME policy was launched in 1997, to “set out the Government’s firm commitment to transform the sector, as a priority, from its current state of deprivation and under-development into a lead sector of the economy” (Ministry of Trade and Industry - MTI).

Two Namibian research institutes, the Labour Resource and Research Institute (LaRRI) and Namibian Economic Policy Research Unit (Nepru), point out that it should be kept in mind that Namibia’s small business sector is exceptionally small in comparison to other African countries: “The typical African market place does not exist in Namibia. The weakness of the informal sector in Namibia can be partly contributed to the low population density in most areas; to a significant extent, however, it has its origin also in the previous apartheid policies that were aimed at securing the supply of cheap labour for the white-dominated formal sectors. The then policies also prohibited blacks from pursuing other employment and entrepreneurship”.

Although the SME-sector in Namibia is generally known to provide income and employment to approximately one-third of Namibia’s population of 1.8 million, its overall contribution to the country’s economic growth, development and poverty alleviation is minimal. In addition, income generated in many cases fails to generate an adequate standard of living for either entrepreneurs or employees. Estimations of SME’s contribution to GDP are rather vague. Since the overall number of SMEs in the country and the number of businesses per sector can only be estimated and since many SMEs exist only for a short period of time, it is very difficult to specify reliable data.

The chapter ‘A View of Namibia’s SMEs provides a general overview of the SME situation in Namibia.

The national SME policy and programme, under review since 2000 is briefly summarised in Chapter 5.

Chapter 6 focuses especially on the numerous informal small businesses and tries to give reasons for the prevalence of SMEs, which are not registered and do not pay tax or VAT.

Factors influencing SME development are looked at in Chapter 7. Internal and external reasons for failure or success are examined.

Finally the role renewable energy technologies can play in small and medium enterprises will be examined, using recent developments in Namibia’s energy sector as guideline.
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3 ABBREVIATIONS

GDP  Gross Domestic Product
ILO  International Labour Organisation
IPPR Institute for Public Policy Research
JCC Joint Consultative Committee
LaRRI Labour Resource and Research Institute
MTI Ministry of Trade and Industry
NEPRU Namibia Economic Policy Research Unit
OGEMP Off-grid Energy Master Plan
PV Photovoltaic
SHS Solar Home System
SME Small and Micro Enterprise
SSC Social Security Commission
VAT Value Added Tax
4 **A View of Namibia’s SMEs**

4.1 **Definition**

Small businesses can be defined according to:

- Size (turnover, assets)
- Structure (formal or informal)
- Number of employees

But each SME analysis is faced with the difficulty of defining and distinguishing concepts such as small business sector, micro, small and medium businesses, and the formal and informal small business sectors from one another.

Enterprises can be classified into four sizes: micro, small, medium and large. But it seems impossible to attach numbers to those terms, since the only quantifiable data is perhaps capital employment and turnover and these may be unreliable at best. A more practical criterion is the classification into formal and informal enterprises. In Namibia a formal business is usually regarded as an enterprise, which is somehow officially registered. This can be with a Local Authority, a ministry, the registrar of companies or the SME-database in the Ministry of Trade and Industry. Research institutes like the Labour Resource and Research Institute (LaRRI) and the Namibia Economic Policy Research Unit (Nepru) have adopted the number of employees as the single defining criterion.

To distinguish enterprises in the formal sector from those in the informal sector, the International Labour Organisation (ILO) proposed a general definition which suggests that “any enterprise which is not registered with one authority or another should be considered as an informal sector enterprise, whatever its size”.

A LaRRI study of 2006 found in its study-sample, that seventy-three (73%) percent of all businesses were registered with a ministry or a local municipality. Furthermore a strong relationship between registration of the businesses and turnover could be established: The average monthly turnover for registered and unregistered businesses was N$13,900 and N$2,100 respectively.

The Namibian Ministry of Trade and Industry (MTI) in its SME policy from 1997 defines SMEs as manufacturing companies, employing less than 10 people, reaching a turnover of less than N$1 000 000 and having a capital basis of less than N$500 000. Non-manufacturing SMEs have less than 5 employees, a turnover of less than N$250 000 and a capital basis of less than N$100 000.

| TABLE 1 Definition of small businesses (MTI 1997) |

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In view of the challenge in defining what classifies an SME, another major problem appears: The absence of detailed and accurate information on the overall number of SMEs and in which sectors they are active. Such information can only be obtained through a census or surveying all businesses in the country.

### 4.2 Estimated Number of Small Businesses

Based on a head count of SMEs commissioned by the Ministry of Trade & Industry (MTI) in seven of the 13 administrative regions in Namibia between 1997 and 1999, Nepru estimated the contribution of small businesses to the GDP in 2003. The results from this partial census where then used to extrapolate the number of manufacturing and other businesses in the missing regions of Namibia. Based on these estimations the total number of small manufacturing businesses was 11,971 in Namibia, while the number of small service businesses was 22,432.

**TABLE 2 Number of small businesses (Nepru)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Manufacturing</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erongo &amp; Otjozondjupa</td>
<td>806</td>
<td>3481</td>
</tr>
<tr>
<td>Ohangwena, Omusati, Oshana, Oshikoto</td>
<td>7229</td>
<td>7393</td>
</tr>
<tr>
<td>Khomas</td>
<td>408</td>
<td>4951</td>
</tr>
<tr>
<td>Caprivi &amp; Kavango*</td>
<td>2,618</td>
<td>2,677</td>
</tr>
<tr>
<td>Rest of Namibia**</td>
<td>910</td>
<td>3,929</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,971</strong></td>
<td><strong>22,432</strong></td>
</tr>
</tbody>
</table>

*Figures are estimated based on the figures for Ohangwena, Omusati, Oshana, and Oshikoto. It is assumed that the Caprivi and Kavango region have a similar relationship between population and small businesses as the Ohangwena, Omusati, Oshana and Oshikoto regions.

**Figures are estimated based on the figures for Erongo and Otjozondjupa. The rest of Namibia is assumed to have a similar relationship between population and small businesses as the Erongo and Otjozondjupa regions.

### 4.3 Business Categories

The Institute for Public Policy Research (IPPR 2004) clustered its national sample of 337 SMEs into the following business-categories and calculated percentage shares and gives an indication in which industry sectors SMEs are particularly active:

**TABLE 3 Sample Distribution according to clusters (IPPR 2004)**

<table>
<thead>
<tr>
<th>Cluster</th>
<th>No. of SMEs</th>
<th>% Share of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT, Electronics and Business Consulting</td>
<td>40</td>
<td>11,88%</td>
</tr>
<tr>
<td>Transport</td>
<td>26</td>
<td>7,72</td>
</tr>
<tr>
<td>Body Care, Health and Creches</td>
<td>37</td>
<td>10,89</td>
</tr>
<tr>
<td>Hospitality, Tourism and Crafts</td>
<td>32</td>
<td>9,5</td>
</tr>
<tr>
<td>Food: Manufacturing, Selling and Catering</td>
<td>81</td>
<td>24,05</td>
</tr>
<tr>
<td>Metal and Mechanics: Manufacturing Services</td>
<td>34</td>
<td>10,1</td>
</tr>
<tr>
<td>Textile and Leather: Manufacturing and Services</td>
<td>39</td>
<td>11,52</td>
</tr>
<tr>
<td>Construction, Maintenance and Carpentry</td>
<td>31</td>
<td>9,2</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>5,05</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>337</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

About 37% of the surveyed businesses have a woman as an owner. Women business owners were most frequent in the clusters Textile and Leather, Body Care, Health and Crèches, Food and Hospitality, Tourism and Crafts, in that order. All clusters except ICT, Electronics and Business
Consulting had previously disadvantaged Namibian business owners in excess of 90%. Women classify by default as previously disadvantaged.

### 4.4 Contribution to GDP and Work Force

According to estimations the contribution of small businesses to the GDP has increased from 8.04% in 2002 to 11.01% in 2003. The nearly 3% higher contribution to GDP means that the growth of the small business sector exceeded the average growth of the whole economy considerably. This holds even when accounting for the weaker GDP contribution of the mining sector in 2003, due to the strong South African Rand. Calculating the small business contribution to the GDP excluding the mining sector still shows a 2% higher GDP contribution in 2003 compared to 2002.

The average annual value added by manufacturing and service businesses in 2003 is estimated N$95,664 and N$107,481 per business respectively. The average contribution to the GDP by small businesses is N$103,337. Services sector businesses add more value on average compared to the manufacturing businesses. When broken up in clusters it is disclosed that some clusters contribute to the GDP on average considerably more than others. At the high end, we find construction and ICT and hospitality with above average contributions, while on the lower end are the body and health care and the food clusters.

The share of the Namibian labour force working full-time in the small businesses sector has increased from 15% in 2002 to 19.8% in 2003. This increase does not include part-time employees, members of co-operatives, people working on an occasional basis or on commission. This 4.8% increase of the SMEs share of the Namibian labour force overshoots the annual 2.6% growth target of NDP2 by over 50%. Annual average full-time salaries for both service and manufacturing sector are around N$10,000, which translates into average monthly full-time salaries of just above N$800.

#### TABLE 4 Estimated share of Namibian labour force employed in or running small businesses 2002 (IPPR 2004)

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing Sector</th>
<th>Service Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of full-time employees</td>
<td>1.25</td>
<td>1.44</td>
</tr>
<tr>
<td>Business Owner</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>2.25</td>
<td>2.44</td>
</tr>
<tr>
<td>Number of businesses</td>
<td>11,971</td>
<td>22,432</td>
</tr>
<tr>
<td>Employment</td>
<td>26,878</td>
<td>54,756</td>
</tr>
<tr>
<td>Share of Labour Force</td>
<td>4.96%</td>
<td>10.11%</td>
</tr>
<tr>
<td>Total Share</td>
<td></td>
<td>15.08%</td>
</tr>
</tbody>
</table>

### 4.5 Motivation

In general, two groups of factors prompting the establishment of SMEs have been identified:

1. **Lack of alternatives in the economy:** reasons might include the inability to find employment or other sources of income. These factors are known as ‘push’ factors as they push people into the business sector.
2. **Deliberate choice to start a business:** these are based on the motivation to pursue different business opportunities. These factors are known as ‘pull’ factors, as people are pulled into the business sector.

About ¼ of all businesses started the business out of a lack of employment alternatives. This hints at the survivalist nature of those businesses. About 16% indicated that having a business is better than being employed. Regarding pull factors, about 43% started a business to take advantage of a
business opportunity and 11% to make additional money. For those owners, running a business is rather a ‘hobby’ to generate more income instead of a proper vocation which they commit themselves to on a full-time basis. About 6% had other reasons (e.g. they inherited the businesses or mentioned to ‘help creating employment’).

5 Government’s SME Policy

Despite official recognition, the approach to the development and growth of this sector has been haphazard and has not yielded the envisaged result of transforming this sector into a job-machine and to increase its role in the economy. A national SME policy and programme was therefore launched in 1997, to “set out the Government’s firm commitment to transform the sector, as a priority, from its current state of deprivation and under-development into a lead sector of the economy” (MTI). This policy has been under revision for about five years and no monitoring-report could be found about the results regarding the envisaged goals of 1997. These goals stipulated that:

- The existing formal sector is expected to create no more than 15,500 jobs over the next three years.

- Export Processing Zones are expected to expand the number of large and medium enterprises in the formal sector and contribute an estimated 25,000 new jobs over that same period.

- Additional employment for approximately 35,000 persons in the sector will be created over the next three years.

- This will enable the country to create some 75,000 jobs and thus keep pace with the fast growth of the nation’s workforce by the end of the century.

Six pro-active programmes have been devised by the MTI to realise these objectives:

- access to finance,
- development of markets for SME products,
- provision of information on input sources and the promotion of group purchasing schemes,
- development of sites and premises, and
- provision of support training in the form of mentoring and after-care services.

Whether the SME Policy and Development Programme of the MTI, which was “designed to intervene in this sector and … to increase the rate of growth of existing small businesses so that they can employ additional labour; to increase the rate of new business formation; and to diversify the activities of the sector’s businesses” was achieved or not remains doubtful.
6 THE INFORMAL SME ECONOMY IN NAMIBIA

6.1 Key Regions

The level of informal economic activities is significant in a number of key regions like Khomas, Ohangwena, Oshana and Omusati. The most important industries are agriculture, manufacturing, wholesale and retail trade and repair of motor vehicles. In one of the latest studies done by LaRRI, out of a total of 132,607 informal economy operators and workers, a group of 448 workers and operators were interviewed. The sample size comprised 52.4% workers and 47.5% operators. The bulk of informal sector operators are found in rural areas (81,775) compared to only 50,831 found in urban areas. The informal economy is structured in such a way that it has more operators (85,302) than workers (47,305). The majority of the informal economy operators (47%) are involved in the wholesale and retail sector, which focuses on the buying and selling of goods, manufacturing of food products and beverages (18.9%) and agriculture (11%) which includes growing crops, market gardening, horticulture, farming with livestock and other agricultural activities.

The majority of respondents (87.2%) indicated Oshiwambo as their home language whilst the rest either spoke Damara/Nama (3.4%), Otjiherero (3%), Afrikaans (2.6%), Silozi (1.3%) Shona (0.9%) or English (0.4%). This finding can be attributed to the fact that the distribution of people employed in the informal economy is skewed with the majority of them being found in the central (Khomas Region) and in the North (Ohangwena, Omusati, Oshikoto, Oshana). These Regions are dominated by Oshiwambo speaking people.

<table>
<thead>
<tr>
<th>Home Language</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silozi</td>
<td>1.3</td>
</tr>
<tr>
<td>Oshiwambo</td>
<td>87.2</td>
</tr>
<tr>
<td>Otjiherero</td>
<td>3.0</td>
</tr>
<tr>
<td>Damara/Nama</td>
<td>3.4</td>
</tr>
<tr>
<td>Rukwangali/Oshimbundu</td>
<td>1.3</td>
</tr>
<tr>
<td>Afrikaans</td>
<td>2.6</td>
</tr>
<tr>
<td>English</td>
<td>0.4</td>
</tr>
<tr>
<td>Shona</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In a study of the informal economy conducted by LaRRI the majority of the respondents where based in the Khomas (37.6%), the Oshana (36.7%) and the Ohangwena Regions (18.1%). Ohangwena also has the highest number of people employed in the informal economy.

6.2 High Degree of Informality
According to the IPPR, 46% of the SMEs are registered for VAT, 16% with a local authority and 33% with the Social Security Commission (SSC). Especially the construction, maintenance and carpentry SMEs, metal and mechanics, transport and ICT, electronics and business consulting are predominantly registered for VAT. Although the food-related SMEs are the most important one in terms of businesses, only 32% of the businesses are VAT registered.

This reflects that a number of SMEs are rather small and informal businesses (like Shebeens). The same applies to the tourism and hospitality industries, where especially woodcarvers are not registered as compared to B&Bs and hostels. The major reasons for not registering with any authority (be it for VAT, local authority or SSC) is often a lack of knowledge on how to register and the procedures involved.

Another major reason is the fear that registration might lead to disadvantages (e.g. if regulations are not met, there might be fines or problems with employing/laying off workers). It was perceived by some businesses that the registration process is a burden and represents an operating disadvantage.

Formal businesses are complaining about informal businesses having an unfair competitive advantage as they do not have to operate to the same standards and regulations. Especially businesses in areas with high competition have voiced this concern. For example, formal butchers have mentioned unfair competition by informal meat sellers as a major disadvantage. The major reason is that the informal businesses did not have to follow the same health standards than formal butchers, leading to sever price competition. Another disadvantage results for employed staff. Over 70% of businesses providing information on this issue stated not to have any written agreement or working contract with their workers. While this might represent an operational advantage in terms of reacting to changing demand and market situations, it can potentially weaken employee’s position vis-à-vis their employer.

### 6.3 Informal SME Workers

Most SME workers did not join the sector out of choice but rather because there was no other employment available. The duration of employment varies greatly between a few months to ten years or more, with the average duration being between 1 to 2 years. Despite workers’ high levels of satisfaction with their jobs and their employers, most SME workers would want to work in the public sector or in a large private firm. In other words, Namibian SME workers are in the sector because of a lack of alternative employment.

SME workers received few benefits and even the compulsory benefits such as annual leave and membership with the Social Security Fund are only enjoyed by a minority. The vast majority of workers in informal SMEs (88.2%) are also not covered by any pension scheme, medical aid or any other form of insurance.

Of 337 businesses recently surveyed, 44% had one full-time employee or less and about 50% employed between 2 and 5 full time employees. The total average number of full-time employees is...
Of those 337 businesses, 88 were manufacturing businesses and 249 were businesses in the service sector. The average full-time income in the services sector tends to be much higher than in the manufacturing sector.

According to a joint study by the IPPR, Nepru and JJC, the performance of SMEs in the field of job creation remains rather disappointing and the employment dynamics are weak. Within a sample of 373 SMEs, taking the creation and the loss of jobs into account, not more than 45 jobs were created between 2003 and 2004. Not surprisingly, a large number of businesses do not have employment contracts with their employees. Thus the majority of the new jobs that are created are informal. The survey found, that no more than 10 jobs where created in one year.

### TABLE 6 SME employee salaries (LaRRI 2006)

<table>
<thead>
<tr>
<th>Employee Salaries</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than N$50</td>
<td>0.5</td>
</tr>
<tr>
<td>N$ 51 - N$ 100</td>
<td>2.4</td>
</tr>
<tr>
<td>N$ 101 - N$ 150</td>
<td>1.0</td>
</tr>
<tr>
<td>N$ 151 - N$ 200</td>
<td>5.8</td>
</tr>
<tr>
<td>N$ 201 - N$ 250</td>
<td>1.9</td>
</tr>
<tr>
<td>N$ 251 - N$ 300</td>
<td>2.4</td>
</tr>
<tr>
<td>N$ 301 - N$ 400</td>
<td>4.3</td>
</tr>
<tr>
<td>N$ 401 - N$ 500</td>
<td>3.8</td>
</tr>
<tr>
<td>N$ 501 - N$ 600</td>
<td>4.3</td>
</tr>
<tr>
<td>N$ 601 - N$ 700</td>
<td>0.5</td>
</tr>
<tr>
<td>N$ 701 - N$ 900</td>
<td>7.2</td>
</tr>
<tr>
<td>N$ 901 - N$ 1100</td>
<td>3.3</td>
</tr>
<tr>
<td>N$ 1101 - N$ 1300</td>
<td>1.9</td>
</tr>
<tr>
<td>N$ 1301 - N$ 1500</td>
<td>6.3</td>
</tr>
<tr>
<td>N$ 1501 - N$ 2000</td>
<td>9.1</td>
</tr>
<tr>
<td>N$ 2001 - N$ 2500</td>
<td>3.4</td>
</tr>
<tr>
<td>N$ 2501 - N$ 3000</td>
<td>3.3</td>
</tr>
<tr>
<td>N$ 3501 - N$ 4000</td>
<td>3.4</td>
</tr>
<tr>
<td>N$ 4000 - N$ 4500</td>
<td>1.4</td>
</tr>
<tr>
<td>N$ 4501 - N$ 5000</td>
<td>2.4</td>
</tr>
<tr>
<td>N$ 5001 - N$ 5500</td>
<td>0.5</td>
</tr>
<tr>
<td>N$ 5501 - N$ 6000</td>
<td>4.3</td>
</tr>
<tr>
<td>N$ 6001 - N$ 6500</td>
<td>0.5</td>
</tr>
<tr>
<td>N$ 8001 - N$ 9000</td>
<td>0.5</td>
</tr>
<tr>
<td>N$ 9001 - N$10000</td>
<td>0.5</td>
</tr>
<tr>
<td>Unspecified amount</td>
<td>21.5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

### SME Income in %

- N$ =50-500: 22.1%
- N$ 501-1100: 17.3%
- N$ 1101-2000: 17.3%
- N$ 2001-5000: 15.9%
- N$ 5001-10000: 6.3%
- Unspecified amount: 21.5%

#### 7 Factors influencing SME Development

Although it is hardly possible to define rigorous explanations to SME-development, four groups dominate discussion in that area:

1. Firm/structural characteristics (business size, area of activity, organizational aspects)
2. owners characteristics
3. management decisions
4. contextual/general growth environment.

7.1 Size Matters!
Following the economies of scale argument, bigger firms are operating more efficient than smaller ones. The productivity (measured as returns per hour of work) is regarded as the lowest in one-person businesses. Businesses with two to nine workers have significantly higher efficiencies. Furthermore, larger firms have better access to financial and other services. The area of activity is important, since businesses in traditional sectors, like retail and common services, have to deal with a much more difficult area than manufacturing firms and firms in niche markets.

7.2 An entrepreneurial mind!
Research conducted suggests a positive relationship between a psychological success factors and business success. Complete planning, opportunistic and entrepreneurial orientation such as autonomy, innovativeness, competitive aggressiveness and risk taking are amongst the positive factors.

The concept of entrepreneurship is regarded as different from the mere business owner. Attributes commonly related to an entrepreneur are the ability of creating a sustainable and wealth creating venture, high risk taking and the ability to innovate and improvise. These factors, together with psychological characteristics such as persistence, action orientation and self confidence, are associated with success in small businesses.

7.3 Management!
The attitude in drawing managerial decisions is another important factor for business success. Beside the fact, that some businesses lack resources and expertise to drive their business further, it seems that some do not have the desire to expand. What is needed is a proactive approach to drive the business forward. The owner’s personal motivation and will to progress is needed, coupled with a clear vision for the long term.

Flexibility and the ability, to adapt quickly to new situations and to seize opportunities are crucial elements of successful management. Studies have shown that a purely reactive management strategy, meaning simply reacting to changing conditions, negatively affects business success.

7.4 External Factors
The supporting and constraining factors of the overall framework, i.e. economic and political environment, market failure, high competition, globalisation and lack of access to infrastructure, resources and information, within which small businesses have to operate are widely discussed. Nevertheless, the business environment does frame and constrain the SME performance, but to a large degree this influence can be altered by the right decisions and strategies of the business owners.
Although a favourable business environment generally supports overall economic growth, even in difficult business environments, the right management decisions can at least reduce the risk of failure and improve the business performance.

7.5 Lack of Finance

Lack of finance is widely recognised to be the main obstacle to the development of small businesses. Despite the many NGOs and government ministries and agencies involved, the availability of finance to small businesses remains poor. This is the major obstacle to the sector’s inability to realise its potential social and economic role.

The major reason for this discrepancy between demand for and supply of finance is the nature of lending activities: Financial institutions often cite the difficulties in obtaining information about the qualities and characteristics (a borrower might be chosen who is unable to repay the loan) as well as the actions of the borrower. Therefore it remains uncertain whether borrowers can repay the loan in the future. Financial institutions normally address this problem by securing lending with collateral. If this is impossible because a borrower does not have sufficient collateral, lending is usually restricted. Research institutions estimate, that in Namibia about 97% of businesses are not regarded as bankable. But banks are not necessarily to blame. Businesses without any financial track records operating in a very competitive field are not ideal candidates for credit. The consequence is that financial support to small businesses is often dominated by government institutions or donor funded activities with only a few private providers.

On the other hand it was found, that a large number of business owners don’t even want credit as they perceive it as negative. Similarly, a larger number cannot identify useful financial services. Thus a lack of finance is not necessarily the major constraint, since it is apparent that most SMEs were oblivious to funding opportunities available to them and have thus not even attempted accessing these funding opportunities.

In a study done by LaRRI and Nepru, around 78% of all businesses had a bank account, while a larger proportion of women-owned businesses had a bank account compared with businesses owned by men. Although almost 60% of surveyed SMEs with a monthly turnover of less than N$ 1 300 nonetheless had a bank account, the percentage of businesses with bank account increases dramatically with an increase in turnover.

<table>
<thead>
<tr>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Indeed, most of the respondents use sources other than formal financial institutions to obtain capital for their businesses.

<table>
<thead>
<tr>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Less than 10% of the respondents ever approached an institution for financial assistance. Among those who did, only 21.1% did in fact receive a loan, whilst the remainder either received no reply
(31.6%), were informed that they lacked sufficient security to guarantee the loan or that the business plan was not considered viable.

**TABLE 9 Replay of financial institutions (LaRRI 2006)**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>They did not reply back</td>
<td>31.6</td>
</tr>
<tr>
<td>Got the loan</td>
<td>21.1</td>
</tr>
<tr>
<td>They said it was a poor business plan</td>
<td>10.5</td>
</tr>
<tr>
<td>They said I did not have security for the loan</td>
<td>21.1</td>
</tr>
<tr>
<td>I was chased away</td>
<td>10.5</td>
</tr>
<tr>
<td>No reply</td>
<td>5.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Similarly, very few businesses make use of ICT technologies: less than ¼ of all businesses use a PC for business purposes and 12% use the Internet (limited mainly in the tourist sector and ICT sector).

### 7.6 Lack of Market Access

A look at the market size reveals that the large majority of businesses serve local markets with limited market outreach. About 77% of the SMEs sell their products or services locally, 18% in the region, 4% nationally and only 1% of SMEs export their products or services. About 56% of the 335 surveyed SMEs buy their inputs locally, 14% in the region, 21% in Namibia (major urban centres) and 10% internationally. Of the latter the majority of inputs are sourced from South Africa. The limited market outreach is also due to the nature of the businesses and their products (most services like retail and other services are geared towards local needs). Nearly half of the businesses providing information on their major business difficulty mentioned high competition or a lack of customers. One major reason is that those businesses are often selling the same products or services without much product or service differentiation. This reduces the competitive edge and negatively influences businesses performance. More than 60% identified competition as the major reason that contains their growth. Only 12% of the businesses actually mentioned that lack of money or cash flow problems constituted a major reason for not expanding or for low business performance.

### 7.7 Income Distribution - Urban SME Centres vs. Rural Areas

According to the latest Namibia Household Income & Expenditure Survey done in 2003/2004 by the Central Bureau of Statistics of the National Planning Commission, the per capita income in urban areas is about three times higher than in rural areas. Namibia’s total of 60% rural households account for only 38% of total income.

The annual average household income between rural and urban households differs widely: 40,5% of all Namibian households live in urban and 59,5% in rural areas. Where urban households account for a total income of N$ 10 029 million (62%), rural households account for only N$ 6 146 million (38%). Household income in urban areas is an average of N$ 66 625 and in rural areas
N$ 27 792 per annum and the per capita income in rural areas is N$ 5140 and in urban areas N$ 15 811.

This huge income difference explains the rural-urban migration which is about 4% as well as the concentration of SMEs in bigger urban areas.

8 Alternative Energy Opportunities in SMEs

8.1 Introduction

There is a significant scope for renewable energy and energy efficiency technologies within Namibia’s SME sector. Essentially this scope can be loosely clustered into two categories:

1. Basic services and manufacturing in informal urban settlements and rural settlements

2. Basic services and manufacturing in agriculture and tourism industries on commercial and subsistence farming and community based organizations (CBO)

Within these two categories the below options are some of the most promising:

Basic services in informal urban settlements and rural settlements

- Battery Charging
- Cell phone charging and “Pick-a-Phone”
- Refrigeration in Cuca-Shops and shebeens
- Entertainment and public announcement technologies for weddings, festivities and other meetings
- Computer Services including secretarial work, printing and processing of photographs
- Hair Cutting
- Media services including satellite television, video
- Basic electrical, mechanical and electronic repairs
- Manufacturing if wooden furniture and other items with lower energy requirements
- Catering and food processing and preservation including baking of bread
- Sewing for clothing and shoe repairs

**Basic services and manufacturing in agriculture and tourism industries**
- Solar energy water pumping instead of diesel pumping
- Water heating with wood efficient technologies and solar thermal technologies
- Refrigeration and freezing facilities
- Lighting and other basic appliances (shavers)
- Communication for two-way radios
- Drying of produce (fruit, vegetables, fish) using solar dryers
- Pasteurization with thermal technologies
- Baking of bread using solar stoves
- Warming water for aquaculture
- Automatic feeding systems for aquaculture
- Water purification and treatment using distillation
- Sewage treatment using evaporative dry toilets
- Lighting as means of increasing production times

Certainly similar energy services can be used in other economic sector like small mining and fishing. However, an important element that needs to be considered is accessible technical support for any required repairs and maintenance of the technologies along with access to finance for the purchase of the technologies. When Namibia drafted its national Off-grid Energy Master Plan (OGEMP) in 2006, both of these considerations are incorporated through an “Energy Shop” approach. The OGEMP acts as a supplement to the Grid Electricity Distribution Master Plan, originally devised in 2000 and updated in 2005. The table below shows the number of Off-grid localities in Namibia.

**TABLE 10 Number of Unelectrified Localities in Namibia**

<table>
<thead>
<tr>
<th>Rural Electricity Distribution Master Plan for Namibia, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Rural Localities:</strong> 5,858</td>
</tr>
<tr>
<td><strong>Total Unelectrified Localities:</strong> 5,858</td>
</tr>
<tr>
<td><strong>Future Grid connected (within 20 years):</strong> 1,543</td>
</tr>
<tr>
<td><strong>Off-Grid Localities:</strong> 3,886</td>
</tr>
</tbody>
</table>

9 **REFERENCES**

1. Ministry of Trade and Industry & Joint Consultative Committee; Namibia 2003: Small Business Service Providers Directory
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