

Enhancing the contribution of small and medium-sized enterprises to local economic development in Oshakati Town, Namibia

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Thesis presented in fulfilment of the requirements of the Degree of Master of Public Administration in the Faculty of Economic and Management Science at Stellenbosch University



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December 2012

DECLARATION

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ABSTRACT

In 1997, the Government of the Republic of Namibia launched the Policy and Programme for Small Business Development. The Ministry of Trade and Industry at the time was assigned the responsibility, together with several different stakeholders, to implement this policy. The launch of such a programme was a step taken to recognise the importance of the small and medium enterprise (SME) sector in local economic development (LED).

The core of LED transformation and the implementation of any local authority is the creation of the private sector - a primary source of development – and support of the SME sector in particular. SMEs are considered one of the main driving forces in LED.

The current study, which was conducted within Oshakati Town, attempted to study the role of SMEs in the LED sector and what challenges are hampering the SME sector to participate fully and to make a serious contribution towards LED implementation at the local authority level. The study considers to what extent the Namibian government and local government policies supports the SME sector development and contributes to LED and assessed issues regarding the sustainability of the measures engaged in by the government, and especially by the local government. Further, the researcher also attempted to determine how the SME sector in Namibia has responded to the LED implementation that regards SME development as the key to social and economic development through reducing poverty and increasing employment opportunities.

The findings of the study indicates that, despite the nationally recognised importance of the SME sector in terms of LED, the sector still faces major challenges in regional and local government. The challenges of business entry (start-up capital), survival and growth are often substantial. The availability of financial resources and the lack of capacity to handle complex business management issues, as well as business premises also regarding the price of business land are all important in this regard. There is a continuous need to improve and maintain the required elements that bring about a good enterprises climate.

OPSOMMING

Die regering van die Republiek van Namibië het in 1997 die Beleid en Program vir Kleinsakeontwikkeling bekend gestel. Die destydse Ministerie van Handel en Nywerheid is saam met etlike verskillende belanghebbendes met die praktiese inwerkingstelling daarvan belas. Met dié beleidstuk het die regering oënskynlik 'n tree nader gekom aan die erkenning van die belang van die klein-en-middelslagonderneming- (KMO-)sektor in plaaslike ekonomiese ontwikkeling (PEO).

Die grondslag van PEO-transformasie en die suksesvolle funksionering van enige plaaslike owerheid is die koestering van die privaat sektor – synde 'n vername bron van ontwikkeling – sowel as steun vir die KMO-sektor in die besonder. KMO's is bekend as een van die hoofdryfkrigte agter PEO.

Hierdie studie, wat in Oshakati onderneem is, ondersoek die rol van KMO's in PEO, en die uitdagings waarvoor die KMO-sektor te staan kom om as volwaardige deelnemer aan die ekonomie 'n werklike bydrae tot PEO-inwerkingstelling op plaaslikeregeringsvlak te lewer. Die studie besin oor die mate waarin Namibiese staats- en plaaslikeregeringsbeleid die ontwikkeling van die KMO-sektor sowel as dié sektor se bydrae tot PEO ondersteun. Die volhoubaarheid van die maatreëls wat die regering, en veral plaaslike regering, ingestel het, word ook verken. Voorts probeer die navorser vasstel hoe die Namibiese KMO-sektor gereageer het op die ontwikkeling van dié tipe ondernemings as sleutel tot plaaslike maatskaplike en ekonomiese ontwikkeling deur armoedeverligting en werkskepping.

Ondanks die nasionaal erkende belang van die KMO-sektor in die strewende na PEO, kom die sektor volgens hierdie studie klaarblyklik steeds voor groot uitdagings op streeks- sowel as plaaslike vlak te staan. Dikwels is saketoetrede (aanvangskapitaal), -oorlewing en -groei wesenlike hindernisse. Die beskikbaarheid van geldelike hulpbronne, die gebrek aan vermoë om ingewikkelde sakebestuurskwessies te hanteer en die verkryging van 'n sakeperseel, ook wat eiendomspryse betref, is alles tersaaklike kwessies in dié verband. Dus is daar 'n dringende én voortdurende behoefte aan die verbetering en instandhouding van die vereiste elemente vir 'n goeie sakeklimaat.

ACKNOWLEDGEMENTS

Firstly, I would thank my God Almighty for giving me wisdom and strength throughout my studies and for keeping me going every day of it. He is the source of all gifts and talents, and is the creator and the sustainer of my life.

I also wish to thank my mother for being my pillar in every step of my study. Since the very first, Mom, you have been wonderful, and I therefore dedicate this thesis to you. You have been my personal source of encouragement and inspiration, always encouraging me not to give up. To my husband, Kleophas, your prayer and steadfast support of, and confidence in, my studies have been my pillar.

Last, but not least, I specifically want to thank my supervisor, Dr Babette Rabie, for supporting the study and for encouraging me not to give up. Ms Riana Moore, thank you so much for always understanding my problems and for always standing by me.

Lastly, I would like to thank the Oshakati Town Council for allowing me to carry out the research within their town, as well as all SMEs in Oshakati Town that participated in the research by answering the questionnaire and all the institutions that participated in, and contributed to, the information gathering. I thank you all.

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LIST OF ABBREVIATIONS

ASCCI	the Association of SADC Chambers of Commerce and Industry
DBN	Development Bank of Namibia
ECA	Economic Commission for Africa
EC	European Commission
EPZ	export processing zone
EU	European Union
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
FIDES	Financial Systems Development Services
FNB	First National Bank
ILO	International Labour Organisation
IPPR	Institute for Public Policy and Research
JCC	Joint Consultative Council
LADC	Local Authority Development Committee
LaRRi	Labour Resource and Research Institute
LED	local economic development
LEDA	Local Economic Development Agency
MDG	Millennium Development Goal
MTI	Ministry of Trade and Industry
MRLGHRD	Ministry of Regional and Local Government, Housing and Rural Development
NCCI	Namibia Chamber of Commerce and Industry
NDC	Namibia Development Corporation
NDP	National Development Plan
NEPRU	Namibia Economic Policy Research Unit
NGO	non-governmental organisation
PPP	public–private partnership
PSD	private sector development
RDCC	Regional Development Coordinating Committee
RLED	Regional and Local Economic Development
SADC	Southern African Development Community
SADF	South African Defence Force
SBCGT	Small Business Credit Guarantee Trust
SDF	Special Development Fund

SME	small and medium-sized enterprise
SSC	Social Security Commission
IDEAS	Initiatives for Development of Enterprising Action and Strategies
UN-ECA	United Nations – Economic Commission for Africa
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development

CHAPTER 1

INTRODUCTION

1.1 Introduction

The small and medium enterprises (SME) sector has played a crucial role in the transformation of the economic development of many African countries and of many other countries around the globe. A well-developed and supported SME sector has been identified as a major source of employment creation that gives job opportunities especially to unskilled personnel in many local authorities. A sector that creates wealth that contributes to the better living standard of the local community contributes to its social stability, as well as generating revenues for local authorities and for the national government at large.

According to the Namibian Ministry of Regional and Local Government, Housing and Rural Development's (MRLGHRD's) Regional and Local Economic Development (RLED) White Paper (2008:1), the development of the SME sector remains one of the cornerstones of the local economic development (LED programmes in Namibian regional and local government. The benefits of the SME sector in terms of key LED aspects is a 'bottom-up' policy that focuses on the promotion and support of the SME sector in terms of local authority policies and programmes.

1.2 Background to the study

The private sector is the engine for the sustainable economic growth of many countries. The role of the local government is to create an enabling environment in which entrepreneurs can explore opportunities and increase productivity, contribute to the nation's economic growth and facilitate the operation of the local authorities and their creation of jobs for local residents. In his book titled *A Strategy for Development*, Stern (2002) identifies two pillars that form the foundation of any sustainable economic development strategy, namely the building of an investment climate that facilitates investment and growth, and the empowering of poor people to participate in that growth.

The SME sector has historically played an important role in contributing to the LED of many countries, especially at local government level. The rapid growth of many African

cities during recent decades has presented both opportunities and challenges to local government in their efforts to foster local economic growth and to provide public services to urban populations (Beyer, Peterson & Sharma, 2003). The Namibian Ministry of Trade and Industry (MTI, 1997:5), argued that all businesses naturally start out small or even start out of small businesses initiated by individuals. As well as stimulating private ownership and entrepreneurship skills, SMEs are flexible and can adapt quickly to changing market demands and supply situations. One of the significant characteristics of a flourishing and growing local economy is a booming and blooming SME sector. The MRLGHRD (2008:2) sees LED practice as maximising human welfare, in providing a sound economic, social, and environmental base in which existing SMEs and future generations can operate.

Support for development and the role of the SME sector remains one of the cornerstones of LED strategy and programmes. Local authorities' support for the SME sector has been an essential element of LED programming in Namibian local government by way of the local authorities, especially the upcoming municipalities and town councils (Geiseb, 2008:6). Local government intervention efforts to support the SME sector have taken a variety of forms, most importantly concerning affirmative public procurements, assistance with promoting local clusters of SMEs, the establishment of a business park, the building of an SME park and incubators as an infrastructure support measure, the establishment of new frameworks for informal economy entrepreneurs, and the innovation of a range of local advice or support centres designed both to nurture entrepreneurship and to advance existing SMEs (Rogerson, 2009).

The government of the Republic of Namibia, in 1997, recognised the important role that the SME sector can play in the country's socio-economic development, as indicated in the government's national policies, such as in the National Development Plans (NDPs) II and III and in the long-term vision entitled Vision 2030. The recognition came in the form of a policy document and Acts of Parliament that have direct bearing on the LED White Paper and on *Namibia: Policy and Programme on Small Business Development* (Gaomab, 2005:140).

The participation of the SME sector in LED has been seen as a way in which to accelerate the achievement of the wider socio-economic goals of the NDPs and as a way in which to attain poverty alleviation, employment creation and improvement in the living standards of the local community undertaken in terms of Vision 2030. The related efforts have arisen from key role-players in the SME sector being the key actors in LED, in terms of which they have contributed in various ways: by creating employment for the urban growth labour force; by providing desirable sustainability and innovation in the economy; and by generally contributing to the country's gross domestic product (GDP) (Bank of Namibia, 2010:8).

Despite the above-mentioned efforts, however, there is still much room for further improvement both by the SME sector and by the local authorities in strengthening the role of the SME sector in the LED strategy and initiative. Doing so would enable them to make an even more meaningful contribution to LED than they have in the past. The local authorities would then be more empowered to create an enabling environment in which the SME sector could flourish. The SME sector has been faced with challenges of inadequate access to finance, a paucity of innovation, weak access to the markets and to market information, lack of business skills and knowledge, and poor communication between the sector and the local authorities and other LED stakeholders (Bank of Namibia, 2010:10). In addition, the local authorities have a bureaucratic role to play in service delivery and offer only limited business support, which could also hamper the role of the SME sector in the LED initiative.

In spite of the above-mentioned constraints, the sector has made remarkable progress, mainly through its government support programme, although such programmes have limited outreach (LaRRi, 2000:18). In order to achieve the Namibian Vision 2030, local authorities have to play their role in promoting the SME sector to become innovative and to reach the industrialisation level.

1.3 Statement of the problem

Prior to independence, the role and significance of the SME sector was neglected. Recognition of the SME sector was neglected, as priority was only given to the larger business sector, which was regarded as an incentive for economic growth (LaRRi, 2002). Potential SMEs, which operated informally mostly in the retail, trade and services sector, were not given the necessary support.

Currently, the SME sector has been identified as a priority sector for booming economic growth, particularly in regard to LED, by reducing unemployment and underemployment, by contributing to the national GDP and by improving the revenue of many local authorities (Geiseb, 2008:7). The SME sector also makes an important contribution to overall employment, accounting for 60% to 70% of the manufacturing total in most developed and fast-developing economies. In Namibia, the SME sector contributes 12% of the annual GDP, and accounted for 20% of the employment of the country's workforce in 2004, according to the Institute for Public Policy and Research (IPPR & NEPRU, 2005:15). Although the role of the SME sector has been recognised and identified as a major LED actor, its role is still not clearly understood by the local authorities, despite the major contribution that the sector has made to the authorities.

Based on the above-mentioned information, the researcher wanted to investigate and to re-examine the role played by the SME sector, in contributing to and enhancing the LED initiative taken by the Namibian local authorities, using Oshakati Town as the basis of a case study. The adopted research question is "What is required to ensure optimal contribution of the SME sector to local economic development in the Oshakati Town?"

1.4 Research objectives

To achieve the main goal of the current study, the study has the following objectives:

- to investigate the role of the SME sector in LED;
- to identify and assess the existing legal framework guiding the role of the SME sector in LED in Namibian local authorities
- to analytically assess the SME sector's working relationship with the local authority in Oshakati Town;

- to identify SME sector support incentives available from local authorities, financial institutions and other LED stakeholders in Namibia; and
- to identify prevailing challenges hampering the SME sector's ability to actively participate in, and contribute towards, LED in Oshakati Town and to offer recommendations in this regard;

1.5 Research methodology

The research adopts a case study design and makes use of quantitative and qualitative research methods. The information used in the study was obtained through the analysis of secondary data from previous research outputs and other documentation. Other data were obtained by means of a semi-structured questionnaire containing both closed- and open-ended questions that was either completed by the respondent independently or with the support of the researcher for those respondents that were not literate. Interviews were furthermore conducted with Oshakati Town Council staff from the LED Division, and with representatives from a range of business types in the SME sector including manufacturing, construction, tourism and others, and from the Namibia Chamber of Commerce and Industry (NCCI), as well as with MTI officials and financial institutions that use such SME banking services as Bank Windhoek, First National Bank (FNB) and the Development Bank of Namibia (DBN). As the topic under research aimed to analyse the performance of the SME sector in LED in Oshakati Town, the interviewees were from the targeted sectors concerned.

The selection of SME sector participants for interviews, as indicated above, was ranged according to business sector, with a total of 50 SMEs registered with the Oshakati Town Council selected for participation in the study on the following basis:

- registered with the MTI, the NCCI and Oshakati Town Council;
- location within Oshakati Town boundaries

Two out of four Oshakati Town Council officials were interviewed to gain insight into the Council role, while the other two provided written feedback on the questions. Another self-administered questionnaire was distributed to four financial institutions (i.e. Bank Windhoek, FNB, the DBN and Financial Systems Development Services (FIDES) Namibia – an SME bank) that offered SME banking services. The questionnaire was also administered to the MTI and NCCI officials.

1.6 Significance of the study

Several studies have, so far, been conducted in Namibia regarding the development of the SME sector, resulting in the making of recommendations and the drawing of conclusions, but no single piece of research was conducted to analyse the role and the importance of the SME sector among the Namibian local authorities. Therefore, the current study should contribute to the development of SME programmes that are in line with LED strategy plan at local authority level. The study should also enable the Oshakati Town Council and other local authorities to understand and improve programmes that support the SME sector development that leads to the SMEs' sustainability and also to the economic growth of the local authorities. Limitations of the study is however described in section 5.4 of the thesis.

1.9 Format of the study

The thesis is structured into the following five chapters:

Chapter 1, the introduction to the thesis.

Chapter 2, which consists of the literature review, contains headings and subheadings outlining a comprehensive theoretical approach to the research.

Chapter 3 presents the legislative and policy framework for the SME sector and LED in terms of Namibian and Southern Africa perspectives.

Chapter 4 presents the local case study; the SMEs' profile and the challenges faced by the SME sector, as well as identifies the area of intervention. The chapter, in addition to providing the methodology used in the study, also briefly highlights the findings of the study and discusses the data collected. The statement of findings and the analysis of data are included in the chapter.

Chapter 5, which is the final chapter of the study, gives the interpretation of the collected data and the conclusions and recommendations based on the outcomes of the study.

1.10 Conclusion

This chapter provided the background to the study, outlined the problem statement, research objectives, research methods and presented the significance and overview of the study. The next chapter provides the theoretical context to the research.

CHAPTER 2

SME DEVELOPMENT IN THE CONTEXT OF LED

2.1 Introduction

The concepts of SME and LED are introduced in this chapter, in which the main theories behind the concepts are discussed. The chapter also covers the theory of broader SME and LED that are related to the countries' economy and to its importance for local government in a broader context.

The success of a community currently depends upon its capacity to adapt to the vibrant, national and international market economy. Strategically planned LED is increasingly used by communities to strengthen the local economic capacity of an area, to improve the investment climate, and to increase the productivity and competitiveness of local business, entrepreneurs and workers. The World Bank (2006:1) regards the ability of communities to improve their quality of life, to create new economic opportunities and to eradicate poverty as depending upon them being able to understand the processes of LED, and to act strategically within the changing and increasingly competitive market economy. Successful SMEs and productive public–private partnerships (PPPs) create wealth in local communities. However, the SME sector requires a positive, business-enabling environment in which to deliver prosperity, thus local government has an essential role to play in creating a favourable environment for SME development and success. By nature, LED is a partnership between the business sector (including the SMEs), community interests and municipal government.

The SME sector is recognised universally as a key force in driving forward economic development. SMEs are active in virtually every sector, either as direct providers of services or goods, or, alternatively, as component parts of complex supply chains. A significant percentage of the world's economically active population derives its living from SME sector employment (Bank of Namibia, 2010:26). The literature review is important, as it deepens the theoretical framework outlining the SME sector's role in economic development and the implementation of LED in local government.

2.2 Definition of key concepts

2.2.1 Sustainable development

Sustainable development is defined as a type of development that meets the needs of the present generation, without limiting the ability of future generations to meet their own development needs. Such development encourages citizens to take responsibility for their own development and promotes related activities that address the actual needs of the people. Sustainable development should involve calls for PPPs to work actively together in order to attain mutual goals (NPC, 2004a). De Beer and Swanepoel (2000:63) adopted the World Commission on Environment and Development's (WCED's) definition of sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Strategic planning for LED is important, as it is a cornerstone of sustainable development. Ultimately, LED is about sustainable development in the long term, for it takes time to change local conditions and local mindsets, to build capacity, to organise participatory process and to empower stakeholders, especially the poor community. To link sustainable development to the SME sector's role, the Bank of Namibia (2010:13) draws on a link between sustainable development and the business climate, as can be seen in Figure 1.1 below.

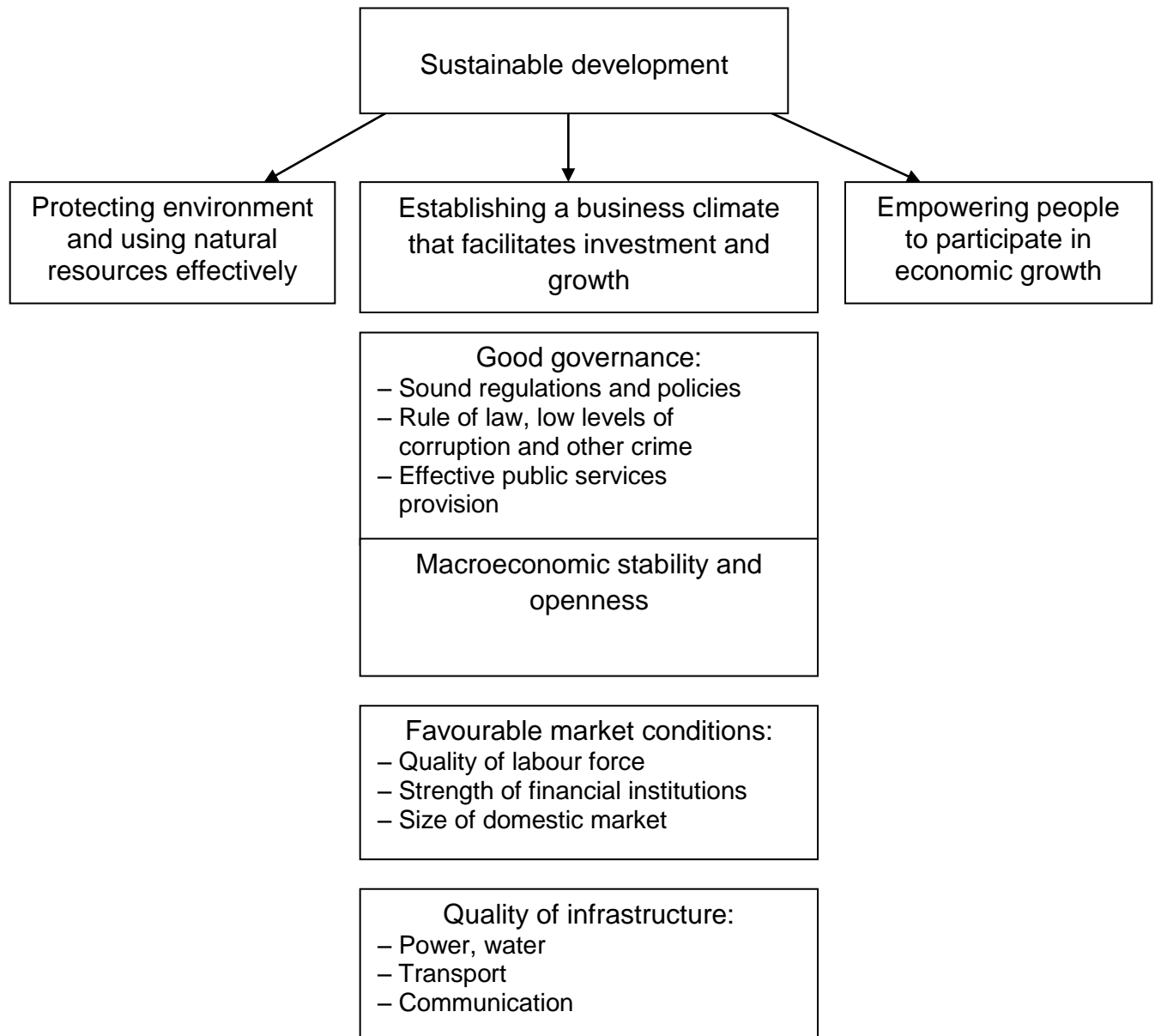


Figure 1.1: Link between sustainable development and the business climate

Source: Bank of Namibia, 2010.

2.2.2 Local economic development (LED)

According to the MRLGHRD (2008:5), LED refers to the strategies and initiatives implemented at local level, relating to a village, a town, a city, or a particular area within urban areas or regions. Thus, the term LED refers to both local and regional concerns.

The World Bank (2006:1) defines the purpose of LED as

to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and

nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation.

The Bank further states that LED gives local government, the business sector, nongovernmental organisations (NGOs) and themselves an opportunity to work together to improve the local economy. In order to remain competitive, LED focuses on enhancing competitiveness, on increasing sustainable growth and on ensuring that growth is inclusive. Local government has to strengthen its local human, physical and organisational resources in order to ensure its developmental imperative, which is central to LED. LED encompasses a range of disciplines, including physical planning, economics and marketing. It also incorporates many local government and private sector functions, including environmental planning, business development, infrastructure provision, real estate development, and finance (World Bank, 2006:1).

The LED Programme of the International Labour Organisation (ILO) defines LED as a “participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity” (White & Gasser, 2001).

The implementation of LED by local authorities can be undertaken on different geographic scales. Local government practises LED strategies for the benefit of its authority and in order for local residents to improve their economic competitiveness. Such approaches are most successful if they are implemented in partnership with local government strategies. LED is, thus, about the community continually improving their investment climate and business-enabling environment in order to enhance their competitiveness, to retain jobs and to improve incomes locally (MRLGHRD, 2008:8).

Therefore, LED is seen as a crucial way of eradicating poverty, because its aim is to create jobs by making the local economy grow. The connection of SME in LED could be related to such a concept of job creation and growth of the economy, meaning that more businesses and industries should start in the local authority area.

2.2.3 Small and medium-sized enterprises (SMEs)

The term 'small and medium-sized enterprise' typically encompasses a broad spectrum of definitions across countries and regions. Many countries and international organisations set their own guidelines, which are often based on the number of employees, sales, or assets concerned, for defining SMEs. Definitions of SMEs diverge significantly in line with the scale of the economy concerned, its degree of development and the economic structures that are present at the time and in that country.

Castel-Branco (2003:2) indicates that the difficulty in defining SMEs within a reasonable scope of common indicators raises various problems and differs from country to country. As the economies of countries differ, it is difficult, if not impossible, to give a universally accepted definition of SMEs.

The definition of SMEs also plays a major role in understanding the sector. Currently in Namibia, defining SMEs has been problematic, with several names and definitions being given to the SME sector, due to such enterprises varying on the national, regional and even international front. Even the Namibia Economic Policy Research Unit (NEPRU, 1998:1) has indicated that defining the SME sector has some limitations. Measuring capital investment, as is suggested by the definition, is made difficult by the need to achieve accurate measurements, as well as by the fact that the impact of inflation cannot, in reality, be measured. Jauch (2010, cited in Bank of Namibia, 2010:7) points out that the MTI definition of SME should be reviewed, in the light of international definitions of the SME sector, in order to allow for comparisons to be made. Although the above-mentioned definition could have limitations, the MTI gazetted definition on SME policy (MTI, 1997:2) it has been adopted as the official Namibian definition of SME.

It should be noted that Namibia's definition of the SME sector differs from the European Union's (EU's) definition of the concept, which is widely applied in Europe, and which also differs from that of other African countries.

The EU defines SMEs as firms with between 10 to 250 employees each, with less than €50 million in turnover, or with less than €43 million in the balance sheet total. Said

definition explicitly distinguishes between micro firms and SMEs (Bank of Namibia, 2010:27). The EU thresholds are very high for most developing countries, because it has made an effort to standardise its definition of SMEs, with the result that it is currently used by at least 27 countries in the world.

USAID (2007:5) indicated that the European Commission (EC) defined SME as not only reflecting the patterns of a country, but also its social and cultural dimensions. The definition concerned takes into consideration three indicators: staff headcounts; annual sales; and assets. The EC introduced the definition in order to ensure that eligible SMEs could engage in different types of economic activities without losing their status as SMEs.

In South Africa, an SME is defined as a business with fewer than 200 employees, whereas a small business has fewer than 50 employees and a medium-sized business has between 50 and 200 employees (Cronje, Du Toit & Motlatla, 2000:495).

A comprehensive definition of an SME is that it is any business with one or more of the following characteristics:

- fewer than 200 employees;
- an annual turnover of less than R5 million;
- capital assets of less than R2 million; and
- direct involvement of the owners in management.

In Namibia, the Namibian government, in its SME Policy, has defined SMEs as those businesses that fall into categories based on the number of employees, the annual turnover and the capital employed (MTI, 1997). (See Table 1.1 below.)

Table 1.1: Definition of the SME sector

Sector	Employees	Turnover less than N\$000	Capital employed less than N\$000
Manufacturing	Fewer than 10	1 000 000	500 000
All other business	Fewer than 5	250 000	100 000

Source: MTI, 1997.

Therefore, the concept of SMEs is not clear, as definitions are arbitrary and vary significantly, according to different stages of economic development, economic structures and issues that the authors of the studies intend to address. For the purposes of the current study, rather than attempting to arrive at a consensual definition of what constitutes an SME, the definition of the Namibian MTI is adopted.

2.2.4 Public–private partnerships (PPPs)

A PPP is important in the implementation of LED in local government, as it can create a working relationship between the local authorities and the SME sector aimed at providing affordable services to the local community. Beyer *et al.* (2003:15) state that, under any country's decentralised government structure, many different types of partnership, including a PPP, can be formed among LED stakeholders.

PPP is a strategy that is used by governments to provide affordable infrastructures and services, in collaboration with the private sector, to meet public needs. Governments have been faced with challenges in regard to protecting the public interest, while meeting the desired needs of the citizens. Therefore, in most cases, governments enter into partnership with the private sector to meet such needs.

PPP is an agreement between the government and the private sector for the provision of public infrastructure and public services. Purportedly, PPP is a means of bringing together social priorities by utilising private-sector capacities, relieving the government of the burden of large capital expenditure, and transferring the risk of cost to meeting the government or social need and to promote national development (Government of India. Ministry of Finance. Department of Economic Affairs, 2010:1–22). PPPs are

imperative in developing regions so that they can compete regionally and even internationally.

2.3 Key components of LED

The burden of rapid population growth without adequate economic growth affects many local government authorities (cities, towns and villages) in the developing world. In disparity to the contributions that urban growth has made to GDP growth on other continents, the population increase in African local authorities over the past few decades has not been associated with national economic growth. The result has been poor economic opportunities for many African cities, as the roots of economic prosperity are not strong, because the entrepreneurial activity involved is weak and current urban government revenue bases are feeble. In order to address the issues of population that create unemployment and poverty, a better mechanism would be for the local authorities to create well-defined LED strategies that include SME sector development (Beyer *et al.*, 2003:7). Good practice indicates that LED should always be guided by a strategy. The LED strategy provides a focus for strengthening the local economy and for building local capacity.

LED strategy encourages the public, private and civil society sectors to establish partnerships and to find local solutions to common economic challenges collaboratively. The LED process seeks to empower local participants to effectively utilise business enterprises, labour, capital and other local resources, so as to achieve the aims of local authorities, namely to promote quality job opportunities, to reduce levels of poverty and to generate municipal revenues (UN-HABITAT, 2005:2). In order for the LED to be successful, participants and practitioners should acknowledge the commitment that they have to achieve sustainable LED results.

The LED approach, which is a process-oriented and non-prescriptive endeavour, deals with three distinct intervention areas, which are unpacked below in order to look more closely at the three components of LED (Ende, 2005:5) and MRLGHRD (2008:5):

- Local** Local, in terms of LED, refers to a certain geographical area that can differ in size, density and population. The term can also refer to the dynamic at local level, depending on the various circumstances prevailing. Cities, towns, regions or group of settlements can be regarded as 'local'. The term refers to an area where people feel that they live together within a specific economic community.
- Economic** The term 'economic' refers to local comparative advantages, to the competitiveness of cities, towns and regions, and to the local private sectors, with an emphasis on SME and tourism. It relates to the private sector thriving in competitive markets and locations. The concept is core to LED.
- Development** The component of 'development' can be explained as a process of moving forward, of self-improvement and of progress, from a bad situation to a better one. It describes an existing situation that is turned into an improved, enhanced and advanced one.

The three components suggest that LED is not about 'quick fixes' or about generating a 'wish' or 'shopping list'. LED requires a practical understanding of what the local areas do well and what they have to offer, of the uniqueness of the area and of its strengths and its weaknesses, its threats and its opportunities.

Undertaking LED requires knowledge of a local area's economic linkages, including its competitive advantage and opportunities for cooperation. Success in LED activities depends on encouraging the development of a business environment in which local markets can operate efficiently, but appropriately, within the local context (UN-HABITAT, 2005:2). In most local governments, the SME sector should be highly supported and encouraged in order that it might take the lead, as the sector plays a key role in creating new local employment, wealth and local revenue collection, which all lead to poverty reduction. The local government should not do the aforementioned in isolation, as it is only responsible for taking active steps to ensure that the overall LED implementation is facilitated and that the stakeholders acknowledge their commitment to such development. Thus, LED is a way of creating a platform on which, and an environment in which, to engage LED stakeholders in implementing the relevant strategies and programme.

2.3.1 LED stakeholders' participation

LED is usually strategically planned by local government, in partnership with public and private sector partners. Implementation is carried out by the public, private and non-governmental sectors, according to their abilities and strengths.

As was indicated in the definition of LED, the process concerned is jointly driven by key stakeholders of the public sector, the private sector and civil society. Beyer *et al.* (2003) identified the LED stakeholders that should closely collaborate in order for the local community to thrive both economically and physically. Ende (2005:5) states that the participation and networking of stakeholders is inevitable for successful LED.

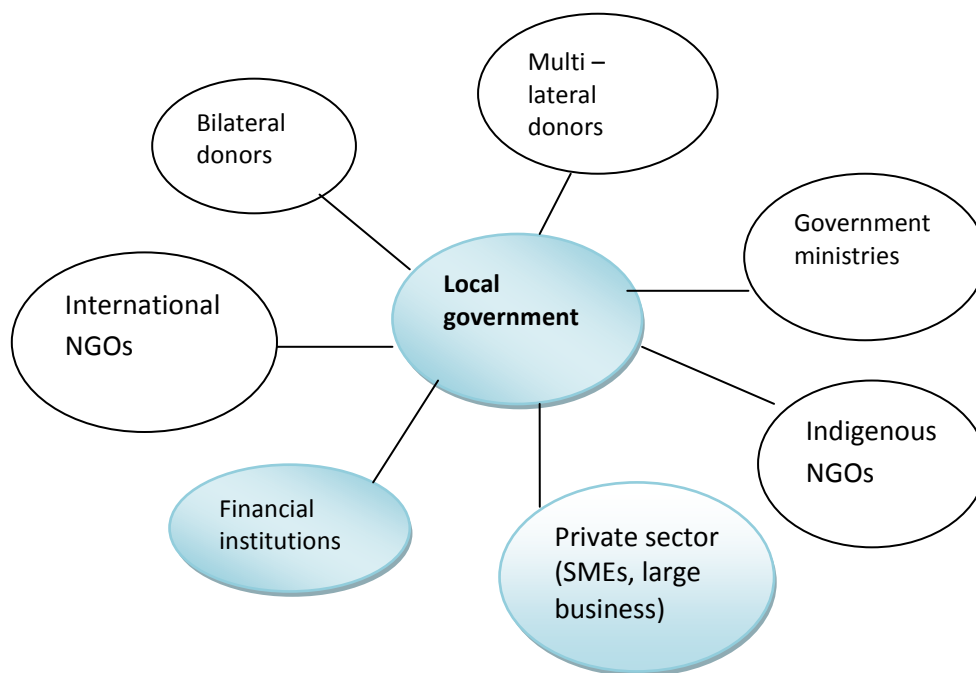


Figure 1.2: Stakeholders in LED

Source: Beyer *et al.*, 2003:15.

2.3.2 The business-enabling environment

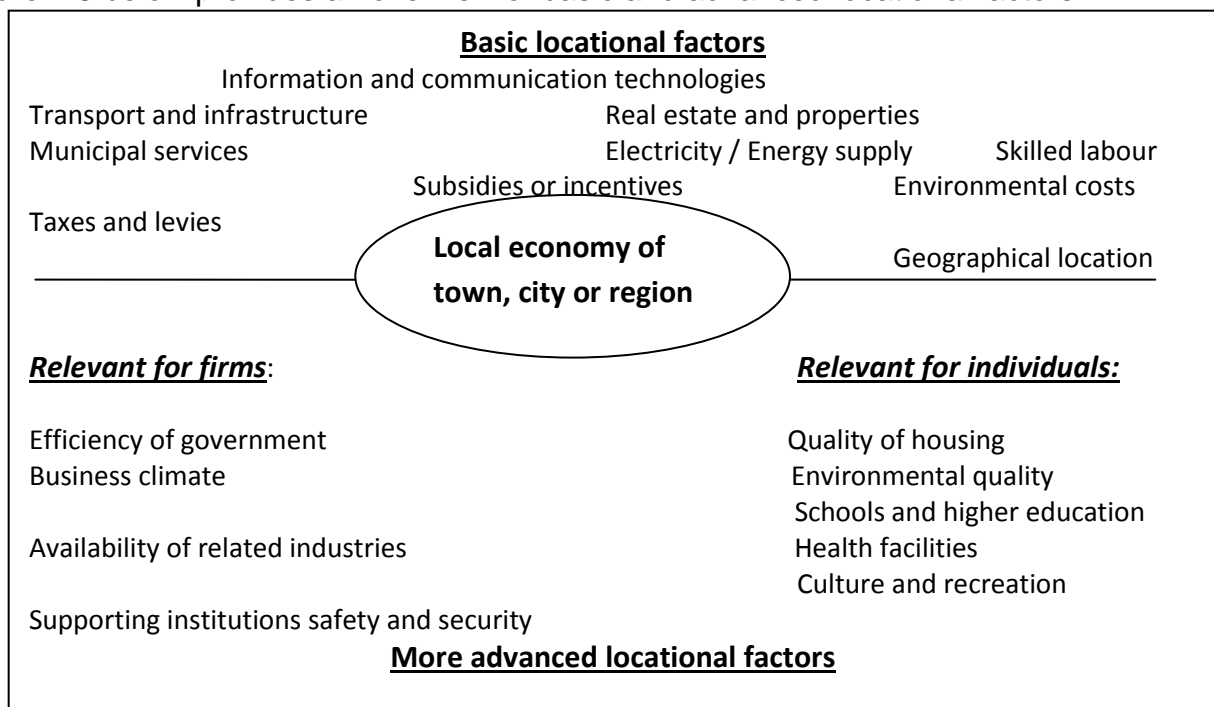
The LED principle is to facilitate a market-driven approach that paves the way for successful business growth and which focuses on opportunities, rather than on obstacles.

Business, including both SMEs and large enterprises, often chooses to be located in towns, due to agglomeration economies, meaning the benefits derived from sharing markets, infrastructure, labour pools and information that is made available by other

firms (World Bank, 2006:2). The economic advantages of urban areas depends significantly on the quality of local government governance and management, and on the policies affecting the availability of such services as electricity; road infrastructure and transport; telecommunications; and serviced land for business.

The factors that affect labour productivity in the local economy include the availability and quality of affordable housing, health, and education services, as well as the availability of multi-skilled security and training opportunities and public transport. Certain factors, which determine whether the local authority government has a favourable business climate in which to do business, are largely controlled by local government, (Ende, 2005:31).

Figure 1.3 below provides an overview of basic and advanced locational factors.



Source: Rücker & Trah, 2007:57, cited in Ende, 2005:31.

2.3.3 SMEs as LED instruments

In developed countries, LED has been discussed in a context of industrial restructuring, which also has implications for job opportunities and regional and local development. In contrast, in developing countries LED is envisaged as an instrument for unleashing the entrepreneurial and productive potential at the local level, whereby a reduction in the high rate of unemployment and poverty alleviation can be attained. However, apart from

conceptual distinctiveness, LED, in which the role of the SME sector is pivotal, is a subject of common interest to both developed and developing countries (ISED, 2005:1).

According to Rogerson (2009:54), support for the development of the SME sector remains one of the cornerstones of LED programmes. In addition, he states that local government support for SME development has been a vital component of LED programming in a number of different ways, mostly concerning affirmative public procurement and assistance for promoting local clusters of the sector.

Local government supports the SME sector by establishing a friendly environment in which the sector can operate and infrastructures, frameworks for informal economy entrepreneurs, and the innovation of a range of local advice or support centres designed both to nurture entrepreneurship and the advancement of the existing SME sector. Kosura (2000:147) asserts that local authorities have a strategic role to play in hastening industrialisation through the provision of appropriate infrastructure, the operation and maintenance of vital urban services, taxation and licensing, and planning and development. Moreover, local authorities are custodians, and determine the sustainable utilisation of local resources that are generated within their jurisdiction.

LED is about creating functioning markets that encourage competitive business. As its purpose is to stimulate business, LED should be conducted in a businesslike way, and it should serve as a starting point for designing an entrepreneurship promotion strategy to allow for the reconceptualisation of problems and opportunities (Meyer-Stamer, 2003). LED is seen as a process in which local actors undertake economic and social development initiatives that impact directly upon the lives of the local community members, as well as provide opportunities for growth. LED is a participatory development process that seeks to improve the competitiveness of the specified areas, especially the local SME sector, to compete regionally and globally, while recognising the global forces of change and the inequalities that such forces can create (Pandeni, 2006:6).

The implementation of LED by local authorities gives the local actors a platform from which to participate in developmental decision-making that affects their lives, acting in

this way as a bottom–up approach mechanism. Rodriguez-Pose (cited in Casanova, 2004:31) identified the main difference between traditional ways of development, the top–bottom development approach, and the current technique of development, the bottom–up LED approach.

Table 1.2: Traditional development policies vs LED Approach

Traditional development policies	LED approach
1. The top–down approach, in which decisions about areas where intervention is required are taken at the core	1. Promotion of development in all territories, with the initiative often coming from the bottom at local level
2. Development ID, managed by the central government administration	2. Decentralisation, vertical cooperation between different tiers of government (national, regional and local), and horizontal cooperation between public and private sectors
3. Sectoral approach to development	3. Territorial approach to development (by locality, nature or other factors)
4. Development of large industrial projects that are considered to stimulate other economic activity	4. Introduced to maximise the development potential of each sector, whether SME, large business or public sector, which is recognised as stimulating a progressive adjustment of the local economic system to the changing economic environment
5. Financial support, incentives and subsidies as the main factor for attracting economic activity	5. Provides key conditions for the development of economic activity to take place

Source: Rodríguez-Pose, Andrés, cited in Casanova, 2004:32.

The LED approach is aimed at addressing the following four axes: an improvement in the competitiveness of the local business sector; the attraction of inward investment; the upgrading of human capital or labour skills; and the building of an affordable and adequate infrastructure. Therefore, the basic objective in the given respect is to construct a balanced LED strategy that will help to generate sustainable development that creates jobs and a conducive environment for SMEs and the large business sector.

The above gives the local community and local authorities opportunities to make any economic activity taking place within their territory dependent on local conditions. By managing the strategy locally, it can be inferred that the jobs created and the services provided are likely to be of better quality as they have been provided locally, rather than resulting from another alternative development strategy or set of policies (Casanova, 2004:32).

2.3.4 LED and poverty reduction

LED especially when focused on developing the SME sector has the important aim of reducing poverty. LED recognises the need to ensure the pursuit of inclusive economic development that provides for both the promotion of local wealth creation and for poverty reduction. The adoption of such an outlook ensures that those who were traditionally subject to economic neglect become active participants in the economic life of the community and have access to opportunities resulting in development, which entails the recognition of both formal and informal economies (UN-HABITAT, 2005:4). This socialist goal adopted by LED through SME's emphasise the important role to be played by the local government to influence the shape and direction of the local economy.

2.4 The importance of the SME sector in economic development

How best to developing and support the SME sector is one of the economic issues facing African countries that are involved in the process of transforming from centrally planned economies into free market-based economies. The situation changed in the 1990s, when African countries started seeking ways of promoting SME sector development. The importance of the SME sector in economic development includes many activities that are of either a direct or an indirect nature, such as employment creation and contributions to local government revenue and to the national GDP, as well as to the taxes of the countries concerned.

According to Kongolo (2010:2288), the SME sector plays an essential role in the development of a country, making a significant contribution to the flourishing and growing of the national economy. The SME sector contributes to economic development

in many ways, by creating employment for both the rural and the urban growing labour force, especially that of the local government authorities, providing desirable sustainability and innovation for the country as a whole.

The support and development of the SME sector has been seen by many countries as a way of accelerating the achievement of improved economic growth and of socio-economic goals, including poverty alleviation (Cook & Nixon, 2000). Politicians and many governments emphasise the importance of the SME sector as a mechanism for job creation, innovation and the long-term development of national economies. Thus, governments the world over recognise the important role that the SME sector plays in national economies and constantly are involved in efforts to bolster and support the SME sector in different ways (Nieman, 2006:12). The result is that the SMEs tend to receive more government support and attention than the big enterprises do. Many governments have moved away from the centrally planned public sector-led economy towards a more market-oriented one, in order to pave a way for private sector development (PSD), particularly in regard to the SME sector, to flourish.

Nieman (2006:12) lists the importance of SMEs in the South African national economy, which has received much support from policymakers, because of the following factors, inter alia:

- The labour-absorptive capacity of the SME sector is higher than that of the size-classes.
- The average capital cost of a job created in the SME sector is lower than that in the big enterprises sector.
- The SME sector allows for more competitive markets.
- SMEs can adapt more rapidly than large organisations can to changing tastes and trends.
- The SME sector often tends to use locally available recycled resources.
- SMEs provide opportunities for aspiring entrepreneurs, especially for those who are unemployed, underemployed or retrenched.
- SMEs play a vital role in technical and other innovations.

Nieman (2006:12–13) further indicates that, in order to gain an appreciation of the role of the SME sector's contribution to the South African economy, the government and public have to consider the following factors:

- the SME sector's contribution to the GDP of the country;
- SMEs' contribution to employment creation; and
- The size of the small business sector in contrast to the private sector in the country.

The SME sector's role is not only important in Africa countries, but has been recognised as being of importance in many countries throughout the world.

2.4.1 SMEs in economic growth

The SME sector, which still represents the biggest share in private business establishment, has unique characteristics of its own, as it is extremely flexible and can readily adapt to the current, rapidly evolving economic crisis and changes. Nkongolo (2008:6) states that the contribution which the SME sector makes to the national economy and to wealth creation, which has been recognised by many governments, is considered as part and parcel of the economic development process. Not only does it provide employment and income opportunities, but in many countries it is the backbone of the economy, in the form of technological innovation, diversification of the production process and intensification of export activities.

By enabling better usage of existing local capacity, the sector establishes the basis for sustained long-run growth in the local economy, as well as the opportunity to expand and to grow that capacity in future. Further, it expands economic space and develops capacities in various industrial sectors whose combined impact has profound implications for long-term economic transformation.

2.4.2 Employment creation

Kongolo (2010:2291) gives some statistics that indicate the percentage of SME contribution to private sector employment in industrialised countries. Empirical studies have shown that the SME sector contributes over 55% of GDP in such countries and over 60% of total employment in high-income countries. In contrast, in low-income

countries, the SME sector and informal enterprises account for over 60% of the GDP and for over 70% of total employment, whereas in middle-income countries the sector contributes 70% of the GDP and 95% of total employment.

In Namibia, the sector contributes 12% to the country's GDP and employs about 20%, which means one-fifth of the country's workforce (Shejavali, 2007:2). In contrast, in South Africa SMEs account for about 91% of formal business entities, contributing about 57% of the GDP, providing almost 60% of the country's employment (Kongolo, 2010:2288).

The World Business Council for Sustainable Development (WBCSD, 2007:3–4) further indicates that the SME sector has become an important source of employment, particularly for semi- and lower-skilled workers, as well as for women and young people, who usually make up the greatest proportion of the unemployed in emerging economies. In many countries, the SME sector continues to flourish and to provide a significant variety of benefits. The sector has advantages over large-scale business, because it can easily adapt to market conditions, given their flexible nature. SMEs are more labour-intensive than are large enterprises and have lower capital costs associated with job creation than does the big business sector. The sector continuously plays a critical role in ensuring income stability, employment and economic growth.

As a result of the above, the role of the SME sector is visible in job creation, which has resulted in many countries recognising the contribution made by SMEs and developing policies that support the sector.

2.4.3 The role of SMEs in industrialisation and manufacturing

The SME sector has been seen as the starting point of development in industrialising economies. According to UNIDO (as cited in Kongolo, 2010:2291), for developing countries, the integration of the SME sector into the global economy by means of economic liberalisation, deregulation and democratisation is seen as the paramount method of triumphing over poverty and inequality. Therefore, key to the process is the promotion and development of an animated private sector in which SMEs can play a central role.

In order for the SME sector to flourish, most governments have introduced a bottom–up approach to empowering the contribution of the SME sector, especially at local government authority level. Most governments, therefore, have embarked on the path to rapid development of the SME sector, which should lead to fast industrialisation. The WBCSD (2007:3) asserts that SMEs often have a vested interest in local community development. Being local, the sector draws upon the local community for its workforce and relies on it to conduct its business. For local governments, the sector contributes to revenues of the authorities, providing job opportunities and services where the local government authorities or the national government does not reach. For the local communities, the sector provides goods and services that are tailored to local needs and at costs that are affordable to the local residents.

2.4.4 The role of SMEs in poverty reduction

The roles of the SME sector in many countries on the globe are usually thought to be related to many economic factors, including the level of economic development that is accessible through government support and promotional programmes. The promotion of SMEs in LED has, therefore, been the main centrepiece of government strategies and policies for poverty reduction that are aimed at improving the living standard of the local community.

Shejavali (2007:1) states that SMEs are born from the need to eradicate poverty:

The global players through the agenda of Millennium Development Goals (MDGs) have realised highly that SMEs development is the invaluable key to reduce poverty by accelerating economic growth, and promoting and empowering the poor, women and the differently abled so that they can escape poverty i.e. to escape from hunger, diseases and malnutrition. But above all that they become economic agents partaking into the mainstreaming of the economy and indeed the purpose of SME in terms of poverty reduction is manifold.

The SME sector contributes notably towards poverty reduction and allows the majority of poor people to become self-employed and to start meaningful production activities on

a small scale, thus serving as important avenues by means of which to generate incomes and generally as a way of reducing poverty.

2.5 Constraints hindering the SME sector's role in LED and economic growth

Despite the clear significance of the SME sector in the world's economy, the sector still faces a number of challenges that seriously hamper its growth. The challenges are discussed below.

Calcopietro and Massawe (1999:18) classified the constraints that hamper the development of a vibrant SME sector in Tanzania into five main categories: the macroeconomic and policy environment; the physical and technological infrastructure; the banking and finance structure; the legal regulatory framework; and the marketing capabilities and associated linkages.

Kongolo (2010:2288–2295) mentions that the main challenges affecting the role of SMEs in South Africa include lack of management skills, finance, access to bank credit and markets, appropriate technology and recognition of the SMEs by the large companies, as well as low production capacity and the long drawn out bureaucratic process that has to be gone through in order to acquire services and support for the roles that the SME sector plays in economic development.

2.5.1 Financing of SMEs

Of the many constraints to the stability and growth of the SME sector in Namibia, as in other countries, the availability of finance is regarded as a key constraint to the development of the sector worldwide (NEPRU, 1999:30). Financial institutions have requirements that make it difficult for most SMEs to acquire finance. Nakusera *et al.* (2008:4) assert that access to finance became a challenge, due to high requirements, such as the lack of collateral that is required by the bank and the high transaction costs that are involved in small transactions.

The lack of collateral, as well as difficulties in dealing with banking procedures and regulations, are the main factors impeding the access of SMEs to formal credit. Lack of start-up or working capital to extend existing businesses is cited as being the most

pressing factor for SME operators. The lack of such capital is a reflection of the inflexibility of the financial institutions concerned.

The main problem in the financing of SMEs lies in the lack of availability of loans. Most SMEs are sole proprietors, which limits the sum of equity financing that is usually made available to them.

2.5.2 Marketing and availability of business information

Inadequacies of marketing, purchasing, information technology, and training and skills, and lack of business support can be seen as some of the challenges preventing SME development from actively contributing to economic growth and development. Illiteracy levels are very high among SMEs, resulting in the limiting of their ability to access important information regarding available market opportunities. In addition, most local authorities lack business information centres.

2.7.3 Training and entrepreneurial development

In the light of the importance of skills upgrading for the SME sector, seminars and workshops could be offered to the sector that could address issues of accounting, financial management, the compilation of business plans and strategy, and basic computer and technology training (Bank of Namibia, 2010).

Management and strategic planning abilities are generally very low among Namibia's SMEs (Tonin *et al.*, 1998:15). Many SME entrepreneurs have a low level of formal education, so that their enterprises offer little access to adequate training in business management, consistent with the increasing challenges in competitive information technology development. Erastus-Sacharia *et al.* (1999:37) state that the level of entrepreneurship training in Namibia is very low, and that most of the SMEs lack knowledge of basic accounting. One of the constraining factors on training is the lack of an appropriate skill base that is required to start up production-oriented enterprises and to ensure that the existing SMEs are well-managed and successful.

As a result of the above, most of the SMEs that enter into business lack entrepreneurial experience and have come about through unemployment. NEPRU (1999:37) states that

the level of entrepreneurship in Namibia is very low and that most of the current SMEs lack knowledge of such basic aspects of business as marketing, costing, financial management and basic accounting.

2.5.4 Regulatory framework

The business and investment climate is influenced by the regulatory environment (NamBIC, 2011:8). Despite the government being the largest promoter of the SME sector, its regulation and policies have largely failed to address the issue of SMEs.

The acquisition of land also hampers the role of the SME sector in economics, as there is much red tape involved in local authority acquisition of land. The problem of acquiring land title is even more problematic, as the process is overly long and hampers SMEs being able to secure their ownership of land or property (NCCI, 1998:3). The process of business registration and regulation is also one of the challenges, and has driven the bulk of SMEs to operate without registering with any institutions. Therefore, all the limitations encountered disproportionately affect the role of SMEs in economic development, as well as the sector's development and growth.

In spite of the effort to ensure access to financial assistance, the other constraints still need to be addressed. Regarding the market conditions, the local authorities are urged to create a market for the SMEs, as there are almost no institutional arrangements to help the sector access market information. The amount of linkage between the SMEs and large enterprise development is extremely limited.

2.5.5 Information technology

The availability and accessibility of technology is one of the key constraints on the growth of the SMEs. Many entrepreneurs have a low level of formal education and computer training, and have scant access to adequate technology. The availability and accessibility of technology lags behind the growth of a competitive SME sector. The UNIDO (1999:18) has indicated that, in most government, whether national or local, there is limited technology support from the local authorities or from technology development institutions, and some of the required investments are beyond the reach of

single SMEs. Industrial and technological support services are not available for SME development.

The MTI (1998:40) indicated that the introduction of appropriate technology is crucial to the development of SMEs, as it allows them to grow sufficiently well to become competitive and to contribute actively towards the country's economy. Appropriate technology means technology that is suitable for small business. Hence, low overheads and greater flexibility of such technology would enable small business to compete effectively and to contribute, along with the larger enterprises, to the national economy. The level of knowledge of, and access to, available technologies is low, making it a challenge to SMEs.

2.5.6 SME business infrastructure

Lack of affordable business and industrial premises has been identified as one of the main constraints to the successful development and growth of the SME sector in Namibia (MTI, 1998:36). The sector still experiences severe challenges and hardships, and there is a misunderstanding between the sector and the local authorities', especially in towns where the SMEs have been accused of being the main source of pollution in spite of the contribution that the sector has made to a reduction in unemployment and to the increase of revenue in Oshakati Town. The lack of, or poor, infrastructure at the local level is problematic and the Town Council has had to improve and develop the existing infrastructure to address such issues.

The local government or authority has failed to provide such infrastructure as an open market, a business centre or incubators in which SMEs can operate (NamBIC, 2011:12). In Namibia, the MTI, through the Namibia Development Cooperation, has constructed open markets and trade centre in a few local authorities, but still SMEs have limited space in said infrastructures.

2.5.7 Access to public tenders or procurements

Although the government is the largest spender in terms of procurement, it has failed to support the SME sector in respect of ensuring market access for its various public

tenders and procurements. The government is still challenged to create a cost-effective system of encouraging and promoting SMEs in as wide a spectrum of public services as possible. The Confederation of Tanzania Industries (2009:4) states that the conditions for bidding are not favourable for SMEs, as elements such as bids, securities and performance guarantees, are high, as a result of which most SMEs are automatically eliminated during the tendering process. Such a criterion may not be fair to SMEs, due to their limited capacity in terms of finance, management skills and technology, meaning that they may hinder their access to the procurement and tendering process.

2.6 The SME sector support system

Many countries have recognised and acknowledge the role of the SME sector within their economy. In response to some of the predicaments in which the SMEs find themselves, the Namibian government has established a number of institutions that address SME-related issues. The DBN and the Small Business Credit Guarantee Trust (SBCGT) were established and became the main development finance institutions providing access to financial services for SMEs (Nakusera *et al.*, 2008:4). In South Africa, in addition to the government having implemented programmes and passed policies that support SME, it has also gazetted its recognition of the importance of SMEs as a part of the democratic government's strategy for creating a better life for citizens than they have had in the past (Kongolo, 2010:2290).

The national and local governments need to support the SME sector so that it can operate effectively and in order for it to be able to contribute actively to the national and local economy. Doing so requires the role of stakeholders in SME development to be involved in LED in order to ensure easy access for the sector to short- and long-term capital. The Economic Commission for Africa (ECA, 2001:26) asserts that, in Africa, the problem of the SME sector seems to be the accessibility of financial institutions that can make funding available. Therefore, African countries' financial institutions are urged to simplify the process of accessing finance.

While the financial issue is universally recognised, the governments have provided an infrastructure within which SMEs can operate and which is highly subsidised by the government. The above was done in order to foster the economic performance and

competitiveness of SMEs. However, some banks have shown interest in collaborating with different institutions, like the MTI, the DBN, and NGOs, on the SME financing scheme (Commonwealth Secretariat, 1995:130).

2.7 Area of intervention

Most government departments have introduced programme for SME development and have adopted policies to simplify the process entailed in supporting SMEs. The ILO (1993:64) states that, in order to support the development of the SME sector, it is important for governments to create an innovative, sustainable credit system that bridges the gap to formal credit and which also provides support in such other crucial areas as training, technology, markets and the preparing of a business plan.

As the contribution of the SME sector to the economic development of the country or of the local authority is imperative, governments and local authorities need to develop deliberate measures that ensure reliable market access to SMEs. By doing so, more SMEs will be empowered, and hence able to compete with large enterprises and to contribute effectively to economic development. However, by reducing some of the bureaucracy and by simplifying the process of accessing finance, of acquiring land and of providing trainings, more SMEs in future will be able to contribute actively to economic growth.

2.8 Conclusion

The current chapter has revealed the role of SMEs in economic development and in the growth of both Namibia and the world as a whole. It also highlighted the support of the SME sector and the challenges that hamper the role of the SME sector in economic growth and LED.

The following chapter, Chapter 3, outlines the local context in the research case study and illustrates different policies with much emphasis on the African continent, the Southern African Development Community (SADC) and Namibia.

CHAPTER 3

POLICY FRAMEWORK AND GUIDELINES FOR THE SME SECTOR AND LED IN NAMIBIA

3.1 Introduction

The current chapter is a highlight of existing legislative and policy framework that guides the development of the SME sector in Namibia. The chapter focuses on the policy and Acts that have been promulgated in this regard from an African, an SADC and a Namibian perspective. Although the introduction of the SME sector in some African countries, including Namibia, is still relatively new, which makes it similar to LED, the Namibian national government has introduced a legal framework guiding the development of the SME sector and its role in LED at local government level, as well at national government level.

The chapter also briefly highlights the African policies and guideline perspective, showing the linkage of Namibia and other African counties, as well as of the SADC region. In African perspective, the chapter looks at the United Nations (UN) ECA, which is the UN body that deals with Africa's economies and how local enterprises benefit from the global market; Southern African Initiatives for Development of Enterprising Action and Strategies (Southern African IDEAS); and the *Southern African Development Community (SADC): White Paper on Economic and Policy Issues in the SADC Region*.

The chapter discusses the Namibian legislation and guidelines to highlight the national perspective on the role of SMEs in economic development at the local level. The legislation and guidelines that were brought into being started with the Constitution of the Republic of Namibia (1990) as the supreme law of the country, and then went on to include the Local Authority Act, Act 23 of 1992; the Republic of Namibia Vision 2030; the NDP 3; the Decentralisation Policy of 1998 White Paper on Regional and Local Economic Development; Namibia: Policy and Programme on Small Business Development and the Namibia Competition Act, Act 2 of 2003.

3.2 African perspective

Namibia is part of the international community. It has excellent neighbourly relations with countries in the SADC region; it cooperates and exchanges with other countries on the African continent; and it keeps close diplomatic and economic ties with selected nations throughout the world. In addition, Namibia is a co-signatory to numerous international agreements and protocols. Thus, the country has placed itself firmly on the international and African map as an active global partner in establishing economic and political stability (MRLGHRD, 2008:1).

3.2.1 Economic Commission for Africa: A Strategic Framework for Institutional Support of SMEs in Africa

The ECA is an egalitarian UN Commission, which was established in 1958 by the UN Economic and Social Council to encourage economic cooperation among its members states (the nations of the African continent). It was brought into being by the passing of a recommendation of the UN General Assembly (UN-ECA, 2001).

The ECA, as a commission, was established to encourage and to promote the economic activities and social development of its member states, to foster intra-regional integration, and to promote international cooperation for Africa's development (http://www.uneca.org/about_eca/overview). The Commission stated that a key issue for Africa's economic growth depended on whether, and on how, local business benefits from the liberalisation and globalisation of international and local product markets. Arising from the ECA 2001 Strategic Framework for Institutional Support on Competitiveness of SMEs in Africa (2001:1–50) is the concern of the entire continent that most SMEs are not able to contribute significantly to economic growth, because of the absence of policy to protect their market, as well as because of constraints that face them.

The ECA identified the most common problems that face the SME sector in attempting to compete both locally and internationally:

- access of African SMEs to participating in production in local, regional, national and global markets, and their exclusion from participating in such;

- as regards upgrading, whether inclusion leads to upgrading or whether it leads to a race to the bottom; and
- access to finance and capacity to address the full range of development challenges on its own.

The above the issue is the one on which governments need to work. Local government should establish a stable political environment in which SMEs can operate.

The ECA's emphasis on African countries needing to introduce policies and regulations that respond to changes in the global economy was compelling governments to redefine the role of SMEs in the national and local economies, so as to be able to derive the maximum possible growth from the changing global environment. The operation of SMEs within a proper framework has the capacity to contribute towards the building of a competitive economy, as well as towards the creation of wealth, employment generation and the effective eradication of poverty.

The ECA (2001:17) suggests that, unlike during the era of command economy, when recognition was given to the public sector as an engine of the economy, while the private sector was viewed with mistrust and suspicion, African governments should now concentrate on the SME sector as an engine that is capable of accelerating economic growth. The above depends on how successfully such governments are able to co-opt the SMEs and the private sector as an active partner in the economic growth and development process.

As a result of the above, African governments have started to view the SME sector as a tool of the LED and local government, which has been encouraged to provide realistic policy recommendations for helping SMEs to compete in regional and global markets. Such a view has resulted from the inability of the African SME sector to provide an assurance of success in global trade, unless they can be flexible and adaptable when their government has provided a policy to make SMEs competitive and able to offer quality products.

3.2.2 Southern African Initiatives for the Development of Enterprising Action and Strategies (IDEAS)

Southern African IDEAS is a consulting service that was established to guide institutions to provide advice and support in terms of economic, enterprise and employment promotion. Namibia became Southern African IDEAS members upon it being first established in 1993. The aim of Southern African IDEAS is to assist its members to design and implement practical policies and strategies that enhance the economic, enterprise and employment opportunities of their defined target groups, including SMEs (Southern Africa IDEAS, 2008:1).

According to Southern African IDEAS (2008:2), many African countries are constrained as regards the potential of the private sector to contribute to economic growth and poverty reduction, because it operates in a deprived investment climate and business environment. Acknowledging such constraints, SA IDEAS recognised the plight caused by the poor performance of African governments, and has been providing support to both national and local government authorities, as well as to the SME sector and to civil society. Such support has included suggestions on how to improve the business environment for sectoral development leading to meaningful contributions to local economic growth and poverty reduction.

The agency is aware that a good business environment is made up of policy, legal, institutional, and regulatory conditions that govern SME business activities. Such an environment is a subset of the investment climate and includes the administration and enforcement mechanisms that are established to implement good government policy, as well as organisational arrangements that influence the way in which key actors in LED operate. SMEs are important actors in sustainable development in African local government, which occurs when the SME sector garners its available resources and takes action to achieve a common goal. The government, especially local government authorities, stifle the SME sector through policy and legal frameworks that upset the risk–reward balance, and by creating unnecessary barriers and red tape to SME sector activities. SA IDEAS has suggested that, unless a government provides social and financial support and protection, SMEs would remain on the right track and keep

contributing successfully to local government authorities' economic growth and development.

3.2.3 Association of the Southern African Development Community (SADC) Chambers of Commerce and Industry (ASCCI): White Paper on Economic and Policy Issues in the SADC Region

The Association of SADC Chambers of Commerce and Industry: White Paper on Economic and Policy Issues in the SADC Region emphasises the context of private business as an engine of the SADC economy. The resolutions of the White Paper, which were adopted by SADC as part of its commitment towards the private sector, have bearing on the SME sector. The White Paper encourages the SADC Chambers to play a role in unleashing trade and investment opportunities in the region and to fulfil its function to represent the interests of the private sector so as to ensure business growth and development. Further, it states that an integrated region provides greater opportunities than might otherwise be available for both trade and investment to be increased, and encourages competitiveness.

During the SADC Heads of State and Government Summit on Region Economic Integration, August 2008 in Sandton Convention Centre, South Africa, the SADC Chamber presented its paper and requested the SADC government to focus on FTA, in order to ensure that meaningful implementation is carried out by all SADC governments in respect of national investment in growing the local economies, creating jobs and contributing to the eradication of poverty. A means of poverty alleviation and of the creation of job opportunities is to invest in SMEs and skills development in the business sector. The SME sector is the largest employer both regionally and globally (Mseleku, 2008:1).

One of ASCCI's initiatives is joining in partnership with and supporting the SADC Secretariat to launch the Global SME Business Toolkit, which is a step-by-step approach to starting and growing sustainable business (ASCCI, 2001:32). ASCCI emphasises the need to understand internal processes and external factors leading to sustainable development and the marketing of capability-building in the SME sector.

3.3 The Namibian context

The Namibian government considers the development of SMEs an important part of its industrial policy. Thus, it has identified poverty alleviation and employment creation through the promotion of SMEs as its main objective. The aim of the government is to ensure that SMEs take the lead role in economic development and spearhead job creation. The government promises to revise its policy and to act to adopt a holistic approach towards creating an enabling environment in which SMEs can grow and to prioritise the needs of LED at local government level (NEPRU, 1999:12). The municipalities and regional councils are encouraged to establish a LED strategy that addresses local economy initiatives to establish permanent marketplaces for SME traders. By doing the above, the government has committed itself to the development of the SME sector through following supportive policies and guidelines.

3.3.1 State of the SME sector in Namibia

According to Shejvali (2007:2), “[a]cross the world, the SME sector is regarded as the backbone of the economy; it provides not only employment and income opportunities but in many countries, it is also at the forefront of technological innovations, diversification of production process and intensification of export activities”. SMEs are active in virtually every sector of the economy, either as direct providers of services or goods, or as component parts of complex supply chains. A significant percentage of the world’s economy is driven by employment in the SME sector (Bank of Namibia, 2010:26).

In Namibia, there is currently an obvious economic, social and political willingness to promote the strong emergence of the SME sector, with the twin objective of fostering the development of indigenous entrepreneurship and of reinforcing employment creation in the modern sector of the economy (Tjihuike, 1997:36). In order to fight poverty and unemployment, the Government of the Republic of Namibia adopted a Policy and Programme on Small Business Development in February 1997. The MTI is the ministry in charge of the promotion and development of the SME sector, as well as of trade and business, including foreign investors.

In adopting the SME Policy of 1997, the Namibian government identified the SME sector as a priority sector for reducing unemployment and underemployment, as well as for reducing poverty. The contribution that the SME sector makes to the Namibian economy is a clear illustration of the potential benefits that such enterprises can provide for the overall development of the country.

SME sector development can be seen as a critical component of pro-poor growth strategies, because it generates many jobs for semi-skilled, and even unskilled, workers, unlike bigger business, which introduces business processes that may help restructure weak agricultural, tourism, and manufacturing sectors or other uncompetitive transition of economies. The SME sector is regarded as a source of income and employment in an era in which employment is dwindling and in which the option of making a living out of subsistence farming is limited (LaRRI, 2002).

The current situation in Namibia has shown that the SME sector is a major source of employment and income in the country. The sector provides some form of employment and income to close on 160 000 people, being approximately one-third of the nation's workforce, of which 60 000 are employed full-time, ranking it alongside the government as the country's principal employer (MTI, 1997:5). Further, the size of the sector is growing, with each year its workforce increasing by approximately 16 500 people, which is more than the increase in the large business sector that creates only about 3 000 to 4 000 jobs over the same period.

The recent business climate survey by the Industry and Namibia Business and Investment Survey (NamBIC, 2011:8) shows that small businesses tend to be optimistic, labour-intensive and innovative, while simultaneously making a positive contribution to socio-economic change in the country. The SME sector typically generates a significant numbers of jobs and introduces local, national and international innovative business ideas, products and business methods that can push economic growth and a competitive market.

In the SME sector, retailing covers a wide range of consumer and industrial products. SMEs that are involved in mining mainly operate in the field of metals and semi-

precious stones. Apart from the business indicated, trades and services provided by SMEs include various business services, such as accountancy firms, legal services and event and management services, as well as many others. The SME sector has also contributed actively to the tourism industry as developers of hotels and lodges, and as tour operators within both Oshakati Town and the whole of the northern region (MTI, 1997:7–8).

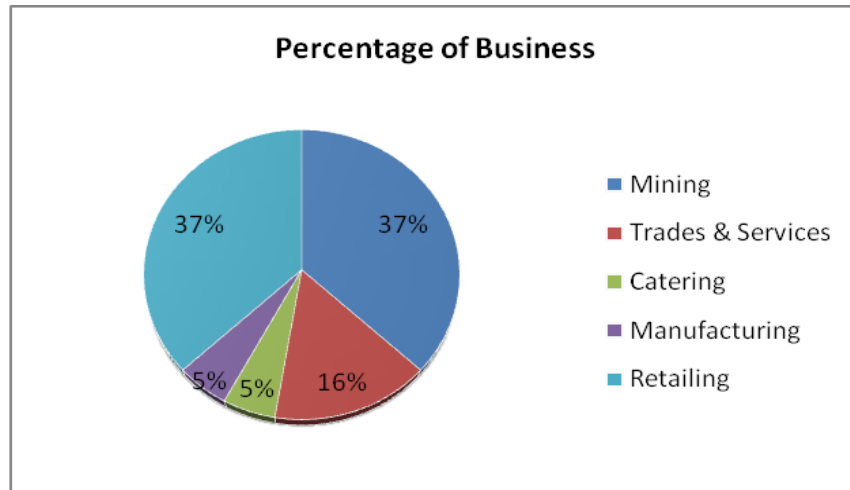


Figure 1.4: Activities represented by the SME sector

Source: MTI, 1997:7.

In the light of the above, sectoral growth has been noted, with, as is the case in the rest of the world, Namibia's SME sector, especially formal businesses, having a higher labour intensity than does large business. For every Namibian Dollar invested in the SMEs, the sector creates more jobs than does larger business (LaRRI, 2002). Hence, the SME sector has a high potential for contributing heavily to economic development, as well as for creating more employment in Namibia, compared to the amount of employment emanating from big business and foreign direct investment.

3.3.2 Role of the SME sector in LED in Namibia

The SME sector is recognised for having a significant share in employment creation and in contributing to most countries' GDP worldwide, especially in terms of the informal sector. The Namibian government has recognised and acknowledged the importance of the SME sector within the economy. As one of the ways of achieving the ideals of the country's Vision 2030, Namibia aspires to have a flourishing SME sector by the year

2030. The government's Vision 2030 clearly states that the SME sector should act as a locomotive that drives the economy forward to achieve human development and equitable and balanced growth, in terms of a growing industrial sector and modernised agriculture (NPC, 2004a:71).

The LED White Paper states that the development of the SME sector is the engine whereby local government can increase its revenue collection and employment creation. The economic implementation envisaged in the LED strategy is aimed at ensuring that the local economy has the competitive advantage in towns and regions, with emphasis on the promotion of the SME sector (MRLGHRD, 2008:15).

The SME sector accounts for a significant share of employment and GDP. In developed countries, the sector employs about 67% of formal employees, while in developing countries the percentage is lower, at around 45%. Similarly, the SME sector contributes a sizeable share to the formal GDP, consisting of 49%, on average, in high-income countries and of 24%, on average, in low-income countries (Bank of Namibia, 2010:29). The Institute of Public Policy Research (IPPR & NEPRU, 2005), indicated that SMEs account for 20% of employment in Namibia and contribute 12% of the country's GDP.

The SME sector creates more jobs than do the large firms, which especially applies in the case of recently created firms. Several studies have found that SMEs tend to create more jobs than do large firms, both in the developed and developing countries. SMEs also tend to shed more jobs than do the large firms, but job creation tends to outweigh job destruction, so that net job creation is higher in the SME sector than in the large firm sector (Bank of Namibia, 2010:30). With the rapid increase in urbanisation and recent economic downturns having had a serious impact on the socio-economic conditions of many people, especially in small towns, the SME sector has earnestly endeavoured not to retrench its employees, with the approach concerned differing from that taken by the large firms.

Decline in living standards and unemployment due to economic crises around the globe has become a challenge facing many poor people in developing countries. The situation has been worsened by the fact that the formal economy has been continuously

shedding jobs, with many workers also being retrenched. As a result, hundreds of new job seekers, of whom the majority have come from the ranks of the youth, have increased the number of unemployed already present in the country. Despite the economic crises around the world, it is recognised that the development and growth of the SME sector constantly plays an important role in supporting economic development that is aimed at sustaining their employees (Kongolo, 2010:2291).

In line with the implementation of the LED strategy plan, the SME sector has become an engine for local economic growth, having come to engage in different types of business sector pertaining to the local authorities. Local authorities have involved the SME sector in economic growth activities to ensure sustainable economic performance that is determined by the diversification of the SME sector (MRLGHRD, 2008:5). At the local level, the SMEs have become involved in many activities of either formal or informal business and have come to be considered as the main engine by means of which to attain equitable wealth generation and employment creation that boosts the local authorities' revenue. They are enabled to make increasingly better use of existing local capacity, because they possess local knowledge and understand domestic consumer demands, thereby establishing the basis for sustained long-run growth, and the opportunity to expand that capacity in the future. The SME sector is relatively easy to start up, as it requires lower levels of investment, which is within the reach of Namibia, and which should enable it to take full ownership of development and management throughout the country (LaRRi, 2002).

3.4 Namibia Legal framework

3.4.1 The Constitution of the Republic of Namibia, 1990

Namibia adopted the Constitution of the Republic of Namibia in February 1990, a month prior to Namibia's independence, with it coming into force on Independence Day, 21 March 1990. It has been hailed as one of the most democratic and liberal constitutions in the world (Tjitendero, 2002:6). The Namibian Constitution shows a strong commitment to the rule of law, to democratic government and to respect for fundamental human rights and freedoms.

In accordance with the Constitution, the government regards its role as that of creating an enabling environment in which SMEs can prosper. The SME sector and LED are not

only a concern of economic growth, but a constitutional matter in Namibian government spheres.

The following articles of the Constitution cover economic activities and aim to guide the development of the SME sector and its role in national and LED (Republic of Namibia, 1990:1–78):

- **Article 1: Establishment of the Republic of Namibia and identification of its territory**

Sub-article 6 stipulates that the Constitution is the Supreme Law of Namibia and that it should be regarded as the overarching umbrella of laws, act and policies, as it lays the foundation for all legislation and policies in Namibia. In terms of the Article, the government is authorised to pass and introduce any law promoting the development of all citizens.

- **Article 95: Promotion of Welfare of the People**

According to the Constitution, it is the duty and responsibility of the State to actively promote and maintain the welfare of the people by adopting, inter alia, policies that are aimed at fulfilling sub-article (e) that seeks to ensure that every citizen has a right to participate in developmental affairs and reasonable access to public facilities and services in accordance with the law. Such rights include the right to conduct business anywhere and everywhere that one is permitted to do so.

- **Article 98: Principles of Economic Order**

Namibia's Constitution guarantees that the economic order of Namibia shall be based on the principles of a mixed economy, with the objective of securing economic growth, prosperity and a life of human dignity for all Namibians. Sub-article 1 states that the Namibian economy shall be based on the following forms of ownership, inter alia; public; private; joint public–private; cooperative; co-ownership; and small-scale family.

3.4.2 Namibia Vision 2030, 2004

Namibia Vision 2030 is a national vision that envisages an improvement in the quality of life of the Namibian people, which should largely fall within the ambit of the developed world by 2030. Through such improvement the country should become prosperous and industrialised, developed by its own human resources, and enjoying peace, harmony and political stability (NPC, 2004a:38). Vision 2030 has been designed as a broad and unifying vision that will facilitate the attainment of the country's five-year NDPs, stretching from the NDP 2 to the NDP 7, which give direction to government ministries, the private sector, NGOs, the regional council and local authorities.

Vision 2030 encourages growth in the economy, in terms of which the macroeconomic environment will be well-developed. The Vision intends to promote development to enable SMEs to export local products and to be competitive in the global market. Such promotion involves that of an efficient service sector, including the existing export processing zones (EPZs), which were set up to ensure the supply and efficiency of entrepreneurship among the SME sector (NPC, 2004b:64).

Since economic growth does not guarantee equitable development, the national, regional and local governments and stakeholders must ensure that regional and LED programmes reach all sectors, especially the SME sector (both formal and informal). Thus, Vision 2030 calls for an integrated development planning process, in terms of which stakeholders, especially the private sector, will be given an opportunity to participate in the development of their own locality.

Vision 2030 clearly asserts that, without a doubt, Namibia requires economic growth and diversification in order to achieve full industrialisation and suitable development. The country's vision is to emphasise the welfare of its people, aiming at human development, equitable and balanced growth, with a growing industrial sector, a modernised agricultural sector, and an enabling macroeconomic and political environment (NPC, 2004b:3). In this vision for economic growth, PPPs are empowered as the tools by means of which to achieve the envisioned desire by 2030. The above requires the stakeholders to achieve the country's vision at all government levels, namely national, regional and local.

3.4.3 National Development Plan III (NDP 3), 2008–2012

The NDP 3 is the third of seven NDPs concerning Namibian instruments that are aimed at implementing the policies and programmes by means of which to achieve the nation's Vision 2030, which aims to make Namibia a prosperous industrialised country by year 2030.

NDP 3 addresses the issue of the macroeconomy, in which the government, in partnership with the private sector and NGOs, is encouraged to accelerate economic growth through macroeconomic stability, to increase employment and to strengthen smart partnerships and PSD, especially the SME sector (NDP 3, 2008:50). The Plan not only concentrates on economic growth but also refers to equality in income distribution, as well as to the fairness of distribution of economic proceeds and the distribution of the GDP among Namibian citizens. The NDP 3 calls for fair participation in the country's economy by providing the previously economically advantaged and SMEs (i.e. the private sector) opportunities to participate fully in economic development (NDP 3, 2008:51).

Namibia has a free and open market economy, which the private sector (including SMEs, relatively large private investors, civic organisations and communities) dominates, with the government, by and large, playing a facilitatory role. In fact, the government accounts for only about one-third of the economy, with the remaining two-thirds being controlled and managed by the private sector. Thus, the private sector is the engine of economic growth and employment in the country; hence, increased public–private partnerships will help business expand (NDP 3, 2008:73). To strengthen PSD, the Plan facilitates the draft of the PSD policy that is aimed at representing a new approach that merges three parallel policies on industrial development, trade and SMEs focusing on private enterprise development.

The Plan is targeted at achieving more infrastructural development that will raise levels of productivity and help those in urban and rural areas to participate in their LED. The adequacy of the infrastructure helps to determine the country's success or failure in

diversifying production, expanding trade, coping with population growth and urbanisation, and improving environmental conditions (NDP 3, 2008:77).

3.4.4 Decentralisation Policy, 1998

Upon independence, Namibia introduced a Decentralisation Policy, which was adopted in 1998, and which led to the enactment of the Decentralisation Enabling Act 33 of 2000 (Republic of Namibia, 2000a). In the context of the SME role in LED, the Policy provides for a framework in terms of which centrally-driven economic development will become the responsibility of the local authorities.

The Decentralisation Policy provides guidelines for the establishment of development committees to serve as consultative structures at the local authorities level. Such committees include the Local Authority Development Committee (LADC) and the LED Committee, as well as others like the Regional Development Coordinating Committee (RDCC) that serves at a regional level (Republic of Namibia, 1998:15–16). Through the latter committee, the private sector is offered opportunities for presenting its own ideas regarding, and making its own contribution to, development. In a nutshell, the Policy provides for SMEs to full take control of the local economy through participation from this platform and to initiate opportunities to improve LED.

3.4.5 Local Authority Act 23 of 1992

Local authorities, which are established in accordance with the provisions of Article 102 of the Constitution of the Republic of Namibia, render government services at local government level (Republic of Namibia, 1990:61). Said services include water, electricity, sewerage and others. Local authorities are also responsible for creating job opportunities for the local residents, for passing legislation and policies that address local economic programmes, and for SME sector development (Republic of Namibia, 1992:45).

Local authorities are responsible for developing an SME business park and for opening up markets in their respective areas (Republic of Namibia, 1992:67). The Act makes provision for PPPs between local government authorities and the private sector in order that they might perform their duties and render services on behalf of the Council

(Republic of Namibia, 1992:49). The Act serves as a road map for the local authorities to develop and provides an opportunity for them to explore economic opportunities that are aimed at creating employment for local residents. Therefore, the local authorities bear the basic responsibility of the government on its lower tiers as regards allocating resources and promoting social equity, such as building up the capacity of the local community, the SME sector (formal and informal) and civil society in order to provide goods and services at the local level (Republic of Namibia, 1992:67).

3.4.6 Namibia: Policy and Programme on Small Business Development, Ministry of Trade and Industry, 1997

The Namibian government, after seven years of independence, has realised the necessity of continuously reviewing policy in order to develop measures to overcome the challenges resulting from socio-economic changes. It recognises the vital role played by the small business sector in the country's economic development and that, despite such recognition, little has, so far, been done in this direction, so that the sector is still faced by ongoing challenges (MTI, 1997:i). The government, through the MTI, has drafted and passed a policy that sets out the government's firm commitment to transformation of the sector, as a priority, and to improving the situation from one of under-development to one in which said sector heads the economy.

The MTI (1997:iii), in its policy framework, has stressed its determination to achieve sectoral development, which it is facilitating through the creation of a favourable, enabling environment for the sector, through embarking on the following initiatives:

- deregulation and the offering of incentives;
- the development of proactive programmes; and
- the provision of strong institutional support.

The policy framework is determined in its approach to directing the government to undertake and to create a favourable environment in which small business is able to flourish. It regulates the regime so as to minimise bureaucratic obstacles to the establishment and expansion of the SME sector. The MTI (1997:2) has recognised that the development of both SMEs would contribute strongly towards the country's socio-economic development.

The focus of the above-mentioned policy (MTI, 1997:29–50) is also on the financing of the SME sector, regarding which it stipulates that the government and all government authorities' strategies must ensure that small business has adequate access to finance. Further, the policy addresses the issue of markets, in relation to which the government authorities have to ensure that the available market for SMEs products is searched and that the sector encourages competition in such a market, whether on a regional or international basis.

The policy emphasises the agreement that was entered into between the MTI and the EU in terms of a programme of consultancy assistance aimed at promoting Namibia's exports. It strengthens the Ministry's responsibility to ensure that the work of the consultants pays particular attention to the needs of small business, by providing them with preferential access to the export market in terms of participation in programmes and cost.

As the introduction of appropriate technology is crucial to the development of small manufacturing industries in Namibia, the policy touches on issue of technology transfer as a tool that is suitable for small business. The low overheads and the relatively high degree of flexibility that are involved with such technology could enable SMEs to compete effectively with larger organisations and to contribute successfully to LED (MTI, 1997:40).

Regional and local government authorities are emphasised in the policy in regard to the provision of a range of sites and premises for both the informal and the formal sectors. The MTI, in cooperation with the regional and local government, should construct open markets, an SME business park and incubators in which the SMEs can operate. Government firms have been requested, in advance, to provide training to SMEs, because the shortage of suitably-trained entrepreneurs in the country has limited development of both the vocational and business disciplines and has been a major disadvantage to small business in the past (MTI, 1997:46).

The SME sector needs to be equipped with necessary knowledge and to obtain the local government authorities' support in order to contribute and improve the local economy growth by create wealth and job opportunities.

3.4.7 White Paper on Regional and Local Economic Development, 2008

The White Paper on Regional and Local Economic Development policy provides a guiding framework for regional and LED interventions for LED implementation. The Paper encourages regional and local government authorities to maximise human welfare and to provide a sound economic, social and environment base for both present and future generations, as a form of sustainable development. The Paper is aimed at making the local government authorities intervene in the economy through local competition between towns and the local private sector, with an emphasis on SME and tourism (MRLGHRD, 2008:1). The paper further identifies the economic growth of local authorities as a way of maintaining towns as an attractive locale for business and investors, as well as a means of retaining and expanding business in all sectors of the economy, but especially the SME sector (MRLGHRD, 2008:14-15).

Regional and local authorities can cooperate in an array of SME support programmes, especially in the informal areas, in order to create a healthy local economy. Such programmes include those relating to policies, extension and information services, a business park and incubators, the promotion of business networks, and skills and training for SMEs. An enabling environment and healthy local economies do not occur by accident, but require careful planning and involve developing a mix of initiatives related to the community's competitive advantages (MRLGHRD, 2008:11).

Supporting the SME sector, the guiding principle is that sustainable development performance is determined by a diversified small business sector that serves as the main engine for equitable wealth generation and employment creation. The role of the SME sector in LED is to improve economic growth and employment creation, with the local government authorities having to develop a market-friendly and competitive marketplace for the SME sector. LED stakeholders should view the enhancement of an enabling environment in the light of sustainable development (MRLGHRD, 2008:15).

3.4.8 Namibia Competition Act 2 of 2003

The Namibian government, through the MTI, has passed the Namibia Competition Act 2 of 2003, to safeguard and promote competition in the Namibian market. The main purpose of the Act is to enhance the promotion and safeguarding of competition in Namibia, in order to promote the efficiency, adaptability and development of the Namibian economy (Republic of Namibia, 2003:iv).

In the context of the SME sector and LED, the Act aims to promote employment, to advance the social and economic welfare of Namibians, and to expand opportunities for Namibian participation in world markets, while recognising the role of foreign competition in Namibia. The Act ensures that SMEs have an equitable opportunity to participate in the Namibian economy and promotes a wider spread of ownership than was present in the past, in particular increasing ownership stakes of previously disadvantaged persons (Republic of Namibia, 2003:iv).

3.5 Conclusion

The current chapter has highlighted the content of different policies and guidelines that support and promote SME sector development and that encourage the role of the sector within the Namibian economy. It highlights the LED approach to economic growth in relationship to SME involvement with other stakeholders.

The next chapter, Chapter 4, highlights the local context of the case study organisation and presents the research method that was used in carrying out the research conducted in the current study. It consists of samples frame of the specific areas of the study, as well as the research design, consisting of data collection and analysis methods.

CHAPTER 4

SME's AND LED IN OSHAKATI TOWN

4.1 Introduction

The current chapter provides a background to the local case study, giving information regarding Oshakati Town and the SME profile within the local Town Council. The chapter consists of three parts, of which the first introduces the local case study and provides Oshakati Town's background, Oshakati Town's SME profile, the role played by the SME sector in LED, the constraints that are faced by local SMEs, and the available support programmes. The second part of the chapter highlights the research methodology and data instruments, whereas the last part presents the findings of the research for analysis and discussion. The results are based on the type of questions that are asked in the interviews, mainly regarding the role of SMEs in LED, challenges facing the sector, the relationship between LED stakeholders and guidelines in support of SME development, so that it can flourish and contribute actively towards local economic growth.

The data analyses are linked to the literature review, which were discussed in Chapter 2 of the study. They are aimed at ensuring that the research findings and the literature review have answered the research objectives and that the purpose of the research has been attained.

4.2 Background

4.2.1 The Oshakati Town Council

Oshakati Town, which is located in the Oshana Region in northern Namibia, is popularly known as 'the commercial centre of the North'. The town of Oshakati is economically and enterprisingly structured into a business centre that allows business activities to thrive, due to the density of population and the affordability of the operating spaces. The town was established in 1966 by the South African Defence Force (SADF), which used it as an army base. After the SADF had withdrawn from the area, it was then transformed into the regional capital of the north, starting with the development of a few businesses. In 1992, the town was proclaimed as a local authority, as per the Constitution of the Republic of Namibia (1990) and the Local Authority Act 23 of 1992

(Republic of Namibia, 1992), and in 1995 it was awarded its current autonomous status (Oshakati Town Council, 2011a:4).

The total population of the town is estimated at 42 000, and it is the second-most heavily populated town in Namibia after Windhoek. The town has experienced much development since Namibia achieved independence in 1990, and has been growing fast, at a demographic increase rate of 5.5% annually (Oshakati Town Council, 2011b:5). The population boom has been due to the rapid immigration of people flocking from the rural areas to the urban centres in search of employment and a better living standard.

The town is responsible for the provision of services as per the Local Authority Act 23 of 1992 (Republic of Namibia, 1992), as amended by the following Acts: Local Authorities Amendment Act 24 of 2000 (Republic of Namibia, 2000b); and Local Authorities Amendment Act 17 of 2002 (Republic of Namibia, 2002). Section 30 of the Local Authorities Act stipulates the powers, duties, functions, rights and obligations of the local authority council.

The MRLGHRD has established the Local Economic Development Agency (LEDA) that is responsible for LED at a ministerial level. LEDA is responsible for establishing the LED Division among the local authorities (MRLGHRD, 2008:6). The LED Division of the local authorities is headed by a LED Officer, who is responsible for the development and promotion of SMEs. The LED Officer is also responsible for the development and implementation of LED strategy and for ensuring that LED activities respond to demand, in this way helping the local authority and LED partners to achieve economic development (Oshakati Town Council, 2011b:6).

4.2.2 Profile of the SME sector in Oshakati Town

According to the Oshakati Town Council's SME survey that was conducted in 2011, there were 401 SMEs operating within Oshakati Town at the time. The SMEs in Oshakati are engaged in various activities, ranging from informal to formal business. The profile of the SME sector was compiled according to the SME clustering developed by the Labour Resource and Research Institute (LaRRi), for the Joint Consultative Council (JCC, 2002:23). The clustering was done on the basis of the manufacturing,

trade and services SME sector, and was outlined according to SME grades ranging from highly sophisticated, modern and advanced small businesses to survival enterprises. The clustering has been used by different researchers as a guideline for selecting different types of enterprises operating within the same cluster, but under different conditions, as is given in Table 4.1 below.

Table 4.1: Clustering in SME grades

SME grade	Activities
SME grade 1	Survival SME, without long- or midterm planning, operating business on a day-to-day basis ; one-person business, without savings and invested capital; working capital deriving from profits; extremely vulnerable; minimum educational background and no mobility.
SME grade 2	SME with basic level of bookkeeping ; savings administered on a weekly basis; a savings account with little capital investment; employment of casual workers and mobility in immediate environment.
SME grade 3	SME with bank account and qualified for a loan; ability to plan business and basic understanding of business management; business signage visible; relatively great mobility and readiness to venture into additional business areas; usually owner plus one full-time employee
SME grade 4	SME with some degree of formalisation, such as registration with the local authority or particular licensing body ; SME with more than one full-time employee; with company or partnership registration, business cards and understanding of the value of marketing; Social Security and Workman Compensation registration.
SME grade 5	SME with VAT registration ; international market relations; at least 5 full-time employees; providing insurance and package for staff; operational with casual workers; proper management structure.

Source: *Small and micro enterprises in Namibia: Conditions of employment and income*, 2002:22–23.

According to Erastus-Sacharia *et al.* (1999:7), Oshakati Town SME's profile tends to fall under grades 1 to 4, with less of the SME sector being capable of categorisation under grade 5, which could be because of the high urban population and a great number of informal settlements. LaRRi (2002:9) states that there is little reliable data on the SME

sector's cluster or grading. Thus, the SME sector's profile varies between local authorities. NGOs and private organisations have identified different SME sector profiles, depending on the focus of their study at the time of research. Based on their definition of SMEs (MTI, 1997:2), most Namibian enterprises are regarded as small or micro enterprises and the SME profile held by the local authorities is represented by a high number of SMEs clustered under grade 1 and partly falling under grades 2 to 4. For instance, according to the SMEs Baseline Survey of 1998 it was established in the four northern regions amongst which Oshakati is situated, that the profile of local SMEs was that of enterprises that were mainly engaged in the retail, trade and services sector, and very little in manufacturing (MTI, 1998:14).

In general, Namibia's SME sector is engaged in a whole range of activities, with the national profile including the following types (LaRRI, 2002:15):

- subsistence farming;
- crafts (including woodwork; pottery; handicraft basketry; jewellery-making; leatherworking; weaving; sewing; and furniture-making);
- small-scale manufacturing (including bread-making; tailoring; food catering; candle- making; and confectionery);
- small-scale mining;
- small-scale construction (including building; brick-making; plumbing; welding; carpentry; and electricity);
- services (including transport; car repair; shoe repair; electric household appliance; and gardening);
- tourism and accommodation (including tour guides; bed and breakfasts; guest houses; and lodges); and
- manufacturing.

Oshakati Town Council has identified the business types given in Table 4.2 below that operate within the town. Enterprises types have been formed to reflect the proliferation of business activities in the local SME sector.

Table 4.2: The profile of the SME sector in Oshakati Town

Business types	Activities
Personal and business services (hawkers)	Involved in selling home brewery products, cooked meat, sausages, sweets and other day-to-day basic items. Most have no savings, but just sell for day-to-day survival.
Crafts	Involved in woodwork, pottery- and handicraft-making, jewellery-making, weaving, sewing and furniture-making.
Services	Provide services related to transport, B&Bs, guesthouses, car repairs, cellphone repairs, accessories, shoes, electric household appliances, gardening, hair salons and barbershops, event planning and decorations, security, pharmaceutical products, and dry-cleaning.
Trades	Engaged in bottle stores, takeaways / restaurants, petrol service stations, and garages.
Retailing	Mainly small, engaging in retail such as mini-markets, liquor retailers, small stores that are sole proprietorships and that mostly are family businesses.
Small- and medium-scale construction	Including painting, building, tilling, brick-making, plumbing, welding, carpentry, joinery and electricity.
Small-scale manufacturing	Including bread-making, tailoring, food catering, and confectionery.
Construction	Mostly involved in construction and sole proprietors, focusing on home-building and renovation.
Manufacturing	Serving and able to produce and sell their products themselves. Involved with milling, sign making, woodcarving, brick-making, and crushing.

Source: Oshakati Town Council. Health & Planning Department, 2011.

4.2.3 LED initiatives to support the role of the local SME sector

As LED is a relatively new approach to Namibian local authority, the Oshakati Town Council, as one of the 80% of the country's municipalities that lacks an LED Strategy Plan, uses the Regional and Local Economic Development (RLED) White Paper as guidelines for its activities (Geiseb, 2008:6). The injunctions contained in the White Paper are followed in preparing the town's LED Strategy Plan (Kabozu, 2011).

The MRLGHRD (2008:8) states that local actors act as catalysts for development in drawing on the ideas, energy and commitment of the local people. LED actors are consulted in terms of partnership and participation, as well as helping to set agendas and to take the initiative. The partnership and collaboration of LED stakeholders helps to create synergies between different LED actors operating within the local authorities. The result is that collaborative initiatives can culminate in more formalised partnerships between stakeholders and the local government.

The SME initiatives, through the LED approach, is aimed at creating job opportunities that support local economic growth in Oshakati Town. The primary contribution that SMEs make towards LED is in the field of poverty reduction, in terms of which local residents come to earn some form of income. However, the important LED inter-related approaches to the role played by SMEs lie in retaining and expanding local enterprises that assist local SMEs to improve their productivity and market share and to foster new business. By so doing, new business is encouraged and supported and value is added to existing local products (LaRRI, 2002:21).

The LED initiatives that are supportive of the local SME sector hold that the Town Council should create a robust business environment, responsive authorities and a conducive regulatory environment. In addition, the SME sector should also improve their own competitiveness by identifying opportunities, engaging in fair labour relations and improving client services (MRLGHRD, 2008:14). The aim of the Oshakati Town Council should be to create 'smart partnerships', in which the private sector and the local authority become allies, rather than adversaries.

The LED division of the Town Council has introduced a LED Committee in which business people view and propose their initiatives. The performance of said platform has been described as satisfactory, in that the sector is informed about capital projects and their role in the implementation of the Town Council's projects. In supporting local SMEs in Oshakati, the study revealed that the Town Council has passed a resolution for the Local Tender Board, giving local SMEs preference in the awarding of Council tenders for the rehabilitation of roads and refuse removal, catering and construction services, such as water reticulation and sewerage and electrical networking. The

resolution was implemented in order to empower the local SMEs, as well as in order to keep funds circulating within Oshakati Town.

4.2.4 Challenges faced by the Oshakati local SMEs

The challenges that are faced by local SMEs in Oshakati Town are no different from those that are faced by Namibia, or by any other developing country. The economic performance of the SMEs is hampered, and they are prevented from acting like big business, by different factors relating to the economic and social environment in which they operate.

According to Kabozu (2011), the LED Officer of Oshakati Town Council, the challenges facing SMEs in the area, including access to finance especially to extend existing business, are similar to those that are faced by other small towns. The infrastructure has also been identified as a challenge, since there is currently only one open market, whose space is restricted to a few traders. Kabozu also mentioned that other challenges encountered include accessibility of business information, lack of access to appropriate technology, red tape regarding the acquisition of serviced land for business, and the lack of by-laws or regulations regulating SME support at Town Council level.

4.2.5 Available support structure for local SMEs

The national government's primary goal is to facilitate trade and to create an enabling environment in which SMEs can operate. The government, NGOs and the private sector (large companies) have introduced measures on how to improve the SME sector, especially in terms of access to finance (IPPR & NEPRU, 2005:15). According to the Oshakati Town Council Public Relations Officer (Kabozu, 2011) the Town Council has passed a resolution that the Local Tender Board should prioritise the awarding of tenders to local SMEs over those granted to outsiders. Said resolution was passed in order to encourage the involvement of local SMEs in development of the town, so that they can come to benefit from the town's capital projects. In addition, the Oshakati Town Council has entered into agreement with the DBN to support SMEs that have been awarded tenders by the Town Council, in terms of which they will receive sufficient initial capital to purchase materials. The DBN has also accepted responsibility for providing business mentorship training, especially in terms of financial management aspects.

The Town Council, in partnership with the Namibia Chamber of Commerce and Industry, has been conducting business meetings with local enterprises to share information regarding business and available tenders in the Council. The Town Council also provides advisory services and training in collaboration with the MTI. In addition, the Council has introduced incentives for local SMEs regarding the purchase of land, in which instances the price m² is reduced by 10% of the market price (Oshakati Town Council, 2010).

Despite the Council's efforts to assist the local SMEs, the Gesellschaft für Technische Zusammenarbeit's (GTZ's) and JCC's 2008 study revealed a paucity of knowledge among the SMEs regarding awareness of the support that was available from the Town Council and the government.

4.3 Research design and methodology

In order to analyse the situation regarding the SME sector's role in LED, the qualitative approach was used and a case study design was adopted. Mouton (2001:149) states that case studies that are qualitative in nature and provide an in-depth description of a group of people or a community. Such descriptions are embedded in the life-worlds of the actors being studied, and produce insider perspectives on the actors and their practices.

As a result of the above, the research is primarily based on empirical research, using both quantitative and qualitative research methods. The purpose of conducting primary research, based on qualitative factors, is to enable the researcher to study a problem in detail.. Data was collected through personal interviews and semi-structured questionnaires, containing both closed- and open-ended questions, to capture accurate research information. Empirical information was augmented by a review of secondary sources, including academic books, policy documents, articles and websites. In the present study, the reason for using the qualitative technique was to allow the current researcher an accurate way in which to capture information collected from the completed questionnaires, in order to allow for analysis of the sector's role and for reaching the required research results and recommendations.

4.3.1 Selection of SME interviewees

At the time of the Oshakati Town Council SME Survey Report (2011b:12), 413 SMEs were operating within the Oshakati Town boundaries. The SMEs operated in different trade and on different premises. Due to the time limits and budget constraints on the current study, the researcher targeted only 30 SMEs for interviewing thereby adopting a non-probability quota sampling technique. . The researcher asserts, in agreement with Welman *et al.* (2005:68), that non-probability samples are less complicated and more economical (in terms of both time and cost) than are probability samples. However, there are disadvantage and limitations on using non-probability sampling, such as that a non-probability sample cannot be specified and, in some instances, certain members may have no chance at all of being included in such a sample.

The Oshakati open market was one selection point that the researcher adopted, due to its easy accessibility to the researcher, as well as due to the presence of a variety of readily accessible SMEs. Currently, over 200 SMEs operate in the open market, of which the researcher selected only 20 that were registered with the Town Council. (Some were not registered with the Town Council.) During the fieldwork at the open market, five traders requested to be included in the study because they also wanted their opinion to be noted. Apart from selecting SMEs that were registered with the Town Council, the researcher used no other criteria for exclusion or to determine the number of SMEs to be included in the study from those operating at the Oshakati open market.

A further 10 SMEs were selected as being those who were willing to complete the questionnaire, as the interviews were conducted door-to-door at their business premises until the researcher met the targeted number of 30 SMEs to be interviewed during the study.

Four commercial banks that were major role-players in the SME financing and mentorship programme were purposively selected to participate in the study. The banks concerned were the FNB, Bank Windhoek, the DBN and FIDES Namibia. The Oshakati

Town Council, the MTI and the NCCI's northern and Oshakati branch were used in the study as stakeholders in LED and SME development.

The questionnaire format was also used to obtain a view of the range of business types (e.g. manufacturing, construction, tourism and others) in the SME sector. Due to the low level of education among the SME sector, those who could not answer the questionnaire by themselves had it read to them, with their answers recorded on their behalf. In contrast, literate respondents were given the questionnaire to complete by themselves.

4.3.2 Data-collecting instrument

Three self-administered questionnaires were designed to collect data that formed the basis of the research findings. The questionnaire, which is a widely-used instrument in field studies, is comparatively cost-effective and quick to devise. *Welman et al.* (2005:174) favour the use of a self-administered questionnaire with open-ended questions, in that the respondents have to formulate their responses themselves, without being influenced by either the interviewer or the questionnaire. Such an instrument using closed-ended questions offers the respondent a range of answers from which to indicate the choice of answer by means of a tick in the appropriate cell. Due to the above, self-administered questionnaires were found suitable for research, because they provided needed information about the SME sector's role.

The questionnaires were distributed to the representatives of the Oshakati Town Council, the MTI, the NCCI and the SME sector. The questionnaire designed with different headings that related to the research objectives that covers the SMEs role, challenges, legislation and policy framework and support programmes.

4.3.2.1 Questionnaire 1 for selected SME respondents

The questionnaire was designed to collect information regarding the understanding of LED by the SME sector. The information obtained reflects the level of SME understanding of their roles both in LED and in the available LED initiatives. It was also designed to find out what the challenges were that hindered the SMEs effectively

contributing to the LED of Oshakati Town and what areas required the Oshakati Town Council and other stakeholders' intervention. (See Annexure A for the questionnaire.)

4.3.2.2 Questionnaire 2 for Oshakati Town Council respondents

The Town Council, as the custodian of SME support development and LED implementation, has a big role to play in creating an environment that is conducive to the establishment and functioning of SMEs. The questionnaire design and the information gathered both focused on the role and importance of SME sectoral development in Oshakati Town, as well as on LED initiatives to support SMEs and challenges facing the sector. The questions also gathered information regarding the policy and regulations regulating SME development and roles. The questions asked were intended to find out which incentives were available for SMEs and other support programmes from the Council. (See Annexure B for the questionnaire.)

4.3.2.3 Questionnaire 3 for stakeholder (commercial banks, MTI and NCCI) respondents

The stakeholder's questionnaire was designed to obtain information from the stakeholders in LED implementation who were supportive of SMEs. In respect of the commercial banks, the researcher gathered information on the type of SME support that they offered to the SME sector, as well as on the criteria that they used to categorise the SME beneficiaries. The questionnaire was also aimed at finding out the number of SMEs that had benefited from bank services. The respondent banks were also asked about those areas that they saw as requiring attention for SME growth and for expanding their contribution to the sector. (See Annexure C for the questionnaire.)

This section of the thesis outlined the local case study and research methodology that was used in the research design and data collection for the current study. The next section presents the data that were obtained in response to the questionnaires.

4.4 Analysis of data obtained in response to questionnaire

This section of the thesis is divided into three parts, according to the findings obtained in response to the three questionnaires, as outlined above. Whereas subsection 4.4.1 presents the data obtained in response to the SME's questionnaire; subsection 4.4.2

those from the Town Council questionnaire; and subsection 4.4.3 those from the other stakeholders.

4.4.1 Data obtained in response to the SME's questionnaire

4.4.1.1 Gender demography

Most of the entrepreneurs who participated in the study were women, which could be the result of the non-probability sample that was used. The gender demography mainly reflected the situation on the ground, showing that there are more women than men in the sector. Out of the 35 surveyed SMEs, approximately 65% (23 of 35 respondents) were women, while approximately 35% (12 of 35 respondents) were men (see Figure 4.1 below). The gender question was asked to determine the presentation of female and male respondents to the questionnaire, and not to determine any superiority of the one gender over the other. Although the study shows that women-owned business exceeded those owned by men, both were found to have contributed significantly to employment creation and income generation that potentially benefited local residents.

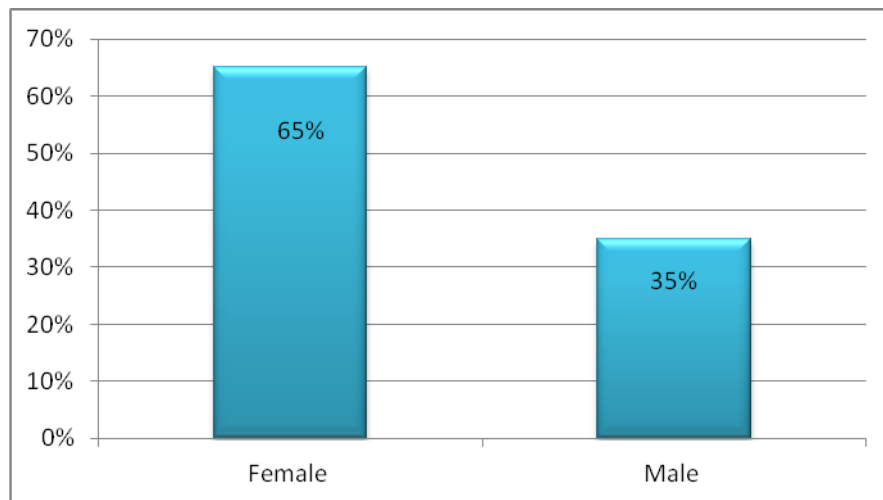


Figure 4.1: SME respondents' gender demography

4.4.1.2 Age demography

The research also considered the age of the respondents, in order to determine the age level of SMEs involved in business. Most of the SME participants ranged from a youthful age group, below the age of 35 years, while the remaining participants represented a very mature group, ranging between 40 and 55 years old (see Figure 4.2 below). The reason for so many youthful entrepreneurs being in the business was because of the

high number of Grade 12 failures and the large number of prospective tertiary-level students who experience financial constraints on their further studies.

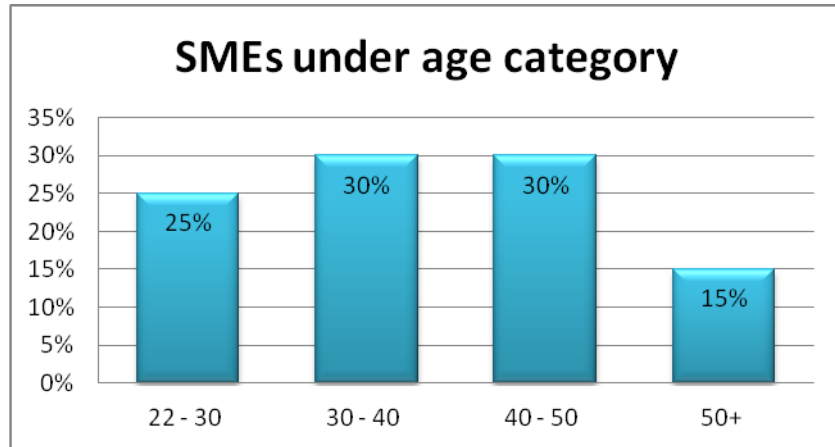


Figure 4.2: Age categories of respondents

4.4.1.3 Education level (in respect of secondary education)

SME respondents were asked about their education level in order to determine their level of primary or secondary education. The question was asked to find out whether SMEs were literate in the official language, especially in respect of reading information concerning SME promotion and development. Most of the SMEs interviewed had a basic secondary education between grades 10 and 12 (see Figure 4.3 below).

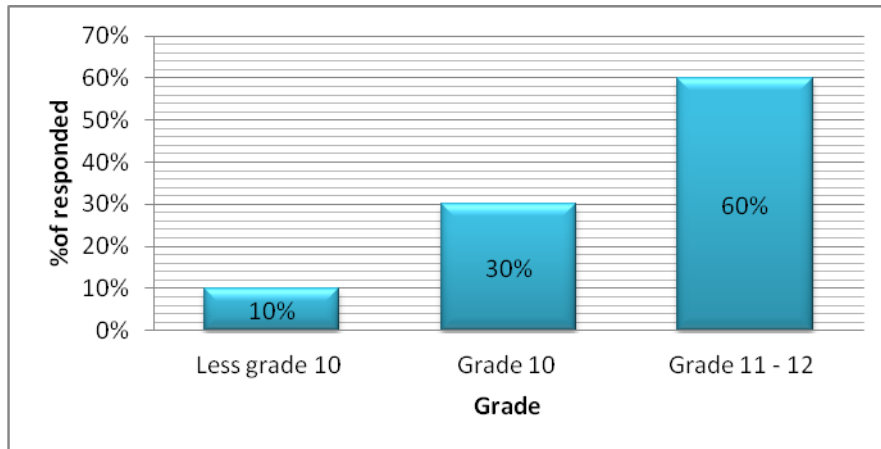


Figure 4.3: Education level of SME respondents

4.4.1.4 Number of years SMEs in existence

The current study shows that 60% of all respondents had been in the business for more than five years and only approximately 3% (2 of 35 respondent) had been running their business for less than a year (see Figure 4.4 below). Most of the respondents 60% (21

of 35 respondents) have stayed in a business for more than 5 years, which indicates a degree of stability in business.

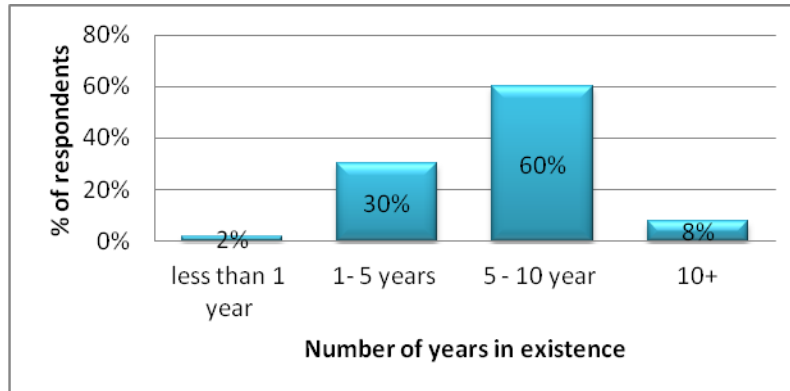


Figure 4.4: Number of year's respondent SME is in existence

4.4.1.5 Type of business

In response to being asked to indicate what types of business sector they were operating in, as is shown in Figure 4.5 below, trade and service SMEs were found to take up 80% of the sector, with only 20% of the sector consisting of manufacturing and construction SMEs. The SMEs that were involved in the former type of business consisted of restaurants, bottle stores, take-away's and general dealers. Of the percentage that comprised construction, most were involved in building construction of houses, schools, and shopping centres, as well as with the alteration of old buildings. The sampled entrepreneurs who were involved in manufacturing were all men, who were mainly occupied with bakeries, milling, sign or brick making, or crushing.

The challenges that were involved with accessing finance, especially in regards to start-up capital, could make SMEs opt for being traders or service providers in the construction or manufacturing fields.

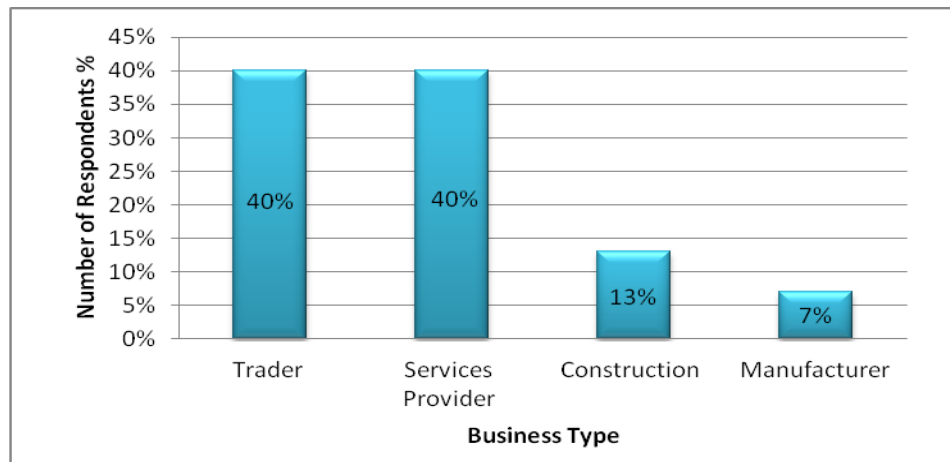


Figure 4.5: Type of business in which respondent SMEs involved

4.4.1.6 SME business registration with relevant authority

More than approximately 90% (32 of 35 respondents) of the SMEs that were surveyed by the researcher indicated that they had officially registered their business with the Oshakati Town Council and with the MTI. The study further revealed that SMEs tender to register with the Oshakati Town Council in order to obtain their business fitness certificate and SME certificate, which are both certificates that permit them to trade within the town boundaries.

SMEs also register with the MTI in order to register their business name and in order to acquire the SME certificate., approximately 45% (16 of 35 respondent), were found to be registered with the NCCI, and an even smaller percentage, 20% (7 of 35 respondents), of participating SMEs were registered with the Social Security Commission (SSC).

The reason for SMEs to register with the MTI could be to obtain SME certificates that give them access to construction work and to government tenders. The poor rate of registration with the NCCI and SSC could be due to a lack of awareness regarding the benefits that such SMEs can obtain from registration with such institutions. No clear or visible benefit is attached to SME registration with such institutions. Figure 4.6 below shows the percentage of respondent SMEs that were found to be registered with the four different institutions identified above.

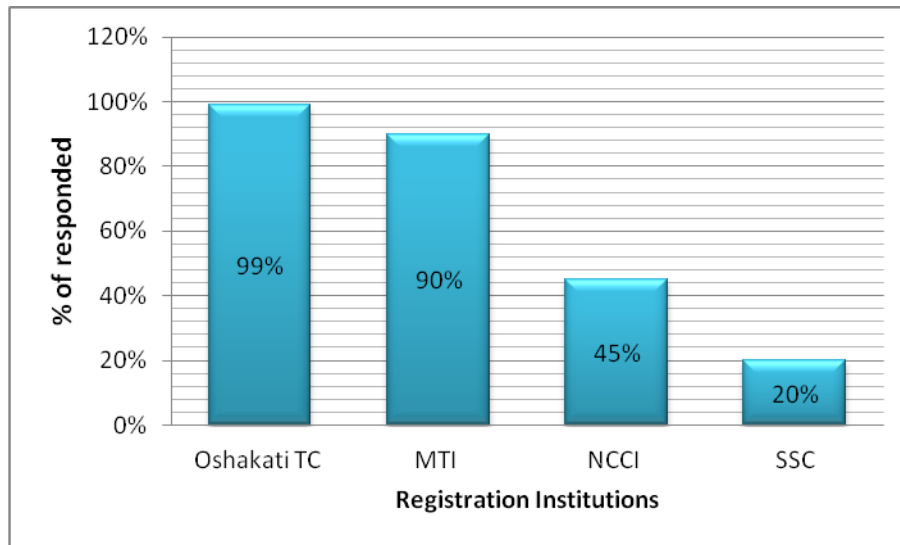


Figure 4.6: Percentage of respondent SMEs registered with institutions

4.4.1.7 Number of people employed in the SME sector

The SME sector has been recognised as the main engine in economic development and poverty reduction through job creation. Therefore, the SMEs were asked to indicate the number of employees that were working for their respective businesses. Of the respondents who stated that they employed more than two to ten people, 35% of 60% stated that they had been in business for longer than five to ten years and that they had registered with different institutions, such as with the Oshakati Town Council, the MTI, or the SSC. Their relative successfulness might have been due to their experience, as a result of which they had grown in terms of capital. Figure 4.6 below indicates that 60% (21 of 35 respondents) employed between two and ten employees. Approximately 10% (4 of 35 respondents) of the participants that employed between 11 and 15 people and who were in manufacturing and construction indicated that the owner of the businesses was not included in the number, as they had recruited the manager to run the business. The owners might have done so because they wanted to recruit experts who knew about the business, as some of them tended to have experience in the field rather than academic expertise. The above also indicates the degree of business stability and growth in capital that the respective SMEs had undergone.

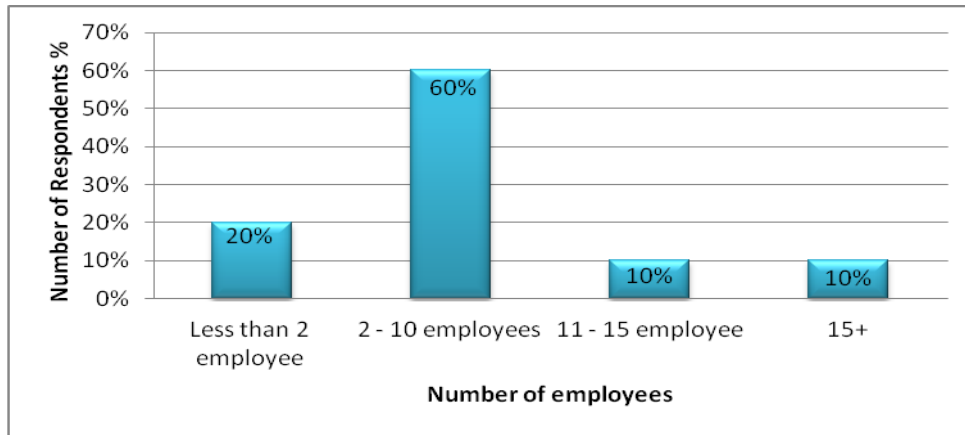


Figure 4.7: Number of people employed by the SME respondents

4.4.1.8 Payment for municipal services by SMEs

The results, as are shown in Figure 4.8 below, indicate the number of respondents who indicated that they were paying for municipal services. Of the respondents interviewed, 100% (all 35 respondents) are paying for municipal services. Some are paying for basic municipal services (i.e. the water, sewerage, refuse removal and fitness certificate), whereas only 6% (2 of 35 respondents) indicated that they are paying rates and taxes. The reason for non-payment of rates and taxes (i.e. the fee calculated and paid toward the building and plot value) as 28% of the respondents was that they did not occupy premises, but instead rented space either in an open market or in a shopping centre. SMEs indicated that they are paying basic services so that they could have access to water and sewerage, while they paid for the fitness certificate in order that they operate their business legally and be recognised as such by the Town Council.

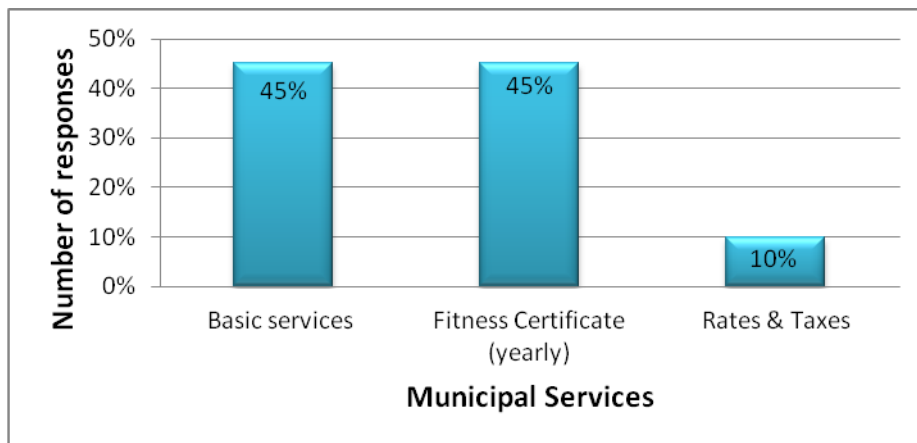


Figure 4.8: Percentage of SMEs paying for municipal services

4.4.1.9 Legislation and policy framework

Business success was found to be influenced by the existing regulation and policy guidelines. The researcher asked the SMEs about what they know about government policies, especially regarding the SME policy and the LED White Papers. The study showed that 60% (21 of 35 respondents) were aware of the SME policy, whereas only about 40% (14 of 35 respondents) were aware of the LED White Paper. As is shown in Figure 4.9 below, SME policy is much more widely known about than is the LED White Paper. The greater knowledge of the former might be because the SME Policy had been in place for longer than the newly published LED White Paper had been in circulation, as the latter was only relatively recently adopted in 2008. Another reason might be the lack of awareness of such regulation among the SMEs surveyed.

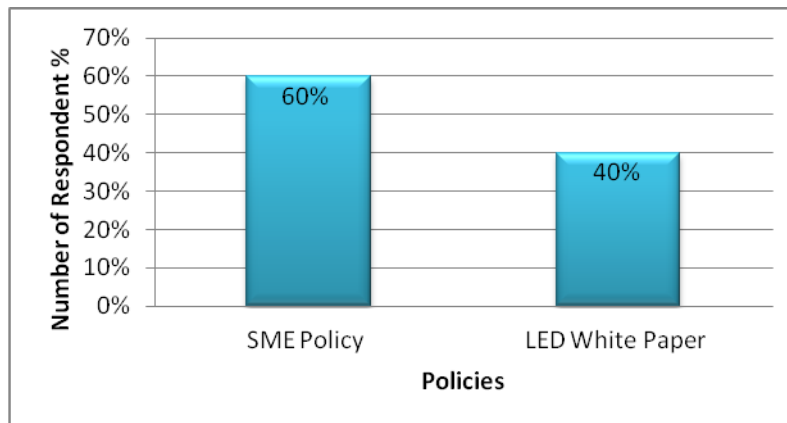


Figure 4.9: Respondents' knowledge of government policy

4.4.1.10 Role of the SME sector in Oshakati Town's LED

The researcher wanted to find out whether the participant SMEs knew of their role in LED. Of the respondents, approximately 90% (32 of 35 respondents) indicated that they knew of their role and all stated that job creation and their contribution to the Town Council revenue collection helped improve the Council's services regarding the provision of such basic services as water, sewerage and roads (see Figure 4.10 below). The remaining approximately 10% (3 of 35 respondents) indicated that they were unsure of their roles in LED and felt that, since SMEs are relatively small, that they tend to contribute to LED in terms of job creation and in terms of their input that is directed towards the development of the town's infrastructures. Shortcomings in their answers were perhaps due to lack of knowledge and awareness of the SME role in local development.

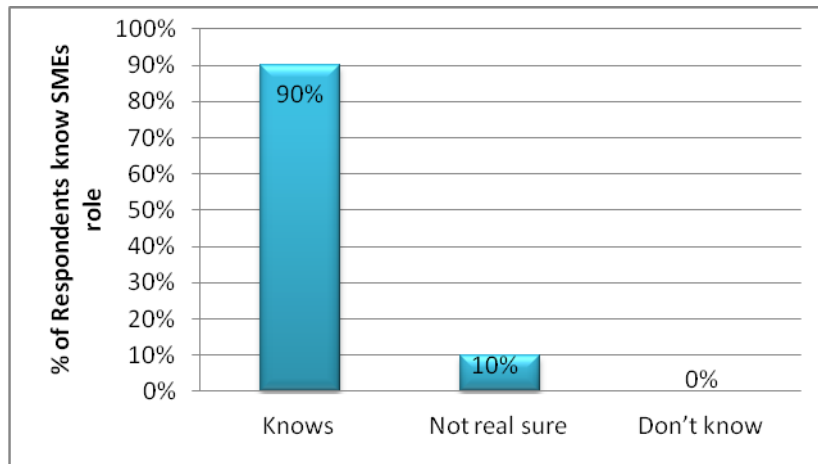


Figure 4.10: Respondents' awareness of the role played by SMEs in LED

4.4.1.11 Services and incentives offered by the Oshakati Town Council

The SME sector was found to be content with the level of services that the sector receives from the Town Council, although the supply has limitations, especially in terms of land acquisition. Of the respondents, 60% (21 of 35 respondents) rated the current level of services offered by the Town Council as satisfactory, especially regarding the provision of information related to tenders. Figure 4.11 below shows the percentage of responses received to the question regarding the services offered by the Town Council, with the outcome being many of the SMEs are satisfied with the level of services rendered to them by the Town Council. However, there is still room for improvement, as only 60% of the respondents stated that they were satisfied, whereas the remaining 40% rated the services as either average or poor.

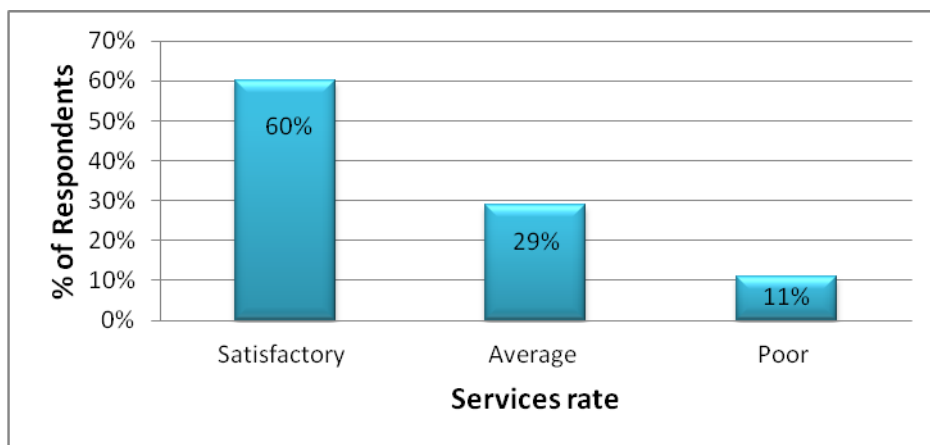


Figure 4.11: Rating of Oshakati Town Council services by respondents

4.4.1.12 Services provided by commercial banks

Although commercial banks had been forthcoming in assisting SMEs financially, their services were not yet, at the time of the current study, satisfactory, making the SMEs less than contented with the level of assistance that they were receiving from the financial institutions concerned. Of the respondents, approximately 87% (31 of 35 respondents) indicated that they were not satisfied with the services that they were offered by financial institutions, as they were very difficult to access (see Figure 4.12 below). Approximately 13% (4 of 35) respondents were satisfied with the commercial banks' services, and even they indicated that they were difficult to access, especially if an entrepreneur lacked collateral.

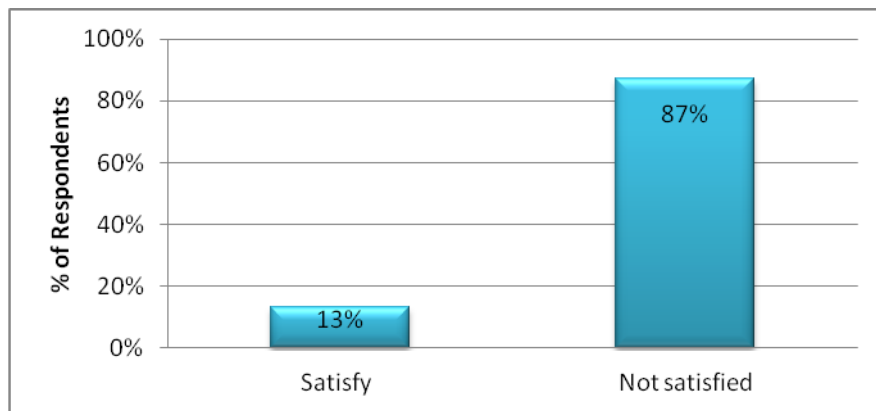


Figure 4.12: Level of satisfaction expressed with commercial bank services

4.4.1.13 Relationship between SMEs and other LED stakeholders

Regarding the relationship between the SMEs and the major stakeholders in LED relating to SME development and the contribution made to LED, the stakeholders were required to create a flourishing environment in which SMEs could come to operate and contribute greatly to the LED of Oshakati Town. Of the respondents, 60% (21 of 35 respondents) believed that they had a good relationship with the Oshakati Town Council, whereas 40% (14 of 35 respondents) indicated that they had some relationship with other support institutions.

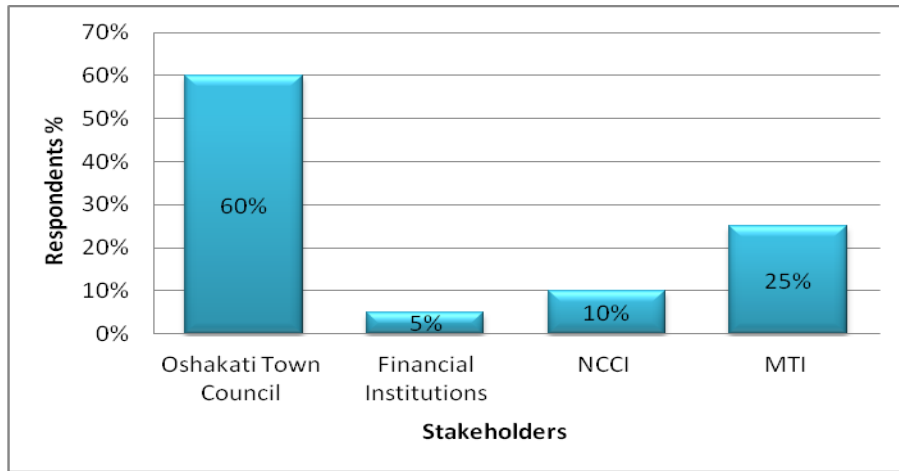


Figure 4.13: Relationship of respondents with other LED stakeholders

4.4.1.14 Challenges facing the SME sector

When asked about the major challenges hindering the role of SMEs in the local economy, all the respondents indicated that access to finance was the major constraint, with the inadequate infrastructure, such as the open market, a business park and the incubator centre, posing the second most prevalent challenge. Other challenges mentioned were the continuous flooding during the rainy season since 2008, which had affected most of the SME sector, as well as the high prices of plots, among others.

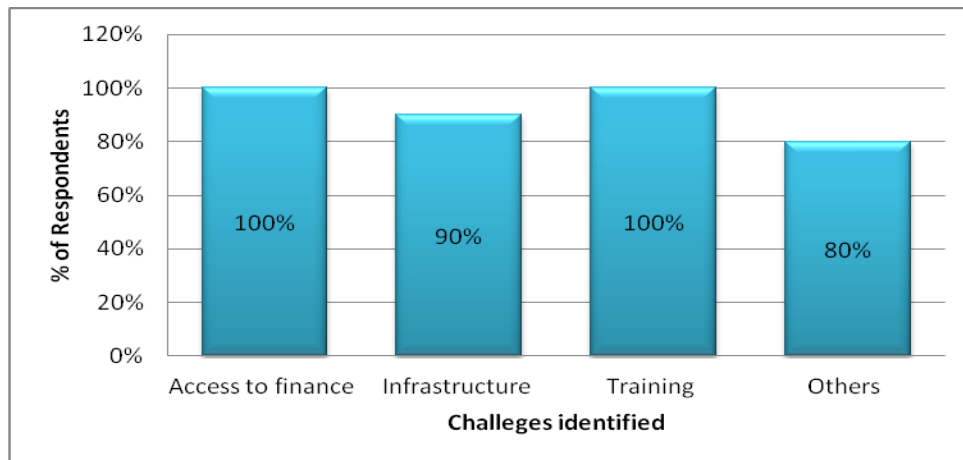


Figure 4.14: Challenges facing the SME sector

4.4.2 Analysis of data obtained in response to Oshakati Town Council's questionnaire

The questionnaire targeted the LED Officer, who was the officer responsible for SME development in Oshakati Town. The Public Relations Officer was also given a questionnaire to complete. The two staff members in question were selected due to

them working closely with SMEs in Oshakati Town. The questionnaires were semi-administered and were guided by questionnaire, as the method was found suitable, due to most of the questions being open-ended. The questionnaire was designed to collect information regarding the importance of the SME role in the town's local economy, so that an appreciation and understanding of SME operations, as well as of the challenges being faced by the sector in Oshakati Town could be gained. The responses were analysed as textual data consisting of descriptive statistics.

4.4.2.1 The role of the SME sector in LED implementation

The Town Council's knowledge and understanding of the role of the SME sector in LED implementation was revealed as acknowledging that SMEs have a major role to play in the local economy through the creation of more job opportunities than might otherwise be available, as the sector tends to recruit local residents. The respondents indicated that SMEs are known to play a major role in socio-economic development, with SMEs making a significant contribution to employment, income generation for households, and stimulation of growth of the town.

The LED officer elaborated, during the personal interview, on SMEs being the big drivers of economic growth, innovation, local development and job creation. Such a drive increases households' income and ability to pay for municipal services and capital circulations, as well as to attract investors who improve and enhance competition in order to attain a healthy market. The sector makes a meaningful contribution to the local workforce, which encourages the town's economic landscape and the gross employment rate of the town. It is very important to note that, if SMEs could be provided with a more conducive environment in which to operate, then the sector would be able to contribute more effectively to the local economy, by providing more job opportunities. The sector also plays a crucial role in innovation and high-tech business, due to its flexibility and creativity, with many of them becoming large enterprises.

4.4.2.2 Support services available to the SME sector in Oshakati Town

The two participating officers were asked to indicate whether there were any support services available for the SME sector. The response indicated that the Town Council already has an SME support system in place, although it needs improving. Both officers

indicated that the Council had introduced some incentives to SMEs in different services, such as in the purchasing of business erven. Although the normal price for such erven ranged from N\$70 to N\$150 per m², the Council could provide a discount for an SME of up to N\$50 per m², depending on the size of the erf. The Council had also passed a resolution to give tender preference to local SMEs whenever they tendered for projects in Oshakati Town.

The current researcher was also informed that the Town Council, in partnership with the DBN and the NCCI, conducted business meetings to discuss opportunities and projects available with the local SMEs. In a business meeting, the Town Council presents different projects that the Town plans to undertake, while the DBN presents possible funds, especially for start-up capital, and the NCCI presents alternative means of funding that are available from other institutions, which it introduces to suppliers.

4.4.2.3 Challenges facing the SME sector in Oshakati Town

In response to a question regarding whether the Town Council knew what challenges hampered the role of the SME sector in LED implementation, both respondents indicated that, apart from difficulties in accessing financial assistance, the SME sector in Oshakati Town had been affected by the continuous flooding during the rainy season since 2008, having suffered numerous troubles during the floods, such as the loss of an immediate daily work, damage to properties and infrastructure, and a very low cash flow. During the period when the respective businesses were closed, the business owners ended up exhausting both personal and business sources of capital, which could otherwise have been used for business recovery purposes.

Both respondents agreed that SMEs have little knowledge regarding business and financial management skills, which makes it very difficult for those who are in the SME sector to run their businesses so effectively as to lead to making a greater contribution to LED implementation than they have done in the past.

4.4.3 Analysis of data obtained in response to stakeholder's questionnaire

The stakeholders' questionnaires were distributed to four commercial banks (the DBN, FNB, Bank Windhoek and Fides Bank Namibia). The questionnaires were also given to

an official each from the NCCI and from the MTI. The questionnaires were self-administered, being given to the official concerned to complete and collected later by the researcher.

4.4.3.1 Financial institutions' and the NCCI's criteria for SMEs

In response to a question regarding the criteria used for deciding on whether or not to provide assistance to an SME, the DBN indicated that the SMEs who were eligible for help with financing were those with assets or finance less than N\$3m. FNB and Bank Windhoek define SMEs as entrepreneurs with a practical business plan and the management skills to put into practice, who lack capital of more than N\$100 000, although the bank's Small Business Unit can assist all those with more than N\$100 000 up to N\$3 million. Fides Bank Namibia assists all SMEs, ranging from hawkers with no business to fully set-up SMEs, with a maximum amount of N\$200 000.

The NCCI defines SMEs as characterise all those entrepreneurs who engage in any type of business and who lack capital of more than N\$1m. (See section 2.2 for the MTI definition of an SME.)

4.4.3.2 SME support services

The respondents were asked to indicate whether it was a mandate of their financial institution to provide assistance of any type to the SME sector. All four of the financial institution respondents stated that it was a mandate of the bank to provide financial assistance to SMEs and mentorship to the SME sector. The DBN specifically indicated that the bank offered business mentorship training, more specifically in terms of financial management aspects.

The MTI, through its Directorate of Industrial Development and the SME Desk, has a responsibility for ensuring inter-ministerial coordination regarding the policies and programmes aimed at developing the sector. The MTI is also responsible for coordinating with NGOs, government agencies and chambers of commerce and for promoting individuals who might be able to contribute to the success of the sector's initiatives. The MTI has a duty to register all SMEs in Namibia, in order to facilitate the partnering of regional and local government with the private sector.

The relationship of the regional MTI office with the local SMEs was rated poorly, with only 25% of the respondents having a relationship with the MTI regional office. The SMEs indicated that they only communicated with the MTI when they submitted their registration of business application form, and that the MTI had failed to create a platform from which to engage with the sector. The respondents were not satisfied with the services offered, because the regional office only served as a submission centre, since all processing and approvals was done in Windhoek. The representatives of the sector described the entire process as bureaucratic and very slow.

The MTI, through the Namibia Development Corporation (NDC), fostered cooperation with local commercial banks and appropriate external development financing agencies, and played a role in the financing programme and business site constructions. The services described by the Oshakati Town Council were not really directly benefiting the Oshakati local SMEs, as, since independence, the MTI, through the NDC, had constructed an open market nor a business centre / park in Oshakati.

4.4.3.3 SMEs to have benefited from commercial banks' financial assistance

Financing economic activities in Namibia, especially for SMEs, remains one of the biggest challenges, as has already been indicated by the challenges identified by SME respondents. The commercial banks have been provided financial assistance to SMEs, but at a slow pace. The four commercial banks that partook in the study only gave the number of SMEs in general that benefited from their institutional aid from 2008 to 2010, because when the banks process applications for financial assistance from the SMEs, they do not record them per town, but in general for the whole country. In the light of the above, the study shows that more than 20 SMEs have benefited from SME funds from all four banks participants, with FNB topping the list, having benefited more than 100 SMEs. FNB indicated that, since 2007, more than 140 SMEs had benefited from them financially, with amounts ranging from N\$50 000 to N\$2 million.

In response to the above-mentioned predicament of the SMEs, two of the banking institutions stated that they had started to realise the importance of SMEs in the domestic economy. As a result, Bank Windhoek and the FNB had established tailor-

made branches to take charge of SME needs, although they still required a guarantee or security.

In a personal interview with the SME business analyst at FNB, Uahengo (2011) stated that, from 2007 to 2010, the FNB SME Business Unit at Oshakati Branch had provided financial support to more than 140 SMEs, with local funding ranging from N\$50 000 to N\$2m. The estimated number of jobs that were created by SMEs that had benefited from the FNB financial support was over 500.

The government established the DBN, with the main aim of providing financial services for SMEs. The objective of the DBN was to fill the existing gap in financing major medium and long-term development projects, both in the private and public sectors. The bank has a Special Development Fund (SDF) that focuses on SMEs, which it uses for supporting key sustainable projects and programmes of development importance (Nakusera *et al.*, 2008:4). Such support is in a form of credit line with low interest that is managed by banking institutions and in the form of working capital for SMEs, although the SMEs are still required to provide acceptable collateral, which makes it difficult for SMEs to acquire such loans.

Apart from offering financial assistance, the DBN also offers training, mentoring, monitoring and evaluations of SMEs, with the SMEs having to contribute 2% of the total amount of training. Bank Windhoek provides lending and institutional support to SMEs, including a 12-month mentorship and a lending period ranging from three to five years. However, all the banks surveyed require SMEs to have acceptable collateral and a proper business plan.

In support of the attainment of prosperity by the SMEs and in acknowledgement of the sector's contribution to the local economy, the Bank of Namibia, in August 2009, granted a licence to a micro-banking concern, FIDES Namibia, which came into effect in February 2010. FIDES Namibia is the first-ever micro-finance bank in Namibia. FIDES, together with its partners, is making a significant contribution to poverty alleviation through its adoption of an entrepreneurial approach (www.fidesgroup.org).

4.5 Conclusion

Chapter 4 dealt with the local context, research methodology and findings of the current study in brief. The information obtained was presented through graphical displays and narrative text. The next chapter further interprets the data and presents some recommendations, as well as the conclusion, of the study.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The current chapter analyses the data that were given in Chapter 4 and presents the recommendations and conclusion, based on the findings and the lessons learned respecting improved LED in Oshakati Town. The preceding chapters 2, 3 and 4 illustrated the role of SMEs in LED and the challenges that are faced by the SME sector in contributing to LED development. The results that were discussed in these three preceding chapters are concluded in this final chapter, which presents proposed recommendations for making further improvements and for learning additional lessons. The purpose of this final chapter is to identify priorities for local authorities and LED practitioners, so as to provide the required building blocks for strategic guidelines in accordance with which to help the local SME sector to carry out their roles and contribute effectively to LED.

5.2 Discussion and interpretation of data

5.2.1 Role of the SME sector in LED

In response to the SMEs being asked to indicate what types of business sector they operated, 80% of the SMEs stated that they were operating as traders and service providers. The SMEs that were involved in this type of business included restaurants, bottle stores, take-aways and general dealers. The construction and manufacturing SMEs took up the remaining 20%. The SMEs that were involved in construction were mainly concerned with building construction. The sampled entrepreneurs who were involved in manufacturing were all men, who were mainly bakers, millers, sign makers, brick makers or crushers.

SMEs have a role to play in the local economy by creating more job opportunities that provide an income to households and stimulate growth in urban areas. Most of the SME participants employed between two and ten people in their business. SMEs were regarded as the big drivers of economic growth, innovation, local development and job creation. The sector was found to be contributing a great deal to the local workforce, in terms of which it made a significant contribution to the town's economic landscape and

to the gross employment rate of the town. It is very important to note that, if SMEs could be provided with a more conducive environment in which the sector could operate, it would be able to contribute more effectively to LED, by increasing the number of people employed. Those SMEs that were found to employ more than 10 people were those who had been in business for more than five to ten years, and those who were engaged in the manufacturing and construction industry.

5.2.2 Major challenges facing the SME sector

5.2.2.1 Access to finance

All respondents cited access to finance as the biggest challenge facing the SME sector and hindering the sector's role in relation to LED. Access to finance has been acknowledged by many as being one of the major barriers to the development and growth of the SME sector in Namibia. The SMEs generally expressed feeling that financial facilities for SMEs are inimical to them, making access to finance difficult. The above supports the research of Nakusera *et al.* (2008:4) (see subsection 2.8.1). From a total of 35 SMEs interviewed, 87% (31 SMEs interviewed) indicated their dissatisfaction with the services offered by the commercial banks. The respondents concerned stated that they felt that the requirements for, and the process of, accessing loans or any funds make it very difficult for SMEs to be satisfied with such services. The 7% (4 SME's interviewed) that indicated satisfaction with the services also did not fully agree with the process that had to be followed to access commercial bank services.

Access to finance was a challenge, due to the high number of requirements, such as for collateral, which were required by the bank and the high transaction costs involved in the case of small transactions. The SME notion was that credit should be subsidised either by the government or by the DBN.

5.2.2.2 Business infrastructure

Lack of business premises was indicated as posing the second major challenge to the respondents. As there are insufficient facilities, in the form of open markets, appropriate workshops, a business park and incubator centres within Oshakati Town, SMEs have to rent premises in shopping centres, which is sometimes expensive. Currently, there is only one open market and one industrial park, and the space is very limited. The

entrepreneurs surveyed indicated that said premises, which were designed only for hawkers, were very old and unsuited to other services or to the trade sector. The sector underscored the importance of a good infrastructure for fostering economic performance and for improving the contribution of the SME sector to the local economy.

Despite the SME policy promising to address the shortage of business sites and premises, the situation on the ground had not yet benefited from the SME policy regarding construction of an industrial park, open markets, workshops or incubator units, especially for start-up SMEs and common facility centres.

5.2.2.3 Business training

The lack of training in business management was identified as one of the three major challenges. Of the respondent SMEs, 90% said that the lack of training for SMEs posed a major challenge to the sector. The respondents indicated that, in most cases, SMEs failed due to a lack of skills in business development and management. The shortage of suitably-trained entrepreneurs in either vocational or business disciplines was a major disadvantage to the local SME sector. The finding supported that of Erastus-Sacharia (see subsection 2.8.3).

The MTI, SME Department, offers SMEs training in collaboration with NGOs to assist in SMEs training. To date only few SMEs attended the available training. The issue language barriers could be constraints in training.

5.2.2.4 Continuous flooding during the rainy season

The continuous flooding that was experienced within the town during the rainy season was identified as another challenge that hampered the development of SMEs in Oshakati Town. The participants' responses show that most SMEs indicated that the continuous flooding that had been experienced in Oshakati since 2008 had become a yearly issue, which was negatively affecting the growth of, and the contribution made by, the SME sector in Oshakati Town.

The issue of appropriate technology has also been mentioned under other challenges. The SME sector has indicated that it faces technological problems, with some of the

SMEs lacking access to technology, whereas others have access to technology, but it is inappropriate, capital-intensive and is suited to their business needs.

The lack to access to serviced land for business was also mentioned by some respondents as being one of the other challenges that they faced. Despite many positive changes in the land law having taken place since independence, access to land that is made available by the local authorities for business purposes is still under bureaucratic control, which has complicated the system.

In addition to the above issue, land costs are also of concern to the SMEs. Of the entrepreneurs interviewed, 22 indicated that the cost of serviced, and even unserviced, land was the main cause for them not acquiring business land.

5.2.3 SME support services available

5.2.3.1 Services provided by the Oshakati Town Council

The existence of effective support services is vital for the success of SMEs. SMEs stand little chance of success unless they are assisted and supported so that they can improve their role and effectively contribute to the local economy.

The SME sector operating in Oshakati has indicated that the sector is contented with the level of service offered by the Town Council. Of the SME respondents, 70% stated that they were satisfied with the service. The high percentage of satisfaction noted in this regard could be a result of Town Council efforts to encourage local business growth in the town.

The Town Council has tried its best to address the issue of inadequate worksites, open markets and business and industrial parks. The existing open market and industrial park are very old business sites, which were constructed during the apartheid era, and offer very limited space.

Despite all the attempts made by the Town Council, the biggest challenge of flooding still remains. As indicated in the challenges noted by the SMEs, the Town Council has acknowledged the continuous flooding during the rainy season that had been

experienced since 2008 to be a challenge, and has described it as hindering the SME contribution to the local economy and decreasing the local residents' income during said season.

5.2.3.2 Services provided to SMEs by the commercial banks

The commercial banks stated that they were providing support to the local SMEs and playing a role in SME development by providing financial assistance and mentoring support to them. The researcher found their response problematic in this regard, as there was no indication from the banks as to how many SMES, out of the total that applied for financing, actually received it.

The services offered by the banks were very well known to the SMEs, but the challenge lay in attempting to access them, as the banks still required collateral of fixed assets, such as the possession of a building or land in a proclaimed area, such as that of the municipality. They also required security in the form of insurance cover, meaning that the banks requirement criteria for granting loans were relatively unknown.

5.3 Recommendations

In over viewing the Oshakati Town SME sector, the study findings revealed that challenges hampered the role played by SMEs in LED. Such challenges include difficulty in accessing finance, inadequate business structures (*vis-à-vis* site and premises) and the lack of business skills. The SMEs indicated a desire for business management training in Oshakati.

At the time of the current study, the SME sector was still in its nascent stage and required extending. The micro lending industry lacked specific funding for SMEs, and only financed the owners of SMEs. The problem of access to financing by SMEs had still not been addressed in full, despite the efforts made by the government and the private sector, and access to financing for local SMEs remained limited.

In the light of the above, the successfulness of the SME sector can be seen to rely on the development of a partnership between the private and public sector. As the *first recommendation* of this study it is imperative that additional instruments should be

encouraged to improve SME development, thus nurturing the sector to contribute more significantly to it. It is essential that the local authorities take note that the growth and development of SMEs entails more than finance, as many different factors affect SME growth and development. This concurs with worldwide experience (see Nakusera *et al.* 2008:7) that has illustrated that the provision of capital alone is inadequate for supporting SME development and economic performance, because SMEs require a range of non-financial support services to assist them to grow and prosper.

In the light of the key findings of the current study, the following policy and incentives are proposed for consideration. The difficulty in accessing finance by SMEs has been identified as a major challenge that still faces a number of SMEs, and which is seriously hindering their growth and contribution to both the national and the local economy. Financing constraints limit the investment capacity of SMEs and thus hamper their economic performance. This concurs with Shejvali (2007:2) who states that if SMEs could be provided with a more conducive environment in which to operate, they might be able to function and to contribute more effectively to LED, by increasing the labour force recruited by the sector.

As a result of the above, the *second recommendation* is a policy directed at financial institutions to simplify the criteria applied to the granting of loans and reduce the transaction costs involved in loan provision. Currently, the financial institutions require collateral and a well-prepared business plan before granting any financial assistance to SMEs. Such prerequisites are very difficult for SMEs to satisfy, as they tend to lack both collateral and a sound business plan. Therefore, it is highly recommended that the government become seriously involved in solving the issue pertaining to the access of financing by the SMEs. The government should revive some failed programmes that were earmarked to assist the SMEs in accessing finance.

The *third recommendation* is that the DBN SDF should play more of a role than it has done in the past and increase the number of beneficiaries under the fund, as well as reducing the minimum loan amount that currently is set at N\$250 000 and which is payable over 18 months, which the SMEs considered to be too short a period for the repayment of such an amount. It is recommended that the minimum loan amount should

be reduced to cater for other SMEs who might only require between N\$50 000 and N\$250 000. In addition to the provision of finance, mentorship, monitoring and evaluation should all form part of the overall package. Making such a package available would help to ensure that the funds are used for their intended purposes and to keep SMEs sustainable.

The *fourth recommendation* is that banks should create a strategy for supporting the competitiveness of SMEs, so that the sector may contribute to long-term growth and employment. In order to promote the development of SMEs and so as to encourage the SME sector's contribution to the local economy, the institutional and regulatory barriers that are biased against the sector should be either reduced or simplified. To the extent that the barriers are possibly reduced, commercial banks should lower the financial and economic transaction costs. Therefore, efforts to reduce the bureaucratic procedure can enhance access to finance, especially in terms of the collateral and security required by the financial institutions as part of granting a loan to an SME.

Recommendation five is that, in order to foster the functionality of SMEs, the establishment of a high-quality basic infrastructure is required. In spite of the MTI and Oshakati Town Council investment in the physical infrastructure, there is still a shortage of business parks, adequate facilities for industrial development and an SME open market for traders.

The importance of investing in infrastructural development is widely acknowledged and commonly accepted. The area concerned is one in which the local authorities and MTI could play a significant role and ensure that there is an adequate infrastructure. Through LED initiatives, local authorities should be responsible for both initiating the development of the infrastructure, as well as for overseeing SME participation in development. Oshakati and other northern towns should have an infrastructure that is in an excellent condition and that has excess capacity and institutional privilege as an emerging capacity to attract a high degree of economic impact and employment generation. The other contributing factor to the role of SMEs is that an industrial park is required, as Oshakati Town already has many retail bases, thus an industrial hub should be developed to turn around and revitalise the local economy. Further, SMEs

recommended that the Oshakati Town Council construct a flood emergency hall, which could be used as an immediately accessible infrastructure for SMEs during the rainy seasons to avoid damage to the SMEs' property.

The LED component in the SME support initiatives seeks local authority capacity to improve the local economy and to generate an enabling environment for employment generation. Revolutionary new support from the central, regional and local government is very important and is required for the development of SMEs in such a way as to allow the sector to flourish and to contribute to the local and national economy. The *seventh recommendation* is to encourage strategic policy decisions that may provide physical, technical and financial assistance to the SME sector. LED programmes that encourage local community development in low- and moderate-income areas, so as to promote SME contributions to the local economy, should be identified.

LED initiatives should provide insight into the challenges and constraints that hinder the contribution of the SME sector to local economic growth. The LED stakeholders should create a platform from which they can discuss and address SME challenges, in such a way as to solve them, so as to provide a pathway for SMEs to develop effectively. The necessary tolls should also be supplied in order to ensure that the sector grows from just being one of SMEs into one that consists of larger enterprises. The sector could then provide further developmental inputs, such as decreasing the high employment rate in the town, as well as contributing to poverty alleviation and to the addressing of economic inequalities in the local community.

In the light of the above, it is crucial for the Town Council of Oshakati and for LED stakeholders to ensure that the SME sector is fully supported in accessing finance, that there are sufficient business sites and premises, that there is skills development and capacity-building, and that the market, which is currently dominated by a few large firms, is made more accessible to SMEs. Since the majority of local residents are employed in the SME sector, there is a need for the LED stakeholders to strengthen its support of the sector, so that it can significantly impact on the local residents in terms of poverty reduction. This also emphasises again the World Bank's (2006:1) conclusion that the ability of the SME sector to improve its quality of life, to create new economic

opportunities and to reduce poverty depends upon it being able to understand the LED process and to act strategically in the changing and increasingly competitive market economy.

It is noted that, in order to build a strong local economy, LED good practice proves that each LED stakeholder should undertake a collaborative process to come to understand the nature and structure of the local economy and conduct an analysis of the locality in order to identify the areas of SME initiative, to allow for further development of the sector. Establishing solid working relationships and organisational structures to support the LED strategy planning process should lead to beneficial long-term private, public and NGO partnerships.

The *seventh recommendation* is to that the provision of finance should be accompanied by skills development in business management and mentorship in line with monitoring and evaluation. It is widely acknowledged that the development of SME capabilities requires investments in human capital. With the growing pace of technological change and the spread of information technologies, the need for specific skills has become even more demanding than it used to be in the past. The current researcher recommends that the MTI and NGOs, in collaboration with the local authorities, devise training and skills development that is focused on entrepreneurial and managerial skills development regarding different concepts, such as accounting, stock control, technical skills, budgeting customer care, market information provision, the preparation of a business plan, and product innovation. In addition, the Council should devise short-term strategies that present an integrated response to the local SME sector's training needs, by way of the establishment of public-private partnerships. The PPP strategy could assist in sufficiently addressing and improving the skills base of the local SMEs.

The approach to SME support for LED should be addressed in a holistic way that involves all LED actors. Skills development for SMEs should not only be a matter of concern for the MTI and the local authority, but the SMEs should also encourage and invite other training institutions to decentralise their programme to Oshakati, as currently only SMEs in the capital city, Windhoek, are benefiting, in most cases, from such endeavours.

The MTI and local authorities should develop linkages among all LED actors to encourage the interchange of policy lessons and experiences, to develop the necessary local policy analysis of SME issues and to encourage policy dialogue regarding finance. The NCCI should also adopt measures and create a programme allowing for the education of its members within the public education system, which would also help to raise levels of awareness, instead of waiting for the local authority or the government ministry to carry out such training.

Given the important contribution of SMEs to the local economy, policies to support, promote and enhance the productive capacity of the sector seem to be justified. As the SMEs play a vital role in LED, the Town Council, in collaboration with the line ministry and other stakeholders in SME development, should be keenly interested in conducting policy education and training in order to equip the SMEs and to make them understand and know the available regulations and policies that govern their roles and promote the sector's development. As many SMEs in Namibia have low levels of literacy and numeracy (see again Erastus-Sacharia *et al.* 1999:38) this may prevent them from benefiting from the available training courses that tend to be designed for people with higher educational backgrounds. Therefore, there is a need to design tailor-made training in business skills for SMEs.

The role of the Town Council, in partnership with the MTI, is, by providing affordable business sites, to set the stage for SMEs to be able to function in such a way that allows them to contribute to the local economy. The stage requires setting in this way because most SMEs cannot afford to build their own premises and always rent a space at the shopping centre in the absence of an open market, a business park, or incubators, which sites, in any case, could be expensive, as they are owned by large private enterprises.

As a result of the above, the *final recommendation* of this thesis is that government, through the local authorities and all relevant stakeholders, should seek to maximise SME benefits through adopting an economic policy that is conducive to their development. It should review the performance of SMEs in LED partnerships, with the

support of SME initiatives, in order to improve the SME policy framework and to build a better strategic plan so as to achieve the appropriate LED goals. Partnerships between the public and private sectors and the local area could represent an effective and efficient approach towards implementing LED strategies in local communities, and are essential for the successful carrying out of many LED actions. Successful SMEs and productive PPPs would create wealth in the local communities; however, SMEs or the private sector require a positive, business-enabling environment in which to deliver prosperity. Oshakati Town Council is essentially responsible for creating an environment that is conducive to the development and success of SMEs. In the natural course of events, LED is a partnership between the business sector, community interests and municipal government.

Conclusively, the SME sector in local authorities has a significant role to play in the LED of Namibian towns and it is very important for the local authorities to ensure that SMEs receive sufficient support in skills development to avoid hampering the sector's growth and sustainability. The SME sector should be encouraged to be the forerunner in the local system of economic development that calls for stable employment, leading to stability of income, to the promotion of local competitiveness and to the attraction of investors to towns.

The local authorities council is required to initiate the growth of a dynamic, innovative local economy by providing opportunities that can sustain economic growth and increased prosperity among the SME sector.

5.4 Limitations of the study and future research possibilities

Although the current research has satisfied the aims set for the present study, there were distinct limitations regarding the process of gathering information. The study was restricted to the Oshakati Town area for reasons of easy accessibility by the researcher.

The smallness of the sample used was one of the limitations, as the research was conducted on only a small number (30) of SMEs in Oshakati Town, so that those surveyed might not have represented the majority of the SMEs in the town. The sample could, therefore, have been a very small proportion of the entire population of the SME sector in Oshakati Town. Therefore, more research studies are required to be able to

generalise about the findings of the study. In this case, the small number of SMEs sampled could be criticised in terms of their lack of representativeness of SMEs in general.

Another limitation of the study is the perspective adopted by the researcher. Criticism is possible regarding the study's overwhelming focus on the role of SMEs, as well as on the challenges facing them, instead of on also trying to understand the responsibility of the local authorities for LED implementation, with SMEs being a concept of LED. In this regard, the current researcher proposes that future studies should set out to analyse the role of local authorities in LED, focusing on the sustainability of SMEs, so as to be able to ascertain the role played by SMEs from the local authorities' perspective.

5.5 Conclusion

In terms of emerging economic growth in Namibia, LED is encouraged, together with SME support initiatives, to attract SME economic performance. Ethics and socio-economic development can only be fostered if the SMEs participate directly in LED initiatives. SMEs have a crucial role to play in stimulating growth, in generating employment and in contributing to poverty alleviation. The sector stimulates private ownership and entrepreneurial skills, and it is flexible enough to be able to adapt quickly to market-changing demand or supply situations.

The recommendations that were presented in the current chapter were made in response to the results of the study. They could assist the Oshakati Town Council to acknowledge the role that is played by SMEs, to note the challenges that hamper SME economic performance in LED and to identify the appropriate area of intervention for prospering the SMEs' contribution to the local economy. The recommendation is proposed to all LED stakeholders, including especially the Town Council of Oshakati, the MTI, financial institutions and the NCCI. The institutions concerned should develop better ways of creating a conducive environment for SMEs to operate in and of addressing the challenges that hamper the sector.

The research findings contained in the current study will be made available to the stakeholders who participated in the study, for the possible implementation of

recommendations and for noting regarding amendments and revision of their existing policies.

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ANNEXURE A – SMEs

Survey questionnaire for SMEs Sector in Oshakati Town

SECTION A: PROFILE

Name of Business	
Name of respondent	
Position in the Business (owner or employee)	
Gender	
Contact telephone	

1. In which year was your business established or for how you have been in this business?

2. What type of business is it? Please tick (✓)

SMEs Sector	Tick
Manufacturing	
Trade	
Services	
Construction	
Retailing	
Others (specify)	

3. What your highest education level – secondary school (please tick)

Education level	Tick
Below grade 10	
Grade 10	
Grade 11	
Grade 12	

4. Which an institution is your business registered with? Please tick (you can even more than one institution if its applicable to you)

Registering Authority	Tick
Ministry of Trade and Industry	
Namibia Chamber of Commerce & Industry	
Oshakati Town Council	
Social Security Commission	
Other (please specify)_____	

5. Please indicate the nature of your business

Type of Business	Sector	Tick	Type of Business	Sector	Tick
Bakeries	m		Milling	m	
Beer / Liquor Breweries	m		Plumbers	s	
Bar	t		Printing shop	s	
Brickmakers	m		Restaurants / catering	s	
Builders	c		Seed / Fertiliser	t	
Carpenters	m		Sewing groups	m	
Clothes sellers	t		Sign makers	m	
Crafts	m		Tailors	m	
Driving schools	s		Takeaway	s/t	
Electricians	s		Transport / taxi / buses	s	
Fabric makers	m		Thatcher	s	
Food sellers	t		Welders	m	
Garages	s		Woodcarvers	m	
General Dealer	t		Woodcutters	m	
Gyms	s				
Hairdressers	s		Seasonal	t	
Hawkers			Others (specify)		
Lodge / guest house B&B / Hotels	s				
Open air butcheries	t				
Petrol stations	t				
Mat makers	m				

M – Manufacturing; T- trade; s – services; c – construction

SECTION B: ROLE IN LED

1. What do you think are the role of SMEs sector in local economic development especially in Oshakati Town?

2. How many people do you employ?

Number of employee	Male	Female

Are they all full time, if no who often they work? Part time / casual

3. Do you pay the municipal services? Please tick

Municipal service	Tick
Water	
Sewerage	
Refuse removal	
Rates & taxes	
Fire fees	
Business fitness certificate	
Other (specify)	

4. Apart from the mentioned above cases what else do you think SMEs are involved in regarding LED implementation?

SECTION C: SMEs CHALLENGES AND SUPPORT SYSTEM

1. What are the major problems facing SMEs sector especially in Oshakati Town? (Mention 3 – 5)

Out of the problem you mention above, which are the most challenging problems?

2. As you mention problems, what type of support do you think need urgent attention in order to improve your business?

SECTION D: RELATIONSHIP WITH OTHER INSTITUTIONS

1. Rate your working relationship with following institutions. Please tick.

Rate	MTI	Town Council	Financial institutions e.g. FNB, Bank Windhoek, Fides Namibia & DBN	NCCI
Good				
Fair				
Poor				

Which of the above institution you have an excellent working relationship?

3. Are you aware of any SMEs special services (incentive) offered by the Town Council? If yes mention any two?

4. Have you ever heard of the following Policies or regulations? If yes do you know the content of it and its all about what?

Policy / Regulation	Yes	No
Namibia: policy & Programme on Small Business of 1997		
LED White Paper 1998		
Namibia Vision 2030		
National Development Plan III		

If know the content mention

5. What do you think should be done for the growth of SMEs sector in Oshakati Town in general?

6. Any other comments?

- *This questionnaire is design to get information to assist the researcher to analyse the role of SMEs sector in the Namibia Local Authority using Oshakati Town Council a case study.*
- *Please fill in all the questions and answer them to your level of ability as the accuracy of information is very crucial for recommendation purpose.*

Thank you for your participation!

ANNEXURE B – OSHAKATI TOWN COUNCIL

Survey questionnaire for Oshakati Town Council selected official

SECTION A: CREDENTIALS

Name of respondent	
Position	
Gender	
Contact telephone	

SECTION B:

1. In your opinion, do you think a SMEs sector is important for LED implementation in Oshakati Town Council? If yeas, why?

2. Why local authorities (specific Oshakati Town Council) need to develop SMEs sector?

3. What do you think is the role of SMEs sector in LED?

4. Is there any platform within Town Council structure where SMEs involved in? If yes, what platform?

5. Do you think SMEs need Oshakati Town Council assistance? (If yes, mention at least 3 – 5 assistance do they need?)

6. In your own opinion, what is LED all about?

7. Looking into your town, what does LED look like in practice? SMEs / Industrial

8. Does Oshakati Town Council have LED Strategy Plan separate from the Town Council main Strategy Plan?

9. If yes, to question 8, does it address the issue of SMEs' role in LED? And in what area?

10. If no, to the above two (8 & 9) do you think the development and promotion of SMEs a good strategy for LED implementation?

11. To what extent do your institution empower the local SMEs in order to contribute meaningfully to the development and economic growth of Oshakati town?

12. How many SMEs registered with Oshakati Town Council?

13. Any other comments?

- *This questionnaire is designed to get information to assist the researcher to analyse the role of SMEs sector in the Namibia Local Authority using Oshakati Town Council a case study.*
- *Please fill in all the questions and answer them to your level of ability as the accuracy of information is very crucial for recommendation purpose.*

Thank you for your participation!

ANNEXURE C - STAKEHOLDERS

Survey questionnaire for Financial Institution having SMEs Support Division (FNB, Bank Windhoek, DBN and Fides Namibia)

SECTION A: PROFILE

Name of the Bank	
Name of respondent	
Position	
Gender	
Contact telephone	

SECTION B: SMEs Sector Support Services

1. What criteria your Bank use to classify who is SME and who is not?

2. Does your Bank offer support services to SMEs in Oshakati Town? If yes, What type of support services?

3. How many SMEs has benefited from your bank in terms of financial or mentorship? Please tick (√)

Number of SMEs benefited	2008	2009	2010
0 – 5			
5 – 10			
10 – 15			
15 – 20			
Above 20			

4. Does your Bank have a Policy or guidelines in place regarding the SMEs development? If yes mention

5. If your Bank provides assistance to SMEs, is it a Bank mandate or social responsibility?

SECTION B: WORKING RELATIONSHIP

6. Is there any platform where the Bank communicates with SMEs? If yes, please mention this platform

7. How do you rate your (Bank) relationship with of SMEs? Please tick.

Good	Fair	Poor

8. Is there any working relationship between your Bank and the Oshakati Town Council regarding the SMEs development and promotion? If yes in what area?

9. What type of support do you think SMEs need to improve their business and contribute effectively to Oshakati Town local economic development?

10. As a Financial Institution, do you think Namibian SMEs are up to standard to compete regional (i.e. SADC) and International?

SECTION C: CHALLENGES

11. What are the challenges that do you think hamper the SMEs sector development and effectively contribution to Local economic development in Namibia specifically in Oshakati Town?

12. If you answer question 11, what should be done, (solution to these constraints)?

13. Could you rate the SMEs skills and knowledge in Business management (marketing, financial management and etc). Please tick.

	Good	Fair	Poor
Marketing skills			
Financial management skills			
Prepare Business Plan			

SECTION D: SMEs sector and Local Economic Development (LED)

14. Looking into Oshakati Town, does the SMEs has a role in Local Economic Development (LED) of the Town? If yes what roles?

15. Do you think SMEs understand their role in LED?

16. Any other comments?

- *This questionnaire is design to get information to assist the researcher to analyse the role of SMEs sector in the Namibia Local Authority using Oshakati Town Council a case study.*
- *Please fill in all the questions and answer them to your level of ability as the accuracy of information is very crucial for recommendation purpose.*

Thank you for your participation!

Survey questionnaire for Namibia Chamber Commerce and Industry – Northern Branch Regional Office

SECTION A: CREDENTIALS:

Name of respondent	
Position	
Gender	
Contact telephone	

SECTION B:

1. What is the role NCCI IN SMEs development and promotion?

2. The large number of SMEs sector is made up by informal SMEs, are they also qualified to be a member of NCCI? If yes how do integrate them in your programme?

3. What the role of SMEs in Local Economic Development, Ministry's opinion?

SECTION C: CHALLENGES FACING SMEs SECTOR

4. As a Chamber responsible for SMEs development and promotion, what are the challenges that hamper the SMEs sector's contribution to LED?

5. Could rate the SMEs skills and knowledge in Business management (marketing, financial management and etc). Please tick.

Business Management concept	Good	Fair	poor
Marketing skills			
Financial management skills			
Prepare Business Plan			

SECTION D: SMEs SECTOR RELATIONSHIP WITH STAKEHOLDERS

6. How do you rate your (NCCI) relationship with of SMEs especially your members if there is any? Please tick.

Good	Fair	Poor

7. Is there any working relationship between NCCI especially Oshana branch and the Oshakati Town Council regarding the SMEs development and promotion? If yes in what area?

8. Looking into Oshakati Town, what does LED look like in practice? SMEs / Industrial?

9. In your own words, what is Local Economic Development (LED)?

10. Do you think SMEs has a role in LED at local authority level? If yes what role?

SECTION E: SUPPORT SYSTEM

11. What are the supporting programme in place to assist SMEs development and promotion?

12. As a Chamber responsible for SME promotion do you think Namibian SMEs are up to standard to compete regional (i.e. SADC) and International in term of skills and products?

13. To what extent do your institution empower the local SMEs in order to contribute meaningfully to the development and economic growth of the country as well as for local government?

14. Do you think SMEs also need support from the local / regional government or Oshakati Town Council and other institution? If yes what type of assistance they need?

- *This questionnaire is designed to get information to assist the researcher to analyse the role of SMEs sector in the Namibian Local Authority using Oshakati Town Council as a case study.*
- *Please fill in all the questions and answer them to your level of ability as the accuracy of information is very crucial for recommendation purposes.*

Thank you for your time in answering the questions.

Survey questionnaire for Ministry of Trade and Industry – Oshana Regional Office

SECTION A: PROFILE

Name of respondent	
Position	
Gender	
Contact telephone	

SECTION B: ROLE OF SME AND MTI

1. What is the role of Ministry of Trade and Industry in SMEs development and promotion?

2. What type of assistance do the Ministry offers to SMEs?

3. What are the roles of SMEs in Local Economic Development, Ministry's opinion?

SECTION C: CHALLENGES FACING SMEs SECTOR

4. As a Ministry represents and responsible for SMEs development and promotion, what do you think are the major challenges that hamper the SMEs sector's contribution to LED?

5. If you answer question 1, what should be done to resolve this challenges?

6. Rate the SMEs skills and knowledge in Business management (marketing, financial management and etc). Please tick.

Business Management concept	Good	Fair	poor
Marketing skills			

Financial management skills			
Prepare Business Plan			

SECTION D: SMEs SECTOR RELATIONSHIP WITH STAKEHOLDERS

7. How do you rate your (MTI) relationship with of SMEs especially your members if there is any? Please tick.

Good	Fair	Poor

8. Is there any working relationship between MTI especially Oshana Regional Office and the Oshakati Town Council regarding the SMEs development and promotion? If yes in what area?

9. Looking into Oshakati Town, what does LED look like in practice? SMEs / Industrial?

SECTION E: SUPPORT SYSTEM

10. What are the Ministry's supporting system / policies in place to assist SMEs development and its role in local and national economy?

11. As a Ministry responsible for SME development do you think Namibian SMEs are up to standard to compete regional (i.e. SADC) and International in term of skills and products?

12. To what extent do the Ministry empowering the local SMEs in order to contribute meaningful to the development and economic growth of the country as well as for local government?

13. Do you think SMEs also need support from the local / regional government or Oshakati Town Council and other institution in order to improve their business so that they can contribute to the country's economy effectively? If yes what type of assistance they need?

14. Any other comments?

- *This questionnaire is design to get information to assist the researcher to analyse the role of SMEs sector in the Namibia Local Authority using Oshakati Town Council a case study.*
- *Please fill in all the questions and answer them to your level of ability as the accuracy of information is very crucial for recommendation purpose.*

Thank you for your participation!