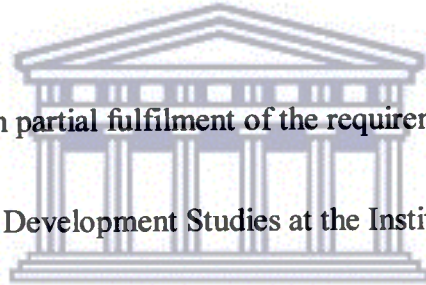


**Business as Usual –
Small and Micro Enterprise Support
versus
Traditional Business Practices
in Western Namibia**

Submitted in partial fulfilment of the requirements for the degree of
Masters of Arts in Development Studies at the Institute for Social Development,



University of the Western Cape

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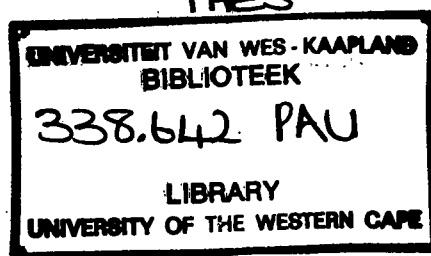
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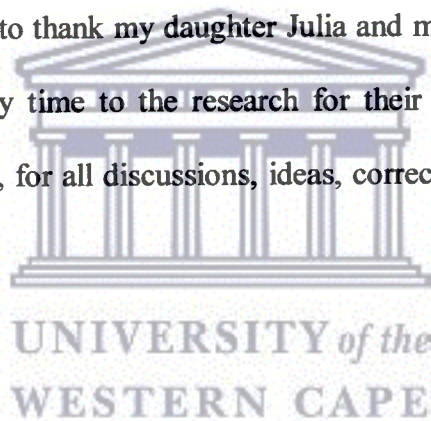


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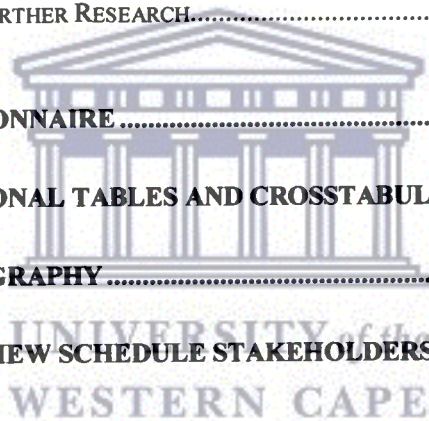
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Abbreviations

AIDS	Acquired Immune Deficiency Syndrom
a.m.	above mentioned
ANC	African National Congress
BoN	Bank of Namibia
CBHI	Community Based Health Insurance
CBO	Community Based Organisation
CBS	Central Bureau of Statistics
CBT	Community Based Tourism
CDIE	Center for Development Information and Evaluation
CEFE	Competency-Based Economies, Formation of Enterprise
CISP	Continuous Information Sharing Project
Co.	Company
CoD	Congress of Democrats
CPI	Consumer Price Index
CSO	Central Statistics Office
CSS	Central Office of Statistics South Africa
DBSA	Development Bank of Southern Africa
DED	Deutscher Entwicklungsdienst
Dipl	Diploma
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
e.g.	For Example
ELCRN	Evangelical Lutheran Church in the Republic of Namibia
ELKSWA	Evangelies Lutherse Kerk in Suidwes Afrika
ENOK	Eerste Nasionale Ontwikkelings Kooperasie
Env.	Environment

EPZ	Export Processing Zone
et al.	And Others
EU	European Union
FES	Friedrich Ebert Stiftung
FNB	First National Bank
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNP	Gross National Product
GOPA	Gesellschaft für Organisation, Planung und Ausbildung mbH
Gr.	Grade
GST	General Sales Tax
GTZ	Gesellschaft für Technische Zusammenarbeit
HIV	Human Immunodeficiency Virus
i.e.	id est (this means)
IBM	International Business Machines
IDC	International Development Consultancy
IGCSE	International General Certificate of Secondary Education
ILO	International Labour Organisation
IMLT	Institute for Management and Leadership Training
incl.	Including
Inst.	Institutions
JCC	Joint Consultative Commission
KAYEC	Katutura Youth Enterprise Centre
m	Million
MAWRD	Ministry of Agriculture, Water and Rural Development
MBEC	Ministry of Basic Education and Culture
MEC	Ministry of Education and Culture

MET	Ministry of Environment and Tourism
MLHRD	Ministry of Labour and Human Resource Development
MLRR	Ministry of Lands, Resettlement and Rehabilitation
MME	Ministry of Mines and Energy
MRC	Multi-Disciplinary Research Centre
MRLGH	Ministry of Regional and Local Government and Housing
MTI	Ministry of Trade and Industry
MWTC	Ministry of Works, Transport and Communication
N\$	Namibian Dollar
NACOBTA	Namibian Community Based Tourism Association
NDC	Namibia Development Corporation
NDF	National Defence Force
NDP1	First National Development Plan
NEPRU	Namibian Economic Policy Research Unit
NGO	Non-Governmental Organisation
NHE	National Housing Enterprise
NHIES	Namibia Household Income and Expenditure Survey
NNCCI	Namibia National Chamber of Commerce and Industry
NNRCCI	Northern Namibian Regional Chamber of Commerce and Industry
No.	Number
NPC	National Planning Commission
OHA	Okutumbatumba Hawkers Association
Otj.	Otjozondjupa Region
PC	Personal Computer
PLAN	People's Liberation Army of Namibia
PSF	Private Sector Foundation
PTO	Permission To Occupy

Q	Question
R	Rand
Res.	Research
RFI	Retail Financial Intermediaries
RSA	Republic of South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SIDA	Swedish International Development Cooperation Agency
SME	Small and Micro Enterprises
SMME	Small, Medium and Micro Enterprises
SPSS	Statistical Package for the Social Science
SSMECA	Strengthening Small and Micro Enterprises and their Co-operatives and Associations Project
SWAPO	South West African People's Organisation
The Four O's	Ohangwena, Omusati, Oshana, Oshikoto Regions in Northern Namibia
UNAM	University of Namibia
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNITA	National Union for the Total Independence of Angola
Univ	University Degree
US	United States
USA	United States of America
VTC	Vocational Training Centre
WVTC	Windhoek Vocational Training Centre

Abstract

This research describes the current situation of small and micro enterprises (SME) in Western Namibia, its problems and constraints, but also its potential for growth and its capacity for absorption of the unemployed particularly in the informal sector. The thesis addresses a set of problems, especially regarding research in the region, impact of apartheid rule on SMEs as well as lack of business acumen on micro level and the new government SME support strategy which is ignoring traditional differences in business practices on macro level.

The research hypothesis argues that SME support in Namibia is not sufficient, but can significantly be improved in taking regional and traditional differences into consideration. Concentrating on the sub-sectors of tourism, trade and construction in both the rural and urban parts of the Erongo region, the thesis evaluates the perception of the Namibian government's policy on SME development, but also the programmes of other stakeholders like banks, municipalities and training institutions as well as local and international NGOs and development agencies.

After putting the Namibian SME sector with both its formal and informal components into the global, regional and national perspective, the research describes the personal characteristics and business performance of the hundred interviewed entrepreneurs as well as their regional and educational background. In order to verify the hypothesis, the traditional business practices, particularly the agricultural background of the entrepreneurs, are investigated. Within the limitations of this research, the hypothesis is supported in the way that the results of the research indeed suggest that an interdependence exists between performance in business and in livestock farming: Good farmers appear to be at the same time successful businessmen and –women.

When it comes to support strategies the thesis advocates a more demand orientated intervention developing existing potentials rather than a socially motivated concentration on deficits of the sector. The government policy is commended regarding aspects like finance, training or provision of sites and premises, but cautioned group purchasing schemes or the potential to absorb unemployed people. Regarding the development problem the specific role of the *apartheid* regime discouraging small businesses has been highlighted. While the ethnic background partly plays a negative role in the degree of entrepreneurship, family history in business in general has a positive impact on business performance. Banks have been found highly accessible particularly regarding savings while training institutions, which include traditional references in their curricula, were significantly more successful than others with a lesser applied methodology.

In general the thesis concludes with recommendations to the different stakeholders. While the Namibian government should change to a more demand orientated support strategy including incentives for and procurement of SMEs the private sector is asked for improved linkages to the informal sector. Based on the good experiences in the savings portfolio, banks should broaden their scope and make credit available to SMEs. NGOs and churches have a role to play in particular for survivalist enterprises, but should refrain from subsidised loans. Eventually its up to the small and micro entrepreneurs themselves to improve their situation and to network and associate in order to gain more bargaining power against big competitors from South Africa. Nevertheless it will be essential that SMEs refrain from the passive attitude of expecting too much from the government, but to take their fate into their own hands based on the traditional experiences in agriculture and family business history.

Business as usual

Small and Micro Enterprise Support versus Traditional Business Practices in Western Namibia

Chapter 1 Introduction to the Problem and Methodology

Ten years of Namibian independence can be characterised by significant socio-economic changes, political stability and reasonable economic growth compared to other African countries. But the benefits of these positive developments are not equally shared amongst the Namibian population. While a small black¹ elite has emerged, the government's policy of reconciliation has left the mostly white farmers and business people untouched. Hence the gap between rich and poor has even widened since the end of the *apartheid* era with a Gini coefficient of 0.7 (Hansohm et al. 1998: 1), one of the highest in the world.

Some recent developments must be regarded as the main challenges for the Namibian people:

- Namibia's population growth rate of 3.19% (1981-1991) will put additional pressure on the education system and labour market (UNDP 1997: 82).

¹ The author regards terms like 'black', 'coloured' or 'white' in the Namibian and South African environment as racist terms which in principle should be avoided. The same applies to the different Namibian language groups. It is, however, necessary for this study to divide along ethnic lines in order to explain economic developments and appropriate target group oriented support strategies based on traditional business practices.

- Drought, overgrazing and low meat prices are affecting especially the communal farmers in the former homelands.
- Rapid urban growth (primarily in Windhoek and Walvis Bay) of between 4.5 – 6.5% is expected for the period 1992-2000 which will put a high burden on town planning and provision of infrastructure (NEPRU 1997: 32).
- Every year more than 20,000 Namibians will enter the labour force where even the very optimistic scenario of NDP1 (NPC 1995: 87) expects only 10,000 new formal sector jobs to be created annually.
- In the global context “the two great motors of job creation in the 1960s – big business and the public sector - have shut down or even have gone into reverse in the 1990s” (Sunter 1998: 1).

In this scenario the informal sector is often seen as one of the most important factors for a problem solution in improving resource utilisation, stimulating job creation and reducing regional as well as ethnic imbalances. “Many of the economic sectors which currently gain in significance ... are dominated by small enterprises” (Thomas 1998: 1). Thus in recent years Namibia has also become subject to the boom of SMME² promotion in the whole of Southern Africa.

1.1 Stating the Problem

The informal sector is widely regarded as a means to absorb part of the growth of the labour force and thus reduce unemployment and underemployment. Currently the

² Although the Ministry of Trade and Industry (MTI) uses the term SMME for “Small, Medium and Micro Enterprises” in its recent policy paper, it concentrates on small and micro enterprises only, which include both formal and informal businesses (MTI 1997). Thus for the purpose of this study the author will use the term SME for small and micro enterprises only. The term SMME will only be used in the South African or Southern African context.

Namibian government tries to stimulate the informal sector through its “Policy and Programme on Small Business Development” (MTI 1997) or the launching of a credit guarantee fund together with the commercial banks in June 1999. The main areas of assistance are finance, marketing, technology transfer, training, a group purchase scheme and the provision of adequate market sites and premises. Parastatals like Namibia Development Corporation (NDC) and NGOs also try to support new business activities or assist operating entrepreneurs in extending their businesses.

Based on the author’s own experience of supporting small and micro enterprises and on previous secondary research this study will analyse the following problem areas:

1.1.1 Research Problem

In the first place this study wants to address a research problem. Recent surveys concentrated mainly on urban (Windhoek, Walvis Bay) or the densely populated areas in the north of Namibia. The database in these reports is often very limited and either only gives a general picture or concentrates on specific case studies. Furthermore the definitions and the use of the terms “informal sector”, “SMME” or “SME” are diffuse and inconsistent. The study concentrates on a currently only partly examined region (Erongo including the former Damara homeland) and compares the situation of rural, semi-urban and urban SMEs. In a next step the interrelationship between formal and informal sector on macro and micro level in the different regional settings will be examined. In Chapter 3.5 the process of defining the informal sector will be concluded in introducing a model that differentiates between survivalist and growth orientated small and micro businesses. Main

indicators of distinction are the motivation to start and operate the business, turnover and net income as well as the goal setting and problem solving abilities³.

1.1.2 Policy Problem

Secondly also on the macro-economic level this proposal will deal with a policy problem. Since poverty and unemployment are the main problems of the rural areas it is questionable whether the new government policy will really benefit the people in these formerly neglected regions. This research wants to assess the proposed policy changes (e.g. provision of finance, training, market sites, group purchasing schemes) and their impact on the envisaged beneficiaries⁴. Because the government's policy paper does not consider regional differences, the findings of this study are compared with previous secondary research in other Namibian regions in order to recommend best practices for SME support.

1.1.3 Development Problem

Thirdly the study addresses a development problem. The government and its parastatals on one hand, NGOs and the private sector on the other act as agents of change in improving the informal sector. Arguing with Slovo (1976 in Wolpe 1998: 31) the *apartheid* rule in Namibia was a major constraint to the growth of black businesses: "In the case of the black middle strata, however, class mobility cannot proceed beyond a certain point; and, again, this point is defined in race rather than in economic terms." Even after a decade of independence, race and tradition and not economic performance are dominant factors in the Namibian society, especially in the rural areas. The author's own experience shows that the impact of SME support

³ See Chapter 3.5.3.

⁴ See Chapter 5

is often only minimal in comparison to the costs involved. By means of a formative evaluation the study will assess how outside intervention is perceived by the beneficiaries in their different ethnic backgrounds and which effects on their business performance can be established, in order to give recommendations on more effective and sustainable ways to uplift the sector.

1.1.4 Management Problem

Finally on the micro level this proposal will investigate a management problem. During the times of *apartheid* the South African government has discouraged small businesses of the black and coloured population so that these strata hardly could obtain management experience. On the other hand the author's personal involvement in the support of small and micro enterprises has shown that traditional values and expectations of relatives have a major impact on the business performance. One observation was, for example, that businessmen⁵ with a weak business performance were nevertheless well informed about the market in their traditional small livestock farming. Thus not only historical factors, but also the influence of tradition (incl. agriculture) and the extended family on business practices of small and micro entrepreneurs will be analysed.

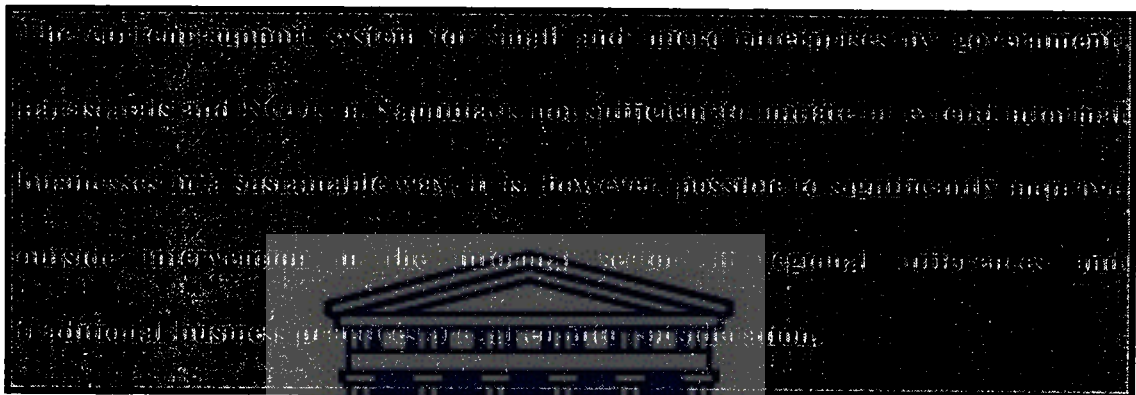
1.2 Purpose, Significance and Limitations of the Study

The main purpose of this research is to find out by means of a formative evaluation what kind of intervention by NGOs, parastatals or government departments can successfully initiate or support operations of small and micro enterprises in Namibia. Through applied research the author wants to assess the traditional values and

⁵ The author will mainly make use of gender balanced expressions like 'entrepreneur' or 'employee'. For editorial reasons, however, it is necessary to use other words like 'businessmen' or 'he'. The female expression should thus be included in the male wording.

business practices (e.g. from the agricultural sector) assuming that they have shaped the entrepreneurs in their business approach. Main functions of entrepreneurship like goal setting, innovativeness, pro-activity or risk-taking have also been investigated. Furthermore the study intends to determine the effectiveness of the new policy and programme on small business development of the Namibian MTI.

The research hypothesis can be formulated as follows:



In concentrating on the Erongo region with a different geographical and ethnic background compared to, for example, the northern Namibia, this study aims to complement the baseline surveys of the Ministry (MTI 1998 and 1999), thus making a contribution to a clearer picture of the macro-economic significance SMEs in an area, that has not been subject to extensive research yet. Being restricted by the framework of a mini-thesis the author has to limit his study to one region of Namibia only.

The scope of a mini-thesis allows for one hundred questionnaires to be answered by small and micro entrepreneurs and twelve interviews with SME supporting agencies. In order to get a deeper understanding of the small business environment this research concentrates on a few sectors with a certain potential for growth that are of significance in both rural and urban areas, i.e. tourism, construction and trade.

1.3 Outline and Structure of the Research

After the introduction to the problem and methodology, Chapter 2 provides the broader picture of Namibia's development since independence in 1990. Social, political and economic indicators have been analysed and compared to other Southern African nations. Another focus will be to investigate the economic significance of the Erongo region compared to other constituencies of the country. This chapter will furthermore investigate how the macroeconomic framework affects small and micro enterprises in the formal and informal sector in assessing several methods to quantify the contribution of the informal sector to GDP and labour market.

Chapter 3 introduces the basic concept of the 'informal sector' and the history in theory and practice since the International Labour Office conducted its study on 'employment, incomes and equality' in Kenya (ILO 1972). It will be followed by different approaches to define the informal sector and an overview of the current debate on the role and significance of the informal sector in Namibia and Southern Africa. After the introduction of a model on the interdependencies between the formal and informal sector in a rural and urban environment the chapter will conclude in determining indicators for the stratification of the sectors.

Chapter 4 provides an overview on the composition of the sample and will give specific insights into the different sub-sectors of tourism, construction and trade. Personal characteristics of the entrepreneurs like age and gender as well as income patterns and asset structure are receiving special attention in relation to their regional setting and educational background.

The author's personal experience in the support of the informal sector has shown that the start of small businesses is very difficult. The sector is not only hampered by the lack of finance or training, but also by financial obligations to the family and the missing business acumen. Chapter 5 investigates traditional business practices from the field of small livestock husbandry, which is dominant amongst the Damara, and the history of entrepreneurship in the families of the interviewees. Other topics are the role of the traditional leaders and the attitude of family members towards business, either as employees or as receiver of transfer payments. The results of the study in western Namibia have been compared to research of Kennedy (1980), Marris and Somerset (1971) and Kuratko and Hodgetts (1992). The chapter concludes in comparing the results of this study with Fuller's (1993) observations made in the Damara communities of Sesfontein and Otjimbingwe which have experienced different levels of oppression during *apartheid* times.

Based on Schumpeter (1934) and McClelland (1961), but also on recent publications of Drucker (1995) and Timmons (1990), Chapter 6 gives a short overview on the development of the theory of entrepreneurship. Several functions like goal setting, strategic planning and risk taking are subject to analysis. Recent research of psychological success factors in African micro enterprises by the University of Giessen (Frese and Friedrich 1998) is also taken into account in order to investigate the lack of pro-activity and innovativeness experienced in the practice of SME support in Namibia.

Often the support of the informal sector is more motivated from a social rather than from an economic point of view. Thus the emphasis of SME promotion is more on deficits than on potentials of the sector. Chapter 7 focuses on specific needs of small

and micro enterprises and best practices of outside intervention, drawing on (i. a.) World Bank research (Dessing 1990).

Main topics are:

- Finance (access, subsidisation, terms and conditions)
- Training (level of education, access to training facilities, management vs. technical training)
- Legal Environment (deregulation vs. protection of clients/employees)
- Provision of Infrastructure (Water, electricity, waste removal, transport, sites and premises)
- Market Related Services (Linkages, sub-contracting, marketing, wholesale)

The following chapter gives a critical review of the programme and policy paper on small business development of the MTI. It will compare how outside interventions were perceived by the small entrepreneurs to the views for best practices of the institutions that are supporting informal sector activities. Concerning training activities additional indicators have been introduced assessing the impact on the number of staff, increase in assets and development of annual sales.

The thesis concludes in Chapter 9 with a summary of the findings and specific recommendations.

1.4 Methodology

In order to meet the objectives of this study an appropriate methodology had to be applied for the gathering and analysis of data. The whole process consisted of a

preparatory phase with literature review and sampling, data collection and analysis of both quantitative and qualitative data.

1.4.1 Preparation

The first step to identify the scope of research and the terms of reference for the research proposal was an extensive literature review. Until the early 1990s there was only little empirical evidence available on the informal sector SMEs in Namibia. During recent years several studies have been conducted, most notably by Norval and Namoya (1992), ILO (1994 and 1995), the Commonwealth Secretariat (1994) and Nesangano (1997) as well as several publications by Hansohm and the Namibian Economic Policy Research Unit (NEPRU). Furthermore the MTI (1998 and 1999) has commissioned baseline surveys for most of the Namibian regions to different consultants. Main objectives of these studies are to “ascertain the number and types of small and micro businesses; (to) identify the characteristics of small and micro within the regions and (to) establish a database for measuring the impact of the SME policy and programmes” (MTI 1999: 1-2).

The author co-operated well with the MTI and its consultants during the research through mutual information and data sharing. The data collected for this study have also been used for the “Erongo Regional Development Plan” commissioned to the local consultant “Urban Dynamics” by the National Planning Commission (NPC), the Erongo Regional Council and the United Nations Development Program (UNDP).

Having identified interviews as the most important research tool, a questionnaire was compiled integrating several questions of the MTI survey in order to make findings of the study easily comparable to those of the Ministry. Complementing the mainly

quantitative approach of the MTI, qualitative questions were added including the aspects of tradition, family relations, entrepreneurship, saving patterns and the perception of support agencies. Other important inputs for the design of the questionnaire were the pilot study on “Psychological Success Factors in African Micro-Enterprises in Zimbabwe” (Frese and Friedrich 1998) and a checklist on the “Willingness to Take Risks” (Hisrich and Peters 1995).

Having designed a relatively long questionnaire (time for one interview between 40 and 60 minutes) it was important to organise questions in the right sequence. In order to minimise discomfort and confusion, especially in the opening phase, the interview starts with an easy personal part (Q1-Q8). Sensitive and open-ended questions are mainly included in the second (Q9-Q28) and third quarter (Q29-Q49) of the questionnaire. The final part (Q50-Q59) consists mostly of multi-choice questions comparatively easy to answer even for an interviewee becoming tired. The questionnaire was sequenced in a way that questions were grouped according to different topics while using a funnel sequence, i.e. general questions are followed by more specific ones (Neuman 1997: 245-246). Before the actual field work started the questionnaire has been evaluated by several researchers and pilot-tested in the identified area resulting in several changes especially in the specification of questions.

1.4.2 Sampling

Currently no sufficient data base on small and micro enterprises in the Erongo region is existing. The fact that only three of the one hundred entrepreneurs had been interviewed before shows the open field for further research in the area. Taking the experiences of previous studies in Walvis Bay and other Namibian regions into

consideration one could expect the majority of small businesses to be operating in the trade and service sector. In contrast to most of the other Namibian regions, a large number of small-scale miners is to be found near the closed zinc mine of Uis and on farm land near Karibib. A high growth and employment creating potential is currently expected in the manufacturing and tourism sub-sectors.

The study does not aim to represent the total range of activities in the informal sector of the Erongo region and hence concentrates on specific sectors with potential for growth like construction (30 interviews), trade (40 interviews) and tourism (30 interviews). Trade also includes horticulture as an atypical, but very important agricultural activity for regular food supply that requires extensive marketing. Research in the sub-sector tourism does not merely look at service provision, but also at primary activities (e.g. gem mining) and at crafts businesses like wood carving and tailoring. In cases of overlapping between the three different focus areas the enterprises have been allocated to the sub-sector with the highest turnover.

In the geographic division of the sample the traditional relationship between small entrepreneurs and agriculture has been taken into consideration. In order to achieve this aim, the study has allowed for over-representation of rural areas (fifty interviews) compared to the fifty interviews conducted in towns concentrating on the former townships where the vast majority of small and micro enterprises is situated.

In addition to the small entrepreneurs twenty stakeholders have been interviewed, representing a broad range of approaches to SME support. They have been asked about their involvement in the informal sector and about best practices as well as negative experiences in intervention in the sector. The sample of a total of twenty interviews includes the MTI (Policy and legal environment), the USA embassy

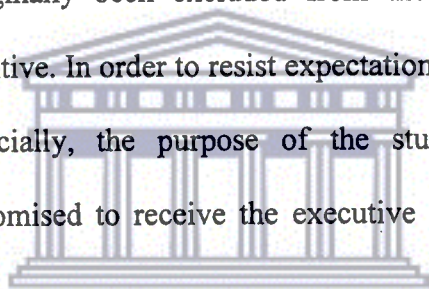
(start-up grants), the German Development Service (DED - SME support and vocational training), the parastatal NDC (credit and policy), NEPRU (research), the Namibian Community Based Tourism Association (NACOBTA), the Institute for Management and Leadership Training (IMLT - training for micro entrepreneurs), the Multi Disciplinary Research Centre (MRC) at the University of Namibia as well as traditional community leaders, municipalities, commercial banks and churches. Although it might be argued that key informant interviews are not representative or are susceptible to interviewer bias in the sampling of informants (Mikkelsen 1995: 105), the responses show that this tool can be used to obtain focussed and in-depth information on important aspects of SME support and traditional backgrounds of small and micro entrepreneurs.

1.4.3 Data Collection

Since a lot of the businessmen are illiterate and in order to get better response rates the questionnaires were not mailed, but data were gathered in personal interviews by the author himself. Partly the entrepreneurs were visited on their premises either in the trading areas of the towns and rural centres, on tourist markets or in buildings provided by NDC or municipalities. On the other hand the snowball sampling technique has been used to get easily in touch with other businesses belonging to the target groups. With local stakeholders like regional councillors, pastors and development activists as convenors, also group interviews with up to five business people at the same time were conducted. The big advantage of this tool besides the time saving aspect for the interviewer is that the interviewees get a common understanding of the questions and can even stimulate better answers and dynamic discussions regarding the qualitative questions. Negative aspects of monopolising by informal leaders, repetition of proceeding answers, exaggeration of business success

or the hiding of intimate and sensitive data were minimised by means of constant probing for alternate views or clearer answers (CDIE 1996: 3).

It was very helpful for the data collection that the author is well known to the communities in the Erongo region as Director of the Development Office of the Evangelical Lutheran Church in the Republic of Namibia (ELCRN) which is by far the biggest church in the region. Working within the infrastructure of the church the interviewer received a lot of trust from the entrepreneurs even though some of them were not church members. The confidence of the interviewees became evident in the fact that reliable answers could be obtained on questions about, for example, net income that had originally been excluded from the questionnaire because they seemed to be too sensitive. In order to resist expectations that ELCRN would support the businesses financially, the purpose of the study was explained and the interviewees were promised to receive the executive summary and a list of SME support agencies.



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Proper understanding was ensured in conducting most of the interviews in Afrikaans. In the event where the interviewee was neither able to understand English nor Afrikaans (mostly in the cases of Oshiwambo speaking entrepreneurs) other businessmen in the neighbourhood that had been interviewed previously and had shown good understanding of the questions were asked to translate. Always the same explanations were used in order to ensure consistency. By means of semi-structured interviews with open-ended questions additional information has been drawn from those businesses that had been identified for case studies. The main focus of these additional interviews has been to assess the influence of family structures and traditional business practices on the performance of the entrepreneurs and to investigate the links between formal and informal sector.

1.4.4 Evaluation of quantitative Data

The quantitative data collected during the interviews and obtained from the Central Statistics Office as well as from previous studies have been analysed using Microsoft Excel and the Statistical Package for the Social Science (SPSS). The author has affiliated as researcher with the MRC of the University of Namibia (UNAM). Using the SPSS package for the first time the author has entered and evaluated the data in co-operation with staff of the MRC.

1.4.5 Qualitative Research

Complementing the quantitative research the available secondary literature has been analysed which mainly consists of internet publications, periodicals as well as recent policy and research papers. Information from unpublished research was also assessed and included into the study. Throughout this study additional literature from other countries of the Southern Hemisphere including Latin America has been used. Chapter 5 has focused on historical documents which investigated the tradition of the Damara, Coloureds/Basters and Owambo and their development during the last two centuries. For Chapter 8 annual reports, guidelines, concepts, curricula, application forms and loan requirements of institutions supporting the informal sector have been compared and discussed.

In addition to the interviews the author made use of his personal experience and observations in co-operating with SMEs, especially in the communal areas of the Erongo region. Views of key informants like traditional leaders, regional councillors, town councillors, local pastors, teachers and other stakeholders were also included. In order to illustrate and exemplify the quantitative research, the study focuses on some representative businesses by means of a case study.

1.4.6 Publication

NEPRU has offered to publish the study after its completion which will afterwards be distributed to all NGOs, parastatals and government departments that were analysed during the research. The conclusions and recommendations together with a list of SME supporting organisations will be made available to all interviewed entrepreneurs.



Chapter 2 Namibian Economic Development since 1990

In order to analyse the SME sector in Namibia properly it is necessary to sketch the macro-economic framework. The main sources of information are country reports of the UNDP, publications of the Central Statistics Office (CSO) and regular reports and overviews of NEPRU. It is not the aim of this chapter to give a comprehensive picture of the Namibian economy, but to provide an overview of history and macroeconomic developments with significance for the environment of small and micro enterprises especially regarding growth. In a second step other important goals of macroeconomic policy like price stability, equitable income, poverty alleviation and full employment will be analysed in their relevance for the SME sector and applied to the regional context, in particular to the Erongo region. Chapter 2 will conclude by discussing the different methods of measuring the size of the informal sector, thus establishing the macroeconomic contribution of the sector and introducing the informal sector concept.

2.1 History of Namibia

The country was colonised by Germany from 1885 to 1915 when most of the arable land was divided between white farmers. A lot of members of the local ethnic groups were either used as farm workers or restricted to specific areas. This system was perfected by the South African administration with its *apartheid* system which had taken over the government after the German defeat during World War I until 1990. In the beginning of the 1960s, the resistance against the *apartheid* regime emerged after violent removal of black people to townships. The South West African People's Organisation (SWAPO) spearheaded the resistance culminating in the bush war in

northern Namibia and Angola in the 1970s and 1980s. Lots of people died, were tortured or went into exile. The UN put pressure on the South African government to release Namibia to independence and to allow free elections especially with the resolution 435 (Lexikon Dritte Welt 1993: 497).

As a result of the end of the cold war and in connection with the peace agreement for Angola that was guided by interests of the intermediary states of USA, Germany, France, Canada and Great Britain (Jabri 1990: 3), Namibia eventually became independent. The first elections in November 1989 were won by SWAPO with 57% of the votes and on 21 March 1990 SWAPO leader Sam Nujoma became the first president of the country (Lexikon Dritte Welt 1993: 498). The main element of SWAPO's policy was the reconciliation process that left property to the white landowners and business people and stabilised the economy. This policy also "ensured that no dismissals from the civil service on grounds of political or ethnical affiliation (have) occurred" (Du Pisani 1994: 202). By absorbing a lot of black bureaucrats from the former homelands as well as returning SWAPO members from exile, the civil service began to swell tremendously. In spite of criticism from economic experts the number of civil servants was, for example, increased by more than ten percent in 1999 with 9,000 former PLAN fighters being employed in police and national defence force.

Except for several demonstrations by ex-combatants, a violent attack by separatists in the Caprivi region in August 1999 with subsequent gross human rights violations by members of police and defence force as well as several attacks by marauding UNITA fighters in the Kavango and Caprivi regions in early 2000, the situation in the country stayed calm and peaceful. The elections to the National Assembly and National Council in 1992, 1994, 1998 and 1999 were declared free and fair. Even

after SWAPO won a two-thirds majority during the national elections in 1994 which was even improved in 1999 the political situation remained stable. A change of the constitution enabling the re-election of President Nujoma for a third term as well as Namibia's involvement in the Democratic Republic of Congo (DRC) have been highly debated in 1999 and led eventually to the emergence of a new strong political party, the Congress of Democrats (CoD), that became the strongest opposition party in the 1999 elections for the National Assembly.

A recent event with special political significance for the Erongo region was the integration of Walvis Bay on 1 March 1994 which had, even after independence, still been under South African control. The harbour town is now developing to a major competitor to the South African harbours of Durban and Cape Town, in particular since the port is connected to the countries of the Southern African interior after the completion of Trans Caprivi Highway and Trans Kalahari Highway.

2.2 Namibia within the Global Economy

Namibian economic development must be viewed in a global context; in particular taking the South African market into consideration that still accounts for most of the imports and exports from and to Namibia.

2.2.1 The International Perspective

The global economy is still very much dominated by the northern countries with USA, Japan and Western Europe on the forefront. The East Asian crisis in 1997/98 has spread even to Russia and Latin America and has affected in particular the emerging markets. In the wake of the crisis world output has declined sharply from 1997 to 1998, while growth of the volume of world trade has been reduced to a third from 9.9% in 1997 to 3.3% in 1998. In 1998 net capital inflows to developing

countries were also significantly lower than before. Especially African countries were hit hard by the global recession resulting mainly in lower prices of and demand for commodities. The future prospects for Africa look according to the World Bank better with longer term forecasts (1998 to 2007) arriving at an average real GDP growth of 3.8% (World Bank in NEPRU 1999: 1).

In the wake of the crisis South Africa and hence Namibia have benefited because capital flowing out of the Asian countries was initially redirected to other emerging countries. But eventually even the South African economy has been affected by the decline of commodity prices. Growth is only expected to pick up during the second half of 1999 with modest growth rates of -1 to 2% expected for the following years. Capital inflows will remain restricted in emerging markets while rigidities in the labour market and a low savings rate are further structural constraints for the South African economic development (NEPRU 1999: 1-2).

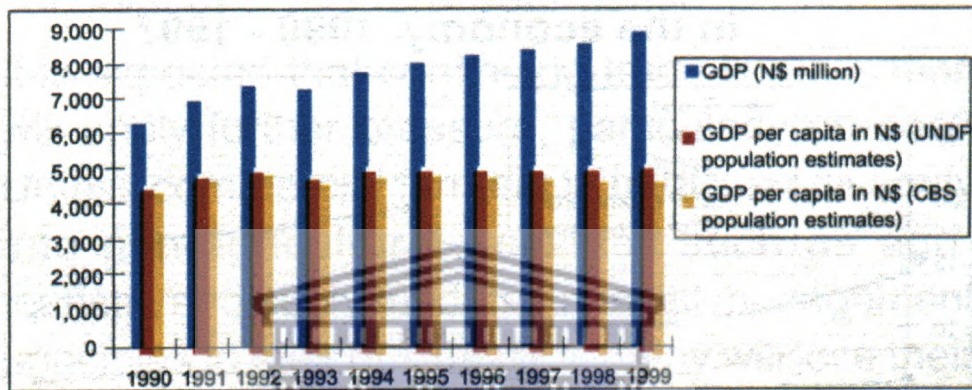
2.2.2 The Namibian Economy

In the beginning of the eighties Namibia's economy had fallen into recession for five years which brought the GDP down by 6.8% and recovered only slightly in the second half of the decade (Sellström 1992: 3). In the time 1990-1995 the growth rates were averaging to 4.8% (only disturbed by the 1992/93 drought), but population growth restrained these per capita rates to an average of 1.6% in the same period. Figure 1 shows that economic growth⁶ in 1997 has slowed down to 1.4% for 1997

⁶ Economic growth is defined as "the steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national income" (Todaro 1992: 489) and is usually expressed in a percentage of the GDP, the "total value of all final goods and services produced within the boundaries of a country in a particular period - usually one year". It can be measured by the production method (value added), the expenditure method (final goods and services) or the income method (Mohr et al. 1995: 91).

while the rate for 1998 is estimated at 2% by far falling short of the expected average real growth rate of 5% for 1996 – 2000 in the First Namibian Development Plan NDP1 (NPC 1995: 76). High population growth leads virtually to stagnant per capita incomes. UNDP's population estimate takes rising HIV/AIDS figures into consideration leading eventually to higher GDP per capita.

Figure 1 GDP and GDP per capita, 1990 - 1999



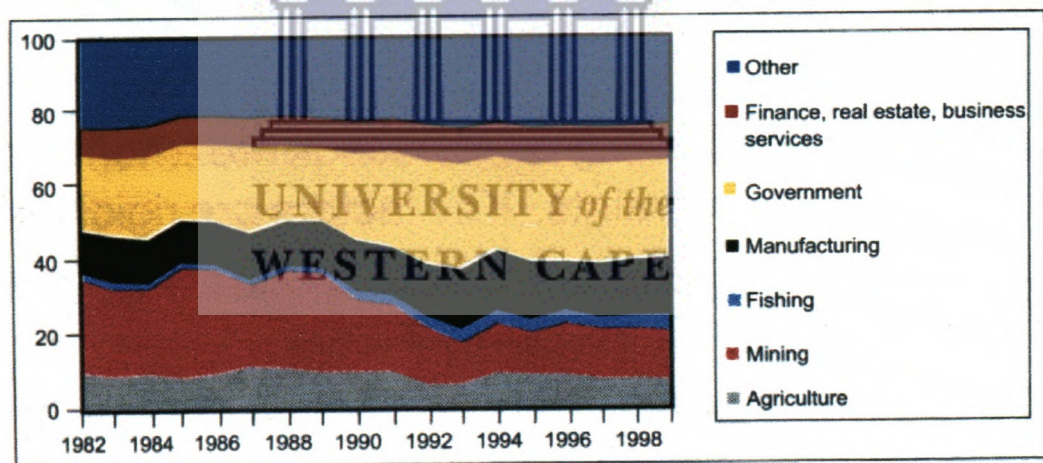
Source: Central Statistics Office 1996 and UNDP 1998a; for 1998 and 1999: NEPRU estimate; in NEPRU 1999: 2

The general problem in applying the GDP as sole indicator of economic development is that several aspects of an economy remain hidden. Since it is an average figure there is no information about greater deviations from the norm. Furthermore activities with an economic value like domestic labour, subsistence production, non-monetary exchange and informal activity are not included although they are especially in the Namibian context very important (Webster 1990: 27-29). Negative costs like air pollution or the cleaning of the ocean after an oil leakage are reflected positively while the exploitation of limited natural resources in comparison to inappropriate growth rates cannot be easily recognised and should be reflected in a separate balance. Hence it is important to have a look at all sectors of the economy and analyse their impact on growth.

2.3 Sector Division of the Namibian Economy

The Namibian economy is undergoing constant, albeit slow, structural change in recent decades. The secondary (including manufacturing and construction) and tertiary sectors (including services, trade and tourism industry) are slowly but constantly growing at the expense of primary activities, in particular agriculture and mining. The trend is only contradicted by the fishery sub-sector with a big potential for growth. Fish processing is also the driving force in manufacturing that is still performing disappointingly in spite of the introduction of export processing zones (EPZ) at the coast, in Windhoek and at the Angolan border. An ongoing matter of concern is the large size of the government sector.

Figure 2 Change of GDP composition by sector, 1982 - 1997



Source: CBS 1998; for 1998 and 1999 NEPRU estimate; in NEPRU 1999: 3

2.3.1 Primary Sector

Figure 2 shows that mining is still the most important GDP contributor within the primary sector followed by agriculture and fishing. This study will merely concentrate on agriculture, particularly on subsistence level, with its significance on business performance for SMEs that will be further investigated in Chapter 5.

2.3.1.1 Agriculture

The sector is still characterised by the heritage of colonialism and *apartheid* in denying blacks the right to buy land. This leaves Namibia as a dualistic society with the white sub-sector of commercial farming and animal husbandry and the black sub-sector mainly subsistence orientated. Four thousand white farmers hold 36.2 million hectares with an average farm size of 8,620 hectares while 33.5 million hectares of communal land have to nourish 150,000 families who are mostly affected by the rapid population growth. Agriculture employs half of the Namibian workforce, but contributes only 6.5% (3.7% in commercial and 2.8% in subsistence agriculture in 1997) to the total Namibian GDP (UNDP 1998a: 117). NEPRU (1999: 3) estimates the total GDP contribution at 7.5% for 1997 but adds a multiplier effect of 1.8 increasing the contribution to roughly 14%. Agriculture counted for 18% of the Namibian exports in 1997.

Especially subsistence agriculture had to suffer heavily under the droughts of 1992, 1993 and 1995 with negative growth rates between 19.7% and 45.7% (UNDP 1996: 29-41). Although the climatic situation has improved slightly since 1995 the commercial farmers' financial situation has worsened mainly because of increased indebtedness and strong competition particularly in the beef industry which is the most important agricultural sub-sector. One possibility for counteraction could be consolidation into bigger units in order to benefit from the economies of scale (NEPRU 1999: 4-5). This solution would be contradictory to the government policy of redistributing commercial farmland in smaller units to communal farmers.

Commercial farming in the Erongo region is concentrated around the rural centres of Omaruru, Karibib and Usakos while communal farmland is situated in the semi-arid

former Damara homeland and another severely overgrazed enclave around Otjimbingwe. An estimated 20% of the economic active population is employed in the agricultural sector. The region's livestock population is estimated at 60,000 cattle, 45,000 sheep and 130,000 goats (IDC 1997: 77-78).

2.3.2 Secondary Sector

The secondary sector is composed of manufacturing (mining products, breweries, fish and meat processing) as well as construction and the energy sector. It contributes only 12.3% to the GDP compared to figures exceeding 20% in other Southern African countries like South Africa, Zambia and Zimbabwe (NEPRU 1998a: 19). The sector has recently been hit hard by the closure of a smelter in Tsumeb in 1997 and the impact of drought for the slaughtering of red meat. The opening of the ostrich abattoir in Keetmanshoop and other new EPZ plants as well as positive developments in fishery and ongoing rural electrification have, however, kept the sector's share in the Namibian economy stable. This study will concentrate on the developments in the construction sub-sector, which has been investigated in the Erongo region.

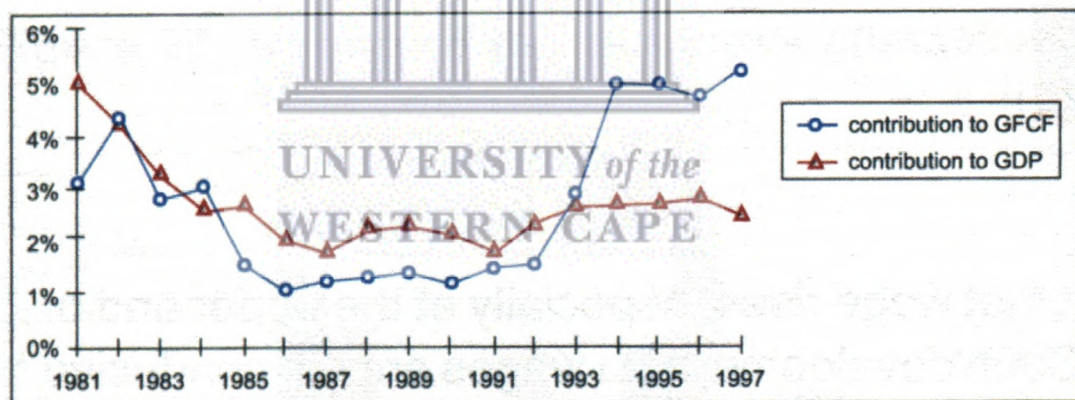
2.3.2.1 Construction

The construction firms experienced a boom in the period 1992-1995 because of big scale housing schemes and several new government buildings and new infrastructure projects (e.g. Trans Kalahari and Trans Caprivi Highways) resulting in massive increase of the sector's contribution to the Gross Fixed Capital Formation⁷ (GFCF).

⁷ Gross Fixed Capital Formation: The total value of a producer's acquisitions, less disposals, of fixed assets during the accounting period plus certain additions to the value of non-produced assets realised by the productive activity of institutional units (NPC 1998: 54)

Figure 3 also shows that as from 1995 the construction activities stagnated, preliminary figures even predict a GFCF decrease of 10% for 1998 leading to significant retrenchments. The sector's GDP contribution also started to decline from 3.4% in 1996 to 3% in 1997 (NPC 1998: 13). Prospects for the construction industry look, however, positive since the government allocated 22% more for capital projects in the financial year 1999/2000 and large scale building projects are expected to be started in the near future (e.g. extension of the university buildings or the Kudu energy plant in the South). Furthermore the formerly neglected homelands and townships are experiencing a boom of housing schemes partly constructed by local informal builders and thus benefiting also the SME sector.

Figure 3 Contribution of Construction Sector to the Namibian Economy, 1981 - 1997



Source: CBS 1998 in NEPRU 1999: 20

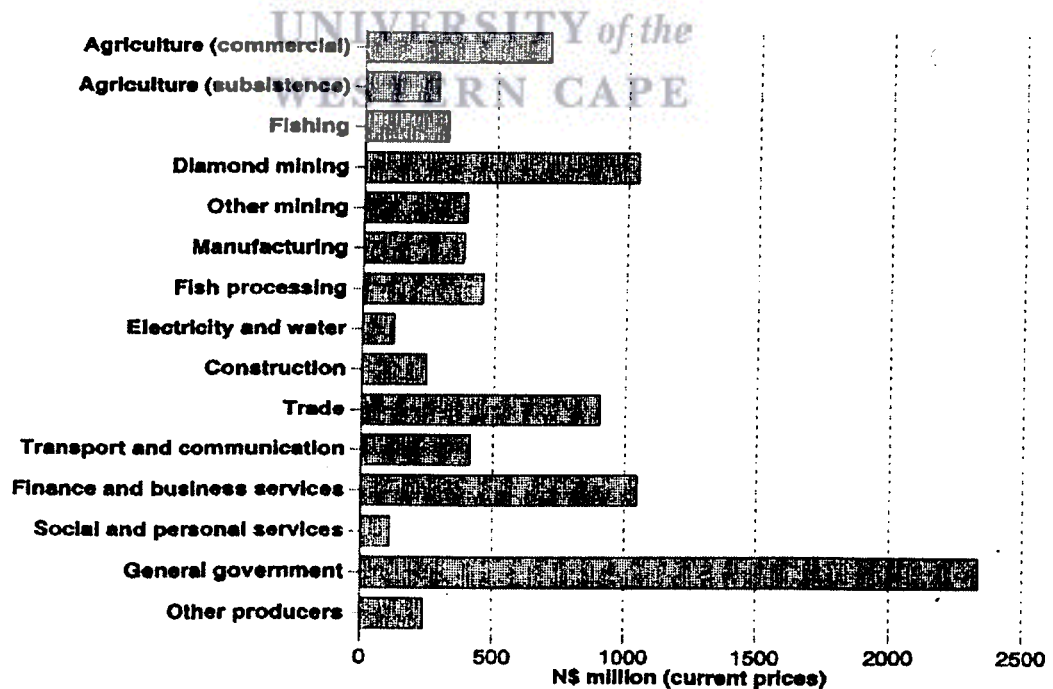
The Erongo region has also partaken in the development of the construction sector benefiting among others from the introduction of the controversial EPZ in Walvis Bay and the boom in tourism with several new accommodation blocks in Swakopmund, Walvis Bay and Henties Bay. Large-scale construction projects envisaged for the near future also include a desalination plant in Swakopmund as well as a mall and shopping centres in Swakopmund. Of particular significance for

the informal sector will be the building of market stalls for craft producers and sellers at the main road in Karibib and the new waste disposal site close to Walvis Bay with five recycling stalls for SMEs in Walvis Bay (AFRICON et al. 1998: 30). Furthermore there is still a backlog in appropriate housing in Namibia. In spite of good achievements in comparison to other African countries the progress of housing schemes implemented by the National Housing Enterprise (NHE) and the Build Together Programme falls far short of expectations. Should advantages of these schemes also be extended to the poor and very poor families especially in rural areas, it would mainly be micro construction firms to benefit (NEPRU 1998a: 24-26).

2.3.3 Tertiary Sector

Figure 4 shows that the tertiary sector holds by far the biggest share in terms of GDP contribution, mainly because of the size of the public sector.

Figure 4 Contribution to GDP by Industry, 1994



Source: NPC 1995: 22

Government services are followed by finance, trade, transport, communication and other services, among them the growing tourism sub-sector. The author will once more concentrate on the two sub-sectors under investigation, namely trade and tourism.

2.3.3.1 Trade and Retail

1995 was the first year since independence that showed a deficit in the nominal trade balance that is mainly due to imports from South Africa. The surplus from 1991 to 1994 was, in spite of increasing fish and animal products, mainly derived from exports of ores and minerals, particularly diamonds. "This indicates the vulnerability of the economy to external shocks (such as quotas and price fluctuations), and the government should seek to promote diversity" (NEPRU 1996: 4).

Trade and retail have always played a constant role in the Namibian economy although the current trends are interpreted differently by economic analysts. UNDP (1998a: 117) estimates the GDP contribution of the trade and retail sector for 1997 at 7%, a percentage that nearly remained constant during the 1990s. Contrary NEPRU (1999: 21) based on data of CBS states a sharp decline since independence from 6.7% to 5.9% in 1996 mainly because of demand constraints resulting from the downturn in the primary sector. The market was recovering only in 1997 because of cuts in interest rates. In their forecast the sector's turnover will further improve in 1998 and 1999 because lower interest rates also lead to more housing units being built and subsequently, in particular, furniture sales will pick up.

These expectations correspond with NEPRU's (1999: 21-22) business climate survey stating that the majority of trading and wholesale companies expect growth for the sector in 1999. Investments on the supply side are the building of new mainly South

African chain stores in the Namibian North and in Katutura. Another engine for growth of the sector is the increasing trade with Angola through the border posts of Oshikango (EPZ) and Ohangwena. Namibia has become the bridge for South African goods to the northern neighbour who is still suffering from the civil war. (NEPRU 1998a: 26-28)

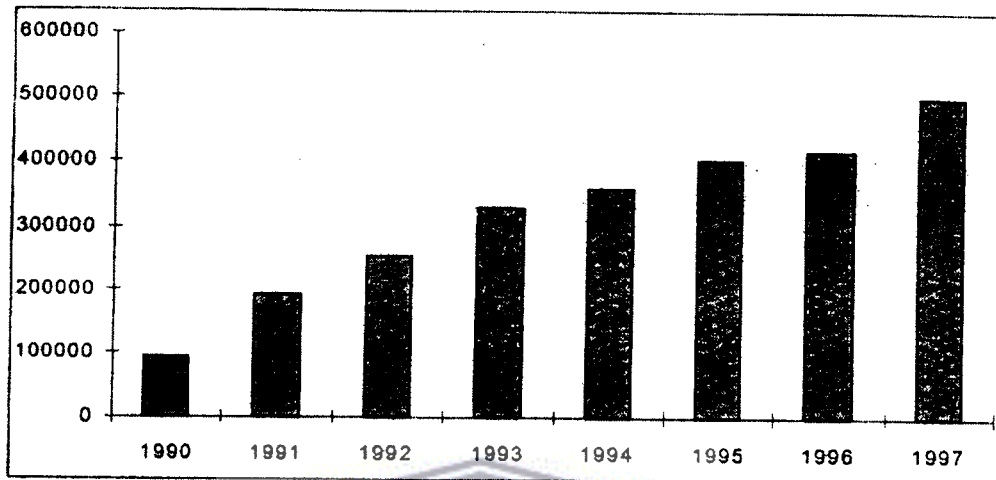
2.3.3.2 Tourism

The tourism industry has already proven its potential as a main engine for growth in Namibia. According to UNDP (1998a: 70) the sector has been growing about 10% per year during the 1990s and is now contributing about 4% to the GDP. After mining and manufactured products (mainly processed fish) tourism has become the third largest foreign exchange earner estimated at roughly N\$ 1bn.

Figure 5 also shows the constant increase of tourist arrivals since independence. One has, however, to clearly differentiate amongst the countries of origin of the tourists and their expenditure patterns; about 32% of the arrivals from Angola are wrongly registered as tourists and should more be classified as business people; another 38% are coming from South Africa who tend to come with own cars and stay at rest camps or with friends and family in Namibia, thus spending not much money in Namibia. Hence the tourism industry should concentrate more on the 20% overseas tourists with more than 50% from Germany. They are usually staying at hotels and lodges, making use of tourist guides or travelling in hired cars. More tourist arrivals in this category would further improve Namibian foreign revenue while harming the fragile Namibian environment to a lesser extent than the South African neighbours with extensive angling and 4x4 tracking (NEPRU 1999: 24). Another interesting

target group are domestic tourists belonging to the mostly German, English and Afrikaans speaking language groups.

Figure 5 Tourist Arrivals in Namibia, 1990 - 1997



Source: CBS 1995; Ministry of Environment and Tourism 1997; in UNDP 1998a: 70

The Namibian government supports the positive developments within the tourism industry. In an attempt to improve the lack of service orientation and the high cost factor in government owned facilities all public rest camps have been privatised. Another main project with impact on the Erongo region is the launching of the Desert Express, a luxury train that connects Windhoek to the main tourist town, Swakopmund, three times a week and which brings tourists even to the community-based projects in the rural areas around Spitzkoppe.

The community tourism project in Spitzkoppe, that has also been investigated during the field research of this study, is a good example for the emerging community based tourism (CBT). Even though most of the proceeds in tourism are still generated in the formal sector CBT projects begin to play a major role as source of income in rural areas. The Ministry of Environment and Tourism (Ashley 1995: 46) estimated the potential local income for 1995 in the former Damaraland around Spitzkoppe and

Brandberg at N\$ 1,990,313 (mainly in the areas of wildlife and wilderness viewing) of which currently only a third is realised. Concentrating on a non-consumptive tourism for the more adventurous eco-tourist, further promotion of CBT in the Erongo region would lead to an all-win-situation with increasing income for the commoners and better care for the environment.

2.4 Important Goals of Macroeconomic Policy

In addition to the overview on the Namibian economy with a special focus on growth in the sub-sectors under investigation, this chapter wants to highlight some distinctive and partly conflicting goals of economic policy. The analysis of their particular impact on the SME sector will follow and their contribution to reach these targets will be determined.

2.4.1 Price Stability

A policy to reach price stability tries to keep inflation⁸ as low as possible. Average annual inflation between 1984 and 1994 amounted to 10.6%, stable rates in comparison to neighbours like South Africa (14.3%) and Botswana (11.7%) and much better than most Sub-Saharan countries (World Bank 1996: 191). The situation has further improved in 1997 (8.85%) and 1998 (6.21%) with the lowest inflation rates of the decade (CBS 1998 in NEPRU 1999: 44). Upward pressure was put on the items of housing, fuel and power because of increased prices for basic services like electricity and water in the cities as well as higher taxation of petrol and diesel. The expected increase in inflation rate to more than 7 % will have a negative effect on

⁸ Inflation can be measured according to the Consumer Price Index (CPI) that represents a "shopping basket" of goods and services held by a typical Namibian household which makes it possible to distinguish between nominal and real values (Mohr et al. 1995: 109-113)

most of the SMEs under investigation, in particular with regard to the costs of transport, housing and building material.

An important component of inflation is the development of the exchange rate. Since the Namibian Dollar is still pegged to the South African Rand, the economic performance and political situation in the neighbouring country is of utmost importance for Namibia. Between the first quarters of 1998 and 1999 the Rand has depreciated by 25% to the US Dollar, mainly caused by the uncertainties for emerging markets after the South East Asian crisis. However, domestic South African problems like “worsening figures for money supply and credit growth, a trade deficit and a further drop in already low gold and foreign reserves” (NEPRU 1999: 30) played a major role in this development.

Since Namibia with its low share of self-manufactured products is depending on imports, depreciation affects both the trade and construction sector negatively with higher prices on imported goods and building materials. On the other hand losses in the exchange rate to hard currencies will benefit the tourism sector as long as it targets overseas tourists from Europe and USA who will be more attracted by cheaper accommodation prices.

2.4.2 Equitable Income Distribution

Inflation on basic goods and services will affect mostly the poorest income groups, in particular micro and survivalist businesses, and is likely to enhance the inequity of income distribution. “Namibia is the most unequal country in the world, outdoing South Africa and Brazil for this dubious honour” (Ul Haq in UNDP 1996: 7). Although Ul Haq’s position with regard to Namibia might be exaggerated since it does not reflect the situation in countries that have not been investigated by UNDP

improvements in income distribution need urgent attention. Among others there are two different possibilities to measure these inequalities:

Figure 6 Lorenz Curve

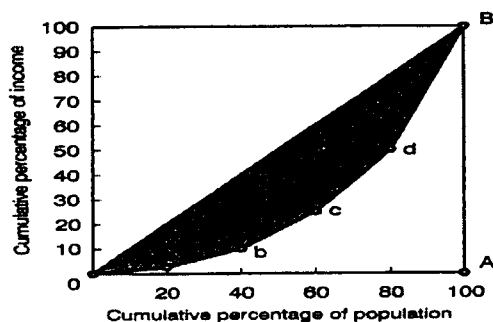
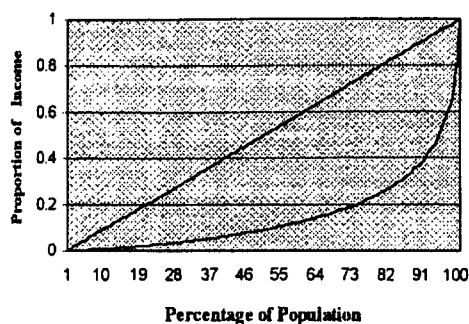


Figure 7 Namibian Lorenz Curve



Source: Mohr et al. 1995: 119

Source: UNDP 1996:7

■ The *Lorenz curve* which is based on cumulative percentage. The example of Figure 7 shows a hypothetical income distribution of the poorest 20%, the next 20% up to the richest 20%. The diagonal 0 to B shows a perfectly equal distribution while the shaded area is called the area of inequality. The Lorenz curve for Namibia (Figure 7) indicates that the richest 10% receive 65% of income while the remaining 90% share amongst themselves only 35% of the national income.

■ The *Gini coefficient* which divides the area of inequality shown by the Lorenz curve by the area of the right triangle formed by points 0, A and B. The Gini coefficient can vary between 0 and 1. Zero means a perfect distribution, the closer a country approaches one, the more unequal the income is distributed. In practice the Gini coefficient varies between 0.30 (e.g. Nepal, Sri Lanka - World Bank 1996: 196) and 0.70 which is the coefficient for Namibia. Most of the Namibian regions have a significantly lower Gini coefficient between 0.49 and 0.60. The poorest regions (the

four O's⁹ in the North together with Okavango and Caprivi) have relatively evenly distributed incomes, while the richer regions with the biggest concentration of commercial farms such as Erongo, Karas, Hardap and Omaheke show the greatest income inequalities. But since most of the regional Gini coefficients are lower than the national one, the main contributor to the bad result are the inter-regional rather than the inner-regional income disparities. (UNDP 1996: 7-13).

Again, the heritage of *apartheid* and colonialism, the unequal access to land as well as unemployment and drought are the main reasons for the existing inequality. Looking at the annual per capita income of the different language groups one can clearly distinguish between German (N\$ 27,878), English (N\$ 19,052) and Afrikaans (N\$ 12,258) speaking citizens and the other language groups with San, Rukavango, Oshiwambo and Caprivi (N\$ 1,107 - N\$ 1,422). These figures coincide with the differences between urban (N\$ 6,676) and rural (N\$ 1,550) income. A further distinction can be made between male (N\$ 21,462) and female (N\$ 10,238) headed households of which the latter are mostly busy in subsistence agriculture and have to face real poverty. Households in the Erongo region have a relatively high income (N\$ 21,055), also per capita income (N\$ 4,701) in the region is significantly higher than in the Northern regions (Hansohm and Presland 1997: 11-15). SME development has from Rogerson's (1998: 22) point of view besides strengthening the asset base the biggest potential for redressal of these *apartheid* inequalities, hence reducing the vulnerability to poverty.

⁹ Ohangwena, Omusati, Oshana, Oshikoto

2.4.3 Poverty Alleviation

Poverty, in particular income poverty, is often caused by recession of an economy. UNDP's Poverty Report 1998 (1998c: 42) reveals that in 16 country cases with negative growth poverty increased. By contrast, neither moderate nor high growth guarantees any poverty reduction. In 13 of 27 other cases of countries that recorded economic growth UNDP exposed that poverty was also on the increase. Results of this research show that growth does not automatically trickle down to the poorest, in particular in Namibia with a lot of structural poverty. Thus the situation requires action by the government. Even though there is no explicit national poverty plan in place, poverty reduction is one of the important goals of development planning (UNDP 1998c: 28). Furthermore targets and poverty definitions are in place.

There is no single measure of poverty used consistently by government or research institutions in Namibia. Therefore the definition used will affect measure and extent of poverty. Three definitions are currently used in Namibia:

- All households whose median annual private household consumption (N\$ 5,473 in 1996) is below the annual *median household income* which would define almost 50% of all households as poor.
- A *food index* measure taking together both consumption of food and kind in comparison to cash purchases. Under this definition those who consume more than 60% for food are regarded as 'poor', over 80% as 'very poor'. According to this measurement 50 % of the Namibian population are poor or very poor, but taking alcohol out of consumption data the figure drops to a mere 30%.
- Consumption data approach used by the Social Sciences Division UNAM is a consumption basket approach of a rural male based on the *Botswana poverty datum*

line that would give the highest poverty level of 67% for Namibia (Hansohm and Presland 1997: 6-7).

None of these definitions is used consistently, but it is still possible to draw out some characteristics that will identify those groups suffering most from poverty. In the first place ethnic, gender and geographic divisions become evident. Predominantly the North with the majority of subsistence farmers who spend a higher proportion of their total consumption on food must be regarded as very poor. Women are usually worse off than male-headed households are and disproportionately represented among the poor. Very often poor households have to rely on old age pensions that even after the reform in 1994 that eradicated ethnic differences in pension payments remain significantly lower than in South Africa.

Poverty eradication and reduction of inequalities have become the two major national development goals besides employment creation and economic growth (NPC 1995: 39). A policy of low indirect taxation for basic goods and increasing employment in the public sector are one means, better extension services to the subsistence agriculture in communal areas another. The Land Reform Act for the communal areas is in progress but is deemed to benefit more the wealthier communal farmers when it comes to private property rights. Water, electricity and sanitation services are being extended. The Social Security Act of 1995 with maternity, sickness and death benefits unfortunately excludes the poor within the informal sector. Education and health services build the backbone of poverty alleviation, but still lack sufficient qualified personnel. So for the time being food aid, drought relief and food for work programmes are the short-term solutions to improve the situation of the poor at least to a level of survival. Furthermore the government is very optimistic in the potential of SME promotion to reduce poverty.

Rogerson (1998: 22) cautions to regard prospects of the informal economy merely positive when he looks at the situation in South Africa. In his view most of the people working in survivalist enterprises who are mainly affected by poverty are unable to make the transition to growth orientated micro-enterprises. The author's (Pauck-Borchardt 1997: 3) study on SME support of ELCRN also shows the contradiction between business principles and the entrepreneurs' constant constraints by various poverty related factors (e.g. poor nutrition, family support, school fees, funerals) "which constantly reinforce their position at the bottom of the pile" (Horn in Rogerson 1998: 22).

Table 1 Mean Monthly Sales, Net Income and Assets of SMEs by Geographical Division, 1999

Monthly Sales	50	15,314	24	16,108	26	1,233
Monthly Net Income	50	3,744	24	4,254	26	576
Buildings/Structures	24	113,667	12	58,900	20	12,620
Machinery/Equipm.	42	36,491	24	16,383	21	2,766
Furniture	33	7,330	17	4,100	16	2,503
Vehicles	22	39,127	12	40,458	9	14,778
Total Assets	44	121,894	24	68,967	25	19,341

Unit in N\$

Source: Own research 1999

Table 1 gives evidence that especially in the rural areas where most of the survivalist enterprises are to be found the mean annual net income of N\$ 6,912 does hardly exceed the median household income and thus the poverty line significantly. On the other hand the table also shows that business has at least enabled the entrepreneurs to strengthen their asset base significantly (e.g. 80% of all interviewed rural

entrepreneurs own buildings or structures) which is another important means of poverty reduction (Rogerson 1998: 13).

2.4.4 Full Employment

Another expectation of the Ministry of Trade and Industry (1997: ii) regarding SMEs is their potential for job creation, an additional 35,000 employees over a period of three years. While the formal Namibian labour market is “still dominated by the ‘white employers’, the ‘black’ employees dominate the less skilled occupations. The ‘coloured’ employees have an intermediate position” (Melber 1997: 27) which still shows the heritage of the *apartheid* system. Thus unemployment¹⁰ amongst the black part of the population, particularly in the North, is one of the most challenging problems of Namibia. “The unemployed suffer mental and physical hardship and unemployment poses a serious threat to social and political stability” (Mohr et al. 1995: 128). Namibia’s rising crime rate gives evidence of this description. The following classification of unemployment can be made:

- frictional unemployment (the time to find a job),
- seasonal unemployment (workers are only required for a part of each year),
- cyclical unemployment (as a result of recession in the economy), and
- structural unemployment (mismatch between worker qualifications and job requirements or disappearing of jobs due to structural changes).

Seasonal unemployment plays a certain role in agriculture and fisheries and the recession of the whole Namibian economy in recent years has also contributed to

cyclical unemployment. But Namibia's main problem is structural unemployment which is mainly caused by technical change, less labour-intensive production methods, structural decline in the mining industry and the inherited discrimination in access to jobs for black people under the former *apartheid* regime. (Mohr et al. 1995: 610 – 613)

In 1991 there was a potential labour force¹¹ of 821,533 of which 58% were seen as economically active (UNDP 1996: 83). Like the former South African government during the 1980s, SWAPO today tends to underestimate the real percentage of unemployed peoples and talks only about an unemployment rate of 35% (Business Day 1996: 8). The Central Statistics Office (CSO 1996: 64-65) also takes underemployment (adults who would like to work more hours per week than they currently do) into consideration arriving at a rate of 60% or 263,000 out of 435,000 adults in Namibia that are either unemployed or underemployed. Mostly young people are affected, in particular women aged 15-29. Open unemployment is higher in urban areas while the often disguised problem of underemployment plays a more important role in rural areas where subsistence farming is often not seen as a full-time occupation (NEPRU 1997: 24-25). The Erongo region gives evidence of this scenario with a relatively high combined unemployment and underemployment rate of 67%, in particular deriving from open unemployment in Walvis Bay (CSO 1996:

¹⁰ UNDP (1996: 224) defines unemployed as comprising "all persons above a specified age who are not in paid employment or self-employed, but are available and have taken specific steps to seek paid employment or self-employment".

¹¹ The labour force can be defined as the economically active population including "all persons of either sex who supply labour for the production of economic goods and services as defined by the System of National Accounts, during a specified time-reference period" (UNDP 1996: 20).

71). In general all figures imply a degree of uncertainty regarding the method of research and the way people would regard themselves as employed or unemployed.

Keynes (in Hudson 1988: 10-12) argued in response to neo-classical models where unemployment is not a matter of concern for policy makers that there is “no short-term tendency for the economy to move to full employment”. In order to achieve equilibrium on the labour market, governments have either to increase their input into the economy, cut taxes and thus raise demand or cause interest rates to fall via controls of the money market, thus providing a boost to investment. In spite of the conflict to the other macroeconomic goal of price stability Van der Berg (1992: 10) in line with Keynes regards special employment programmes as a possible means of intervention to break the vicious circle of low growth leading to unemployment, poverty and social instability, which in return discourages investment and consequently growth. The SWAPO government implemented these programmes through massive employment of ex-combatants in police and National Defence Force (NDF), a draft employment policy and a white paper on Labour Based Works combined with a relaxation of exchange controls, a start-up assistance programme for SME as well as encouragement of industrial development and foreign investments (NEPRU 1998b: 3). So far these programmes only reached a minor impact and were in fact contravened by retrenchments in the mining and agricultural sector. Exchange rate influences, especially the devaluation of the Rand in 1996 and 1998 undermined the process the government activities further, because it is relatively cheaper to buy imports than to utilise labour intensive techniques of production.

All efforts of the government must be analysed critically. In attracting foreign investors (e.g. through EPZs) the labour law might have to be compromised.

Splitting and privatising parastatals and less “*dirigisme*” (Lal 1992: 27) could stimulate the market forces for employment creation, but bears the risk of retrenchments. More involvement of local people in labour intensive projects (e.g. in building infrastructure in the northern rural areas) has to compromise with lower quality and productivity. Increasing the size of the public sector improves the situation of the labour market in the short term, but puts a heavy burden on the annual budget and might even compromise efficiency. Eventually a reduction in the extent of poverty will lead to more equity in income distribution.

In this scenario, also based on the experiences of the labour markets in Western Europe, USA and other African countries, the SME sector seems to have the highest potential for job creation. Thomas (1998: 13) even sees relatively high unemployment levels as likely to offer job opportunities through new SMMEs even though it may be difficult for the individuals to find these opportunities without support. The current trend to outsourcing and sub-contracting shows examples for these new chances (and risks) of small and micro entrepreneurs in the relationship between formal and informal sector that will be highlighted in Chapter 3.4. However, it is necessary to define the contribution of the informal sector to GDP, national accounts and employment statistics and view the expectations of the MTI in the job creation potential of SMEs critically.

2.5 Contribution of the Informal Sector

The informal sector has often been neglected because of political, ideological and economic reasons or merely as a result of lack of relevant data. The unavailability and incompleteness of data makes misuse and “guesstimates” from either side possible. While those who regard a big informal sector as a “symptom of economic

dysfunction” (Fidler and Webster 1996: 6) would try to reduce its size as far as possible, free marketers especially in South Africa during the 1980s tended to overestimate the size and importance of the informal sector in order to support the deregulation of the whole market (Van der Berg 1990: 4).

2.5.1 Methods to Quantify Informal Sector Activities

As explained in Chapter 1.4.1 no comprehensive database on the Namibian informal sector is available. Thus it is a good approach of the Namibian MTI to get reliable data by means of baseline surveys, that have so far been completed in six of the thirteen regions.

2.5.1.1 Direct Measurement

Surveys like those of the MTI are a common and most reliable way of measuring the informal sector. Unfortunately during the recent baseline survey in Erongo and Otjozondjupa (MTI 1999) considerable parts of the rural areas have been ignored. According to NEPRU¹² the data have also not been compiled in a way that they could serve as a sufficient database for impact analysis of the new government policy on SMEs. Therefore it is important to include the Central Bureau of Statistics (CBS) right from the beginning. Questionnaires could hence be designed in a way that enables maintenance of data on a national level as the Central Office of Statistics (CSS) in South Africa does it since the beginning of the 1990s. According to Van der Berg (1990: 6) the survey results will be enhanced if they are verified by labour force residual estimates¹³ or if the method can even be extended to estimate value added and incomes or to measure tax evasion directly. As shown in Chapter 3.1 this study

¹² Interview with the NEPRU co-ordinator of a baseline study on Erongo and Otjozondjupa regions, Mr. A. Wiig, on 12 May 1999.

also includes questions regarding net income and can therefore be compared to the status of registration with the Receiver of Revenue in order to give an indication for tax evasion.

2.5.1.2 Monetary Methods

There are, however, different other methods to measure the size of the informal sector. The monetary approach with its methods of indirect measurement tries to “analyze the behaviour of monetary variables and infer that any anomalies present are the result of activities in the underground economy” (Desmidt 1988: 21). If the informal sector within an economy expands, the demand for a currency increases according to this approach. Based on initial studies of Feige in USA, Kantor has employed this method in measuring the cash circulation in order to estimate unrecorded activities. These were then equated with the informal sector (Van der Berg 1990: 7). Kantor has been criticised because his approach requires that the velocity of money has to be very accurately measured. But the velocity might easily be affected by exogenous factors like changes in inflation or interest rates or structural changes like the introduction of automatic tellers, estimates of unrecorded activities (Desmidt 1988:28). Kantor’s results for South Africa even in a moderate scenario (27% of the GDP for 1987) differ widely from other estimates in the range of 5-10% contribution of the informal sector to the GDP. The discrepancy results from his definition of unrecorded activities that he, opposed to others using monetary methods, equates with the informal sector.

¹³ See Chapter 2.5.1.3.

2.5.1.3 Labour Market Approach

A more accurate method of indirect measurement is to determine the labour force participation of the informal sector regarding the sector as the residual of formal employment compared to the total labour force. This approach has been frequently used in South Africa already during the 1980s estimating the share of the informal sector at a ratio between 6 and 31% of the labour force. The vast range of ratios is mainly due to different definitions of either informal sector or labour force and to the political perception of the sector from a free marketeers or a Marxist point of view which is going to be discussed in chapter 3.2. A median figure is that of Rogerson (1996: 6-7) who arrived at 16.3% after deduction of survival self-employment.

The MTI (1997: 5) of Namibia in its policy and programme on small business development quantifies the size of the informal sector at 150,000 participants (100,000 part-time and 50,000 full-time) including both entrepreneurs and employees, representing a relatively high figure of 30% of the economically active labour force (UNDP 1997: 82). Although it is positive that the Ministry recognises the significance of the sector, this optimistic view can only be regarded as a very rough estimate, especially since no evidence is given as to how the Ministry arrived at the number of 150,000. The figures are even contradicted by the NDP1 where the NPC (1995: 87) projects the combined informal sector and unemployment at 163,000 while informal sector employment was estimated at 45,000 for 1991 only, with a prospect for growth of a further 30,000 people until 2000 (NPC 1995: 133). These deviating figures once more give evidence of the necessity of including the informal sector into national statistics, which has unfortunately not even happened in the most recent Household Income and Expenditure Survey of CSO in 1996.

This study proves that the potential of for job creation should not be exaggerated, since all enterprises under investigation employ only 2.5 persons on average. Also the long-term prospects don't look too good, since only eight of the 34 enterprises that already employed workers in 1994 have actually increased their workforce while eleven even have less employees than in 1994.

2.5.1.4 National Accounts Procedure

Another method relying on the residuals approach is the national accounts procedure. The discrepancy between the national expenditure on goods and service and the estimated income has to be computed from both the income and expenditure side of the national accounts. The surplus of expenditure over income either at the level of aggregate national income or at individual household level is interpreted as an indicator of the informal sector economy. For example, tax fraud (GST) could be determined in comparing the amount the state should theoretically have received and deducting the actual income for a period of time. The discrepancy would give an estimation of tax evasion mainly allocated to the informal sector. This method, however, has its shortcomings. Sources of errors could be that factor incomes are under-reported, that recording takes place in different time periods or that income and expenditure in kind are not reflected. It can even occur that, as it happened in South Africa from 1984 to 1988, that the difference between income and expenditure is positive. It is obvious that one can not argue that during this period of time no informal sector existed in South Africa. (Desmidt 1988: 32).

2.5.1.5 Conclusion

Comparing all these methods to quantify the size of the informal sector with their advantages and shortcomings, it seems adequate to combine surveys on a national

level to be confirmed by the labour force residual method where data are already available. The surveys would provide the necessary depth in order to recognise the specific nature of informal business in the different regions. The Central Bureau of Statistics (CBS) should, however, be included in the ongoing process of measuring the sector currently commissioned by the MTI to a private consultant.



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Chapter 3 The Informal Sector Concept

Although the informal sector concept represents an important aspect of macroeconomics especially for southern countries¹⁴, this phenomenon was widely recognised only during the 1970s. Expanding on research of Keith Hart on “Urban Employment in Africa” (1971 in Desmidt 1988: 10), the ILO-study on Kenya (1972) provided a major break-through in recognising and defining the informal sector. Only during the late 1970s Southern Africa’s countries received the focus of informal sector studies with an ILO report on Swaziland (ILO 1977) and the official planning document on South Africa’s ninth economic development programme (South Africa, 1979).

“Across a broad ideological spectrum in Southern Africa the ‘informal sector’ is perceived as a panacea for ameliorating the exigencies of unemployment and poverty throughout the region” (Rogerson and Bevan 1980: 175). While the new ANC government had adopted a policy on small business development and promotion for South Africa already one year after the elections (DTI 1995), it took the Namibian MTI (1997) seven years to launch its ‘Policy and Programme on Small Business Development’ in 1997.

3.1 Defining the Informal Sector

The term ‘informal sector’ in the context of developing countries often describes only survivalist activities and entrepreneurship amongst the urban poor. It should thus be clearly distinguished from the ‘underground’, ‘grey’ or ‘shadow’ economies

of industrial countries. The term in itself is problematic since it divides the labour market in two areas with opposing characteristics.

3.1.1 The ILO study in Kenya 1972

ILO (1972 in Rogerson and Beavon 1980: 176) initially tried to separate informal from formal activities by seven attributes:

- ◆ ease of entry,
- ◆ reliance on indigenous resources,
- ◆ family ownership,
- ◆ small scale of operation,
- ◆ labour intensity and adapted technology,
- ◆ skills acquired from outside the formal schooling system and
- ◆ unregulated and competitive markets.



In spite of the achievement of making the sector's contribution visible, the original ILO concept has a number of shortcomings. Firstly, there is no specific method mentioned to define the sector and the interrelations of its characteristics empirically. It is, for instance, not clear why enterprises in family ownership must rely on local resources. Secondly, the diversity of activities is not reflected and gives the impression that a single policy prescription can apply to all these activities. Thirdly, the linkages and dynamics between the formal and informal sector are not shown. Often households are active in both areas; micro enterprises buy from or invest in the

¹⁴ The author uses the terms 'Southern Countries' or 'Developing Countries' synonymous to those countries in

formal sector, and informal businesses grow into the formal sector often over a long period which makes the allocation difficult. (Hansohm 1996b: 6)

3.1.2 Other Definitions

In the report “The dilemma of the informal sector” the ILO (1991: 3) modifies its original definition allowing for more nuances like hired workers or apprentices and recognising the highly unstable working situation of employees, the low level of capital, access to formal finance and education as well as the absence of social protection and labour legislation. Especially the latter makes micro businesses quite vulnerable. Even where businesses work within the framework of law, they often have a weak position in conflicts concerning contract enforcement or municipality regulations.

Santos (1979: 38) adds aspects like irregular working hours, the absence of wage payments, negotiable prices and missing publicity of the informal sector. Bromley and Gerry (1979 in Rogerson and Beavon 1980: 179) are focussing more on the ‘continuum of work situations’ distinguishing stable wage-work from the casual work situation (e.g. disguised wage-work performed on the streets or back home, dependent work based on a contractual relationship or true self-employment). The interesting aspect of Bromley/Gerry’s view is that they even count parts of the migrant labour system of South African mines as short-term wage work to the informal sector.

All these attempts of defining the sector reveal some facets of the whole picture of informal activities, but fail to capture the full range of dynamics in informal development that will be further discussed in Chapter 3.4. “In short, the informal

the Southern hemisphere known as ‘Third World Countries’ in order to avoid the discriminative wording.

sector model has its merit in drawing attention to a previously neglected phenomenon. But it is a descriptive model rather than an analytic one” (Hansohm 1996a: 6). Since the term is also used very often in studies on Namibian SMEs, it is helpful to agree upon a functional definition, that can shape the informal sector and distinguish it from formal activities, thus enabling the government and NGOs to take policy decisions.

In the absence of reliable data on the informal, the best source of information is the registration of businesses sector, even though often incomplete or not well maintained. In this situation the definition of Stoneman (1991 in Van der Linden 1993: 3) seems to be the most adequate description of informal sector industries being characterised as “unregistered, either because of their semi-legal (sometimes illegal) status in relation to a plethora of regulations (...) more appropriate to large formal firms in a more developed environment or because their turnover is below the level requiring registration for tax purposes.” Chapter 3.1.3 will prove the relevance of this definition based on the results of this study.

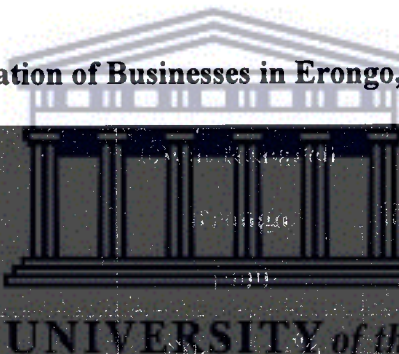
3.1.3 Registration

Comparing the findings of Table 2 to the net income of the interviewees the semi- or even illegal status of some businesses becomes evident, since the minimum annual net income for tax registration was N\$ 15,000 in January 1999¹⁵. Seventeen (or 23%) of the 74 enterprises not registered with the Receiver of Revenue exceed this amount, two even by more than N\$ 65,000. Since eleven of these seventeen companies are situated in an urban environment, it reveals the weakness of the Namibian income revenue administration.

¹⁵ Interview with A. Welzig of auditing firm Neuhaus & Co. Windhoek.

In spite of the this insufficiency in tax collection administrative procedures in the Erongo region are far better developed than in the 4 O's regions in northern Namibia where the whole registration pattern is dominated traditionally by either the Chief (5.3%) or the Headman (43.1%) (MTI 1998: 21). The comparison indicates that people are able to adapt to new requirements of a more formalised environment. Surprisingly this is true not only for those living in the coastal cities, but also for citizens of the rural centres and even the former Damara homeland. This argument is also supported by the recent baseline study of the MTI (1999: 25) on Erongo and Otjozondjupa regions, that found only three out of 333 businesses (1%) registered with either Chief or Headman.

Table 2 Registration of Businesses in Erongo, Otjozondjupa and 4 O's



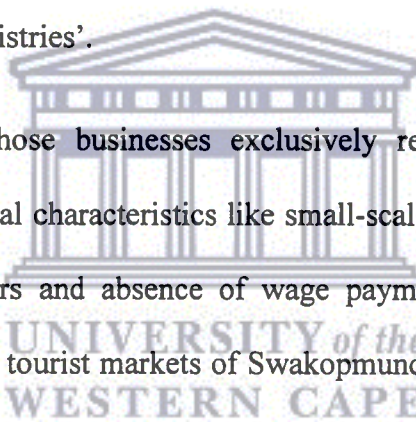
Headman / Chief	0	0	1	48.4
Town Council	47	34.8	54	10.6
Receiver of Revenue	26	19.3	4	0
Ministry of Env. and Tourism	9	6.7	0	0
Other Ministries	8	5.9	7	11
Others	11	8.2	4	3.5
Not registered	34	25.2	29	26.3
Total	135	100	100	100

Sources: MTI 1998: 25, MTI 1999: 25 and own research 1999

Own research in Table 2 shows that in the Erongo region registration is done mainly by the Receiver of Revenue for tax purposes and by the Town Councils of the cities

¹⁶ Otjozondjupa region

and rural centres either for health reasons (shops, bakeries, butcheries, bottle stores) or because the entrepreneurs are using stalls and open spaces provided by the municipalities. Businesses registered with the Receiver of Revenue are strongly related to the formal sector, since 20 of the total of 26 are also registered with the Town Council, thus representing most of the allowed second answers to this question. The inclusion of several urban formal shops and construction companies also explain the discrepancy in tax registration to the MTI study on Otjzondjupa and Erongo (only 4% compared to 19.3% in own research) which concentrated mainly on informal businesses. Registration with Ministry of Environment and Tourism had not specifically been asked for in both MTI studies and could hence be included in 'Others' or 'Other Ministries'.



On the other hand those businesses exclusively registered with municipalities indicate mainly informal characteristics like small-scale activities, negotiable prices, irregular working hours and absence of wage payments. Woodcarvers and craft sellers in the two open tourist markets of Swakopmund form the biggest part of this group. Hence for the sake of this study only those businesses officially registered with the Receiver of Revenue will be regarded as belonging to the formal sector.

3.2 The Role of the Informal Sector

There are several reasons for the existence of the informal sector. Often the private sector is unable to provide adequate income opportunities compared to the rapidly growing labour force. Services like transport, medical care or trade are not available especially in rural or squatter areas. For some illegal participants the informal sector is merely a hiding place for their activities or for tax evasion (Mohr et al. 1996: 411).

In the same way as definitions or estimates on the size of the informal sector differ¹⁷, its role and contribution are perceived differently. In South Africa a strong debate emerged during the late 1970s and early eighties rooted in the specific macro-economic situation with a stronger role of qualified black workers and the pressure of mainly white entrepreneurs for deregulation¹⁸.

3.2.1 The Marxist View

Marxists often regard the sector as a means of hiding the poverty of the marginalised of South African society with no positive economic contribution at all (Van der Berg 1990: 3). "Capital accumulation in Southern Africa historically has occurred in conditions of a large surplus population which, even in circumstances of economic boom, has never wholly been absorbed into production" (Legassick 1979 in Rogerson and Beavon 1980: 181). In a Marxist view the informal sector is merely a means to cover the prevailing structural unemployment seeing it as the functional margin to capitalist accumulation. It is perceived as "a way of helping the poor without any major threat to the rich ... and is in this way a potential compromise between pressures for redistribution ... and the desire for stability on the part of the economic and political elites" (Bromley 1990 in Van der Berg 1990: 3).

3.2.2 The Liberal Perspective

In line with the Marxist view some economists would argue that it is a survival sector for people who can find no formal employment, thus showing symptoms of stagnation or dysfunction of the economy (Mohr et al. 1995: 412). However, their conclusion is different because they would support the stimulation of the formal

¹⁷ See Table 3.

¹⁸ See Chapter 3.2.2.

sector in order to reach better resource allocation. Others like ILO would rather advocate direct informal sector support with a mix of distributional and economic reasoning. As discussed in Chapter 3.2.2 free marketeers in South Africa recognised the significance of the informal sector during the 1980s seeing a potential for upward mobility among able entrepreneurs (Tvedten and Hangula 1994: 3). They argued “that entrepreneurship amongst blacks is vastly underestimated and that such entrepreneurship would, if the state reduced its role in the economy, lead to even more rapid economic growth along free market lines” (Van der Berg 1990: 4). While the formal sector was stagnating, rapid growth in the informal sector could be detected which had not been included in the national accounts. But the main goal of the South African free marketeers had actually been to reach deregulation for the mainly white businesses disguised behind the promotion of the informal sector. After the process of deregulation had started during the late 1980s in South Africa, in their view, the need for proving the importance of the informal sector had diminished.

3.2.3 A Pragmatic View

Most economists have been sceptical towards both radical positions of Marxists and free marketeers and have adopted a more pragmatic perspective, since there are a lot of positive aspects in the role of the informal sector. With regard to growing sympathetic attitudes towards informal traders and producers more people dare to start their small shop or workshop on a small or part-time scale in a true business spirit. Small and micro entrepreneurs are often, though, regarded as income generating, more efficient in use of local resources, flexible, innovative and last but not least labour intensive (Hansohm 1996a: 13). The use of local resources and appropriate technology makes the sector less dependent on imported goods and machinery which eventually also helps improving the balance of payments.

Flexibility may mean a large undesirable variation of the income level of the individual entrepreneur and his family, “from the macro-economic perspective, however, these fluctuations translate into more rapid structural adjustment and more efficient adaptation to shifting economic circumstances” (Franks 1991: 102).

Even though the income level in the informal sector is in general lower and more fluctuating than in the formal sector, informal activities have a positive effect on poverty reduction and income distribution which is very important for Namibia with its high Gini co-efficient. Rogerson (1998: 24), however, cautions: “... even if SMMEs are a successful channel of wealth to African entrepreneurs, this will not necessarily translate into reduced income equality; instead, one unintended outcome may be the enrichment of a limited number of entrepreneurs at the expense of the majority.”

The South African government in contrast argues that “black people have been able to make far greater progress in the micro- and small-enterprise segments of the economy than in medium-sized and larger enterprises” (DTI 1995:11) and hence regard SME support as a means of affirmative action. Informal sector development should therefore be given the highest possible support regarding poverty, rapid population growth and the inability of the formal sector to create enough jobs for the growing labour force (Mohr et al. 1995: 412).

3.3 Composition of the Informal Sector

An important feature as to why the development of the informal sector is not viewed entirely positive is the fact that it also serves as a hiding place for illegal or socially unacceptable activities. Sometimes it is hard to distinguish legal from illegal businesses; tax evasion, the failure to register or non-compliance with regulations

can change apparent legal activities to a semi-legal or even illegal status. Table 3 does not aim to provide a comprehensive list of all possible activities, but should more serve as an indication of the scope of the different activities.

Table 3 Legal and Illegal Activities

Legal Activities	Illegal Activities
Producers and Manufacturers (tailors, shoemakers, bricklayers, home brewers, bakers, craft makers, artisans)	Producers (dagga producers, counterfeiters)
Distributors (hawkers, speza/cuca shops, shebeens, carriers, petty traders)	Distributors (pickpockets, burglars, robbers, gamblers, drug traffickers)
Services (taxi operators, money lenders, musicians, shoeshiners, backyard mechanics, launderers)	Services (hustlers, prostitutes, smugglers, credit sharks, protection racketeers)

Source: Mohr et al. 1995: 412

For Rogerson (1996: 6) the illegal sector accounts for 600,000 jobs in South Africa. Within the legal sector transport (mainly taxis) has the biggest share with an estimated R214.5m turnover in 1989 followed by speza shops (R107m) and shebeens with R65m (CSS 1992 in Ryan 1992: 34). There are no available Namibian statistics on the size of the illegal sector, but experience shows that dagga trade, prostitution and smuggling are widespread. While there are no absolute figures available on the actual number of informal sector businesses, it is evident that services form the biggest share estimated between 72% for Windhoek (Norval and Namoya 1992: 35) and 90% in Owamboland (MTI 1999: 5). The majority of these businesses are active in trading (mostly retail).

This study has focussed on the three sectors of trade, tourism and construction¹⁹, thus representing a wide range of informal sector activities with potential for growth. Subsistence agriculture in accordance with most studies on national and international level has been excluded with the exception of horticulture, in case where marketing and selling of vegetables form a substantial part of the business. Illegal activities were not analysed in this study, partly because they cannot easily be detected, on the other hand because it is unlikely to get reliable answers to sensitive questions like turnover, net income and assets.

3.4 Interdependencies between Formal and Informal Sector

As already mentioned in Chapter 3.1 it is necessary to recognise the dynamics between the two sectors in order to make reasonable decisions on the support of the small and micro businesses. The study will attempt to analyse the interdependencies in (1) sketching the theoretical background and (2) in developing a simple model which will be applied to the situation in the Erongo region.

3.4.1 Theoretical Background

Desmidt (1988: 13), in accordance with Tokman, distinguishes two ways of describing the benign relationship between formal and informal sector:

- ◆ “complementary i.e. interaction with one another to the extent that mutually advantageous trade exists, or;
- ◆ dualism i.e. independence from each other so that where no formal sector exists the demand of an expanding market are met by a flourishing informal sector.”

¹⁹ See Chapter 1.4.2.

Even Karl Marx, according to Desmidt (1988: 16), had already recognised the relationship between the two sectors, but without acknowledgement of mutual advantages. In his functional approach, Marx identifies the “petty commodity producers” comprised of small scale businesses, self-employed, casual labourers as well as unpaid or underpaid family workers, as a transitional class that is subordinate to and dependent on capitalism. Not only that the informal sector produces what is considered unprofitable for the capitalist, but the informal entrepreneurs and employees serve as huge reserve labour force and can therefore help to maintain a low level of wages and salaries in the formal sector.

Marx’s view is actually not very different from the findings of Fidler and Webster (1996 in Webster and Fidler 1996: 6-7) in their publication for the World Bank describing the informal sector as “a giant sponge, absorbing much of the shock of periodic economic contraction by soaking up excess labour and by providing ... training grounds for prospective formal business owners.” Referring to Wolpe’s (1972 in Graaff 1996: 93-94) cheap labour thesis this would give the informal sector a similar exploitative function to the South African subsistence agriculture in bantustans for the migrant labour system before the Second World War.

3.4.2 Costs of Formality and Informality

Entrepreneurs might have been pushed into the informal sector by the a.m. ‘periodic economic contractions’ or just left there merely fighting for their survival, but empirical research in Latin America shows that for some businesses there could also be a rationality of being and staying informal. Loayza (1996) argues that in an environment with excessive taxes and regulations and with a government that lacks the capability to enforce compliance “(e)conomic units choose to be partially or

completely informal by weighing the costs and benefits a legal status entails and considering their particular institutional and resource constraints” (Loayza 1996: 129-130).

De Soto and Tokman conducted experiments in different Latin American countries (Peru, Guatemala, Brazil, Bolivia and Chile) in order to measure the costs of accessing or staying in the formal sector. Registration, for example, involved the costs of licensing, fees, loss in utilities for long waiting periods, for modifications of premises and buildings, even for bribes. Costs of staying in the formal sector were mainly corporate income taxes, costs of environment, worker and consumer protection as well as workers’ welfare and the time spent by administrative staff to fulfil all bureaucratic requirements of the state. On the other hand also entering or staying in the informal sector has its own cost effects: The advantage of avoiding income tax and health regulations might be cancelled out by the fact, that the entrepreneur would have to pay penalties, but even more important that he cannot make full use of government provided goods, i.e. of the legal and judicial system and police. Criminal offences against an illegal informal business might not be prosecuted; it might be difficult to enforce the honouring of contracts or to obtain title deeds which in return would lead to limited access to the formal capital market because of the lack of collateral. (Loayza 1996: 132-134)

Assuming that all entrepreneurs have the free choice between formal and informal sector (thus excluding the survivalist micro enterprises), Loayza (1996: 136-142) uses the level of income tax and penalties, productivity of public services and the government’s strength to enforce regulations as main parameters of his model. High income taxes and low productivity of public services would increase the relative size of the informal sector while high penalties and improved enforcement strength would

lead to a decrease. Since informal businesses are actually not paying for the services they receive, a relative increase in the size of the informal sector, Loayza argues, would affect economic growth negatively; “in other words, changes, both in policy parameters and in the quality of government institutions, that promote an increase in the relative size of the informal economy will also generate a reduction in economic growth” (Loayza 1996: 142).

Applying the model to the Namibian economy, indicators similar to the Latin American countries can be detected:

- ◆ a high tax burden of 33% of the GDP in 1999 only surpassed by a few high-income countries (Hansohm et al. 1999: 6);
- ◆ low enforcement strength proved by this research with regard to tax evasion;
- ◆ a complex regulatory system inherited from apartheid administration that has only gradually been changed through legal amendments in recent years.

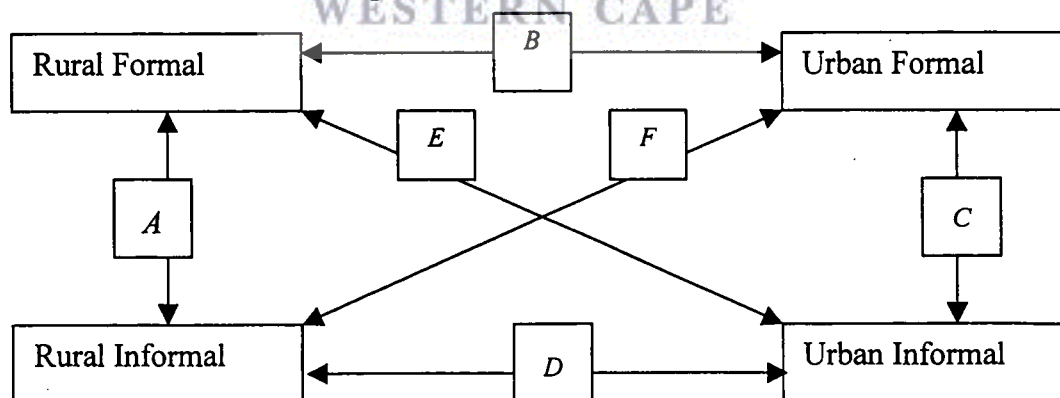
Hence the situation is comparable to the South American findings. Although further research on this phenomenon is necessary, the Namibian government should be cautioned in implementing a macro-economic strategy that only entails isolated measures to support the informal sector as a means of poverty alleviation. At the same time, however, incentives for informal businesses should be created for promotion of small informal businesses into formality. These businesses could, in line with Loayza's argumentation, also contribute to sustain the infrastructure provided by the state. In order to ease the entry and reduce the costs of joining the formal sector the minimum annual net income for tax registration could be increased significantly. Participation in other initiatives of the MTI, like common facility

centres or support under the new credit guarantee scheme, could be linked to registration with Receiver of Revenue. Last, but not least, improvements in the regulatory framework as to be discussed in Chapter 8 might motivate the transition from informality to the formal sector.

3.4.3 Informal and Formal vs. Rural And Urban – A Model of Interdependencies

Based on open-ended questions and discussions with some of the interviewees and other stakeholders in the three identified sectors a model was developed²⁰ that describes the existing relationship between formal and informal sector also on the micro level. Drawing on in-depth research on Uis, one of the villages in the rural areas (Kuper 1995), the model will be exemplified and the effects of changes in one sector on the other will be analysed, also differentiating between rural and urban settings.

Figure 8 Model of Interdependencies between Informal and Formal Sector in Rural and Urban Settings



This simple model in Figure 8 illustrates the interdependent linkages between the indicators rural/urban on one side compared to informal/formal activities. The

²⁰ The original idea for this model emerged during initial discussions with Professor F. Becker (University of Namibia, Department of Geography).

description of the different levels of connection should help SME supporting agencies to identify consequences of intervention in one of the sectors.

3.4.3.1 Rural Formal - Rural Informal (A)

The rural formal sector of the Erongo region is very small and mainly located in the rural centres of Karibib, Usakos and Okombahe. Outside these centres only some guest farms, several mines in Brandberg and Karibib, the Brandberg Rest Camp, the supermarket, some mines and a laboratory in Uis can be allocated to the formal sector. The rural informal entrepreneurs are strongly depending on the rural formal enterprises who find themselves in a kind of monopolistic position in all three areas of trade, tourism and construction mainly because of lack of transport of informal businesses. Regular services of formal entrepreneurs include the supply of raw materials and goods for retail or the purchase of gems. Formal construction companies in the rural centres are frequently sub-contracting informal bricklayers, carpenters or welders. Rural informal businesses, mostly shops of general dealers in the rural centres, have often already grown into the size of formal businesses, but remain informal because of the lack of registration.

3.4.3.2 Rural Formal – Urban Formal (B)

The relationship between rural and urban formal enterprises is especially strong in the tourism and trade sector. Commercial tour guides, travel offices and car rental companies promote the rural lodges, game farms and rest camps. Big shopping centre, furniture and appliance dealers have franchises in rural centres. Shops and bottle stores in rural areas are depending on urban wholesalers. Unprocessed minerals are delivered to industrial plants in the cities. Even in the construction

sector a few rural builders might be sub-contracted by bigger urban companies in boom periods.

3.4.3.3 Urban Formal – Urban Informal (C)

A very strong relationship exists between the urban informal and formal sector in the construction business. All ten urban informal construction enterprises interviewed are sub-contracting on a regular basis to bigger companies which proves the high dependence on the formal sector in this area. In return also the five small formal building companies are constantly making use of informal builders drawing on their experience and training of their informal sector activities, thus supporting the argument that the informal sector is serving as a sponge or labour reserve army for the formal sector. Also informal trade and tourism enterprises are regularly co-operating with formal sector enterprises. The informal general dealers and *cuca* shops are usually buying from other retailers and not from wholesalers. On the other hand tourist shops are buying directly from woodcarvers or craft sellers. Shops in the townships, but also construction firms, have transformed from informal settings into the formal sector and are now officially registered with the Receiver of Revenue.

3.4.3.4 Rural Informal – Urban Informal (D)

The connection between rural and urban informal sector reflects more the traditional and family relationship very often mixed with subsistence agriculture activities. Meat, vegetables and home brewed beer is sent to urban *cuca* shops and shebeens. In return often transfer payments are made by urban micro entrepreneurs to keep the rural survival activities alive. In the tourism sector especially woodcarvings produced in the north are sent for sale on the informal markets in Swakopmund. There is also a constant migration of employees from the rural informal sectors to the cities who

serve as cheap labour for small shops or in the building sector. Inflow in the tourism sector at the coast is mainly due to seasonal influences with a peak during the festive season around Christmas and New Year.

3.4.3.5 Rural Formal – Urban Informal (*E*)

The relationship between rural formal and urban informal enterprises is basically non-existing. The only case detected during the interviews was an urban informal builder who had been trained in a rural formal company.

3.4.3.6 Rural Informal – Urban Formal (*F*)

Certain similarities to *A* and *C* are evident in the analysis of the connection between the rural informal and urban formal sector although only of secondary importance compared to the a.m. relationships. Because of the transport, supply and marketing difficulties the intensity and frequency of encounters is mainly depending on the initiative of the formal businesses. Main areas of co-operation are the purchase of gems, wood carvings or other arts and crafts and to a lesser extend the supply of stock for general dealers or bottle stores. Commercial construction firms frequently make use of cheap labourers with a basic working experience in the rural informal sector. An ongoing relationship is that between urban tour operators and rural tour guides especially in the Brandberg area around the “White Lady”.

It is important to note that all purchases of small and micro informal entrepreneurs from formal businesses are supposed to be recorded in the books of the formal entrepreneurs with regard to the payment of GST and thus ought to be reflected in the national accounts.

The case of the closing of the tin mine in Uis illustrates the dynamics that an incisive development in one sector can have on all others involved. In November 1990 the ISCOR tin mine in Uis, one of the main actors in the rural formal sector with about 450 employees, had to close down because of the deteriorating world market prices for minerals. While the majority of white employees were transferred to other ISCOR mines in South Africa or found jobs elsewhere in Namibia, the majority of the black workers were retrenched. Most affected by the closing of the mine were Damara women because they either lost their jobs as domestic workers in the houses of the white employees or were deserted by their Owambo or Kavango husbands and partners who went back north to rejoin their families in the informal sector or subsistence agriculture. A lot of small miners who had their claims in proximity to the mine had to close down their businesses or move to remote areas because they were no longer allowed to prospect for tin because of security reasons. Again women were most disadvantaged because the work in the small mines far from Uis is significantly harder than in the nearby areas and thus unsuitable for most of the women (Kuper 1995: 79-83). Only in 1994 the Ministry of Mines and Energy with the help of a Swedish development agency organised a programme for small miners, a core of them being women, providing training, geological and mining engineering support (SIDA 1995: 3).

As a direct consequence of the abandonment of the white part of the town several mine owned businesses like the shop, the bakery, the butchery, the petrol station and the club were privatised, partly moving them into informality like the petrol station or even into bankruptcy like the bakery and the hairdresser. The club developed into a

successful formal enterprise, as a rest camp increasingly incorporating the deserted houses into tourist accommodation. Under the umbrella of the rest camp, informal enterprises like small takeaways and a gift shop emerged. Local tour guides and gem sellers received regular clients so that the town, out of the crisis situation, received a new focus for formal and informal activities in the tourism sector. In the light of the new developments local tour guide Tercius O. could no more bear the sight of 'Uis *Finis*' (=Finished) written with white rocks on the hill close to the village and changed it to 'Uis N\$' in order to make the new economic future of Uis visible to everybody.



Sources: Kuper 1995: 3 and own photo 1999

The township, however, had to bear the negative impact of the mine closure and the resulting unemployment. Although a lot of Owambo and Okavango had left for the North and even though some former mine employees tried to find work in the informal sector of the coastal towns of Walvis Bay, Swakopmund and Henties Bay, the number of households in the township remained constant. The difference was that in 1992 suddenly 112 (or 58.9%) of 190 households (Kuper 1995: 85) were female-headed compared to the national average of 38% (CSO 1996: 41). While the men still control

the most lucrative informal sector businesses in the township like shops, bottle stores and taxis, the women were pushed into survival activities falling back to traditional activities (e.g. home brewing, sewing or baking of 'vetkoekies'). Some of the women were forced into illegal activities like prostitution²¹. In spite of all these income-generating activities most of the people living in Uis are still depending on old age pensions or transfer payments of relatives working in the formal sector.

The example of Uis shows the strong interdependence between formal and informal sector. Organisations who want to support the rural informal sector have to take the relationship to the formal commercial enterprises into consideration when it comes to supply of raw materials and stock, marketing or transport. Furthermore it is important to take the full economic situation of a rural micro entrepreneur into consideration with regard to obligations to his family and his attitude towards business and entrepreneurship. Therefore it is necessary to distinguish clearly between survival activities and true business spirit, both on micro or on small business level.

3.5 Small, Micro and Survivalist Enterprises

In order to improve the effectiveness of support systems it is necessary to define target groups and to allocate the most appropriate method of intervention to the respective groups. It is important to note that no universally binding definition of small, medium and micro enterprises is existing. While Gilhespy (1997: 1) regards a company employing fewer than 250 people with either an annual turnover of N\$ 150m or net assets of less than N\$ 75m as a medium-sized company, the South African government considers 200 employees and capital assets of N\$ 5,000,000 as the maximum indicators of a medium enterprise.

²¹ See Chapter 3.3.

In the Namibian context a multitude of definitions for formal and informal small and micro businesses have been used:

Table 4 Definitions of Small and Micro Enterprises

Acronym	Category	Definition
MTI	Small Business Manufacturing	Less than 10 employees, annual turnover less than N\$ 1,000,000 or capital below N\$ 250,000
MTI	Other Small Businesses	Less than 5 employees, annual turnover less than N\$ 250,000 or capital below N\$ 100,000
MLHRD	Informal Business	Less than 5 employees, low productivity and income, varying working hours, not registered
Norval/Namoya	Informal Business	Unlicensed, subsistence orientated, complementary income
CSO	Informal Business	Not registered under Company Law
NNRCCI	Micro Enterprise	1-3 employees, annual turnover less than N\$ 15,000
NNRCCI	Small Enterprise	4-10 employees, annual turnover less than N\$ 60,000
Commonwealth	Small Enterprise	Less than 10 employees

Sources: Hansohm 1996a: 7, MTI 1997: 2, Norval and Namoya 1992: 5

This study is concentrating on small and micro enterprises only (including both formal and informal business activities) because otherwise apart from a few big mining and fishing companies all businesses would have to be included. It is, however, necessary to arrive at a clear distinction between small and medium-sized enterprises. Very helpful in the process of defining the different categories were the White Paper on the “National Strategy for the Development and Promotion of Small Business in South Africa” (DTI 1995) and the target group definitions of DED (1997) included in their framework for saving and credit schemes.

3.5.1 Small Enterprises

Small businesses in the Southern African context, being usually owner or owner-community managed, are, in the majority, tax registered and meet formal registration requirements (DTI 1995: 9). With regard to a definition of small enterprises the author can not agree to the restriction to less than 10 employees made by the Namibian MTI (1997: 2). During the interviews several businesses with 10 – 19 employees mainly in the construction or horticulture business have been noticed that showed typical characteristics of small businesses:

- being owner-managed,
- limited assets averaging to only N\$ 132,700 (mainly equipment and vehicles, only minor fixed assets or office facilities) and
- fluctuating numbers of employees depending on season or order situation.

Based on these observations the Namibian dividing line to the medium-sized businesses as stipulated by the MTI should be increased from 10 to 20 employees, still significantly less than the Department for Trade and Industry requires for South Africa requiring up to 50 employees for medium enterprises. Classification according to assets and turnover is difficult since both indicators vary enormously between the sub-sectors of tourism, trade and construction.

The distinction from small to micro enterprises is even more difficult, because their boundaries are fluent. Again full-time employment provides the clearest means to separate the sectors. For the purpose of this study, it is necessary to decrease the South African bottom line for small enterprises from 5 to 4 employees since most of

those investigated enterprises with four employees fulfil the a.m. formal criteria of tax and municipality registration²².

3.5.2 Micro Enterprises

Micro enterprises are very small businesses often involving only the owner, some family members and mostly only one or two additional employees. They mostly lack official registration, formal business premises or accounting procedures. Although they only have rudimentary skills and business knowledge, they do have the opportunity to grow into viable small enterprises. The earning level differs according to the particular sector of activity (DTI 1995: 9).

Compared to the a.m. definitions²³ micro enterprises represent most of the characteristics of the informal sector although the boundaries to survivalist activities and small enterprises are fluent and get often confused in the relevant literature. While DED (1997: 2) even distinguishes micro enterprises into subsistence, seasonal or part-time businesses, this study merely concentrates on a differentiation of micro entrepreneurs with a true business spirit from survivalists pushed into the business.

3.5.3 Survivalist Enterprises

Survivalist Enterprises are activities of people who are not able to find a formal job of their choice. Usually they fall short of even a minimum income standard, with little capital, hardly no skills training and limited opportunities of growing into a viable business. Poverty and the attempt to survive are the most significant characteristics of the sector, that mainly consists of women (DTI 1995: 9).

²² See Chapter 3.1.3.

²³ See Table 4.

Employment is no relevant indicator for survivalist enterprises, because the sample includes successful business people without employees on one hand and also survivalists with two or three workers on the other side.

In order to be able to clearly distinguish micro and survival enterprises the questionnaire of this study includes several questions concerning push and pull factors.

◆ Question 12: *What were your two main reasons to go into this business?*

Among other motives more representing “pull-factors” (prove personal capacity, wanted to be my own boss, saw profitable opportunity) also choices like “no job opportunities elsewhere”, “only chance to survive” and “lost job or was laid off” were given to the interviewees. If the entrepreneur chose one of the “push-factors” as most important the answer was rated 2 points, a second priority 1 point.

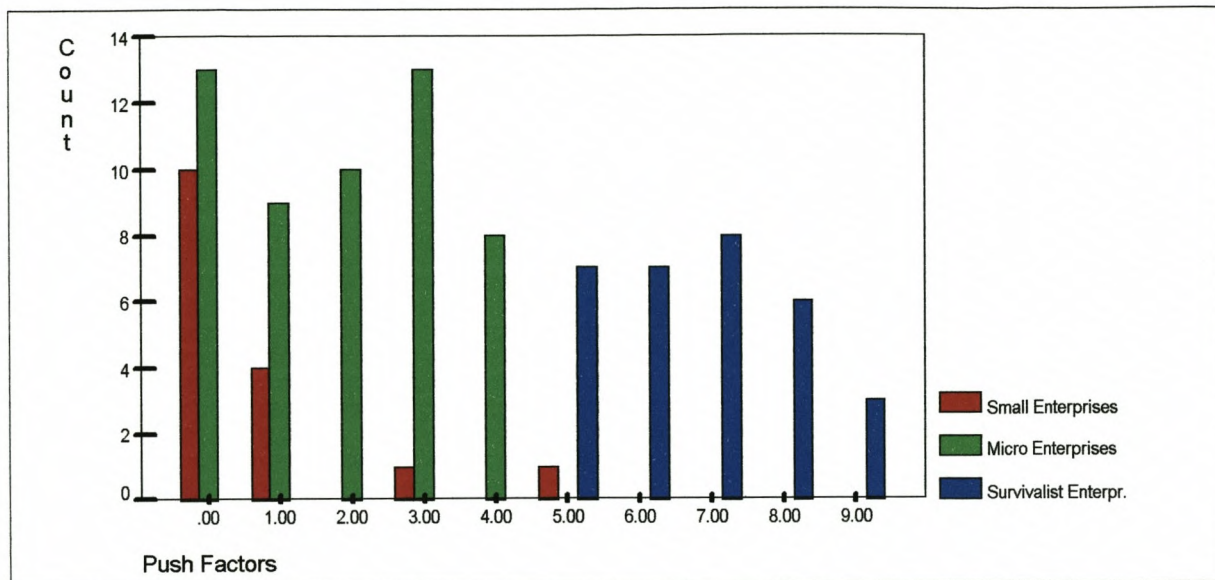
◆ Question 21.1: *Monthly sales* N\$ 0 - 500 were rated two points, N\$ 501 - 1,000 one point.

◆ Question 21.2: *Monthly Net Income* N\$ 0 – 300 was rated two points, N\$ 301 – 600 one point.

◆ Question 53: Low *goal achieving capacity* of 1 or 2 on a scale of 5 was rated one point.

◆ Question 55: Low *problem solving capacity* of 1 or 2 on a scale of 5 was rated one point.

Figure 9 Push and Pull Factors, 1999



Source: Own Research 1999

All businesses with up to three employees and a majority of “push points” (5 - 9) have been classified as survivalist enterprises (blue). All those businesses with up to 3 employees and 0 – 4 points form the sector of micro enterprises (green) and all employers with 4 – 19 employees represent the small enterprise sector (red). It is important to note that a correlation exists between the number of employees and pull factor, because only one small business actually exceeds four points.

Case Study 2 Tour Guide Tercius O.

It was observed in Figure 9 that three of the total of 31 survivalist enterprises, in spite of their often desperate situation, show a high goal achieving and problem solving ability. One of them is Tercius O. from Uis²⁴ who tried to overcome the difficulties in his hometown and took the initiative for the development of the tourist sector. Even though he is quite young (23 years) he underwent a lot of training as a tour guide and co-operates well with the formal rest camp. Furthermore he started a craft

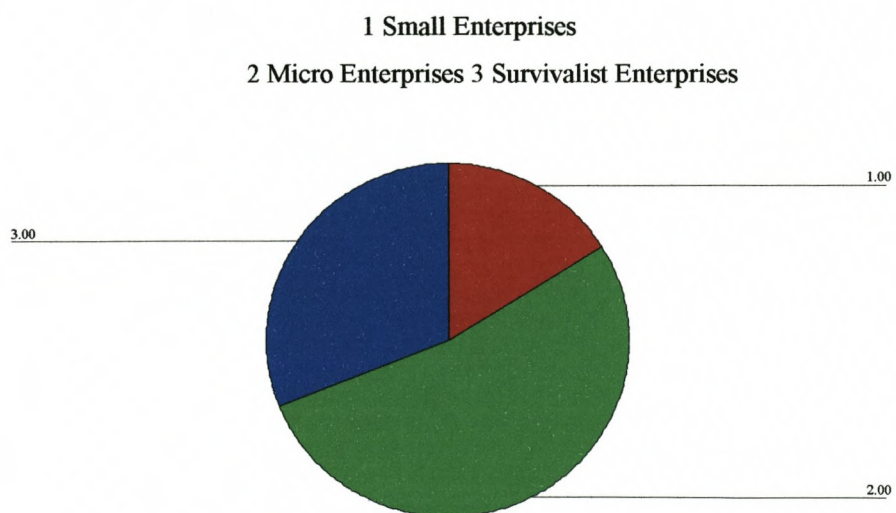
²⁴ See also Case Study 1.

project that produces mobiles and picture frames with patterns made of Namibian sand. With the help of Roessing Foundation these products are marketed in the Craft Centre in Windhoek and also in a local stall adjacent to the Rest Camp. His example shows that there is a potential for growth even in the survivalist sector.

3.5.4 Sample Distribution

Having defined the different enterprise types, Figure 10 shows the distribution within the sample. Sixteen mainly urban enterprises qualify because of their number of employees as small enterprises while micro enterprises form more than half of total. Two thirds of the 31 survival enterprises are situated in rural areas; on the other hand the 11 urban survivalists are nearly exclusively to be found in the tourism sector as wood carvers, craft sellers or carpenters. While their traditional manufacturing methods result in good quality products, entrepreneurship and business skills still need a lot of improvement.

Figure 10 **Distribution Small, Micro and Survivalist Enterprises, 1999**



Source: Own research 1999

The distinction of enterprise types is very important with regard to the support strategies which will be discussed in Chapter 8. Credit is, for example, not the adequate means to support survivalist businesses where grants combined with an improved redistribution system and basic training will be more effective in a process of poverty alleviation. Improved access to finance, procurement or common facility centres might be more appropriate for small and even some micro enterprises. In order to give a clearer picture on the actual situation of the businesses investigated during this study the next chapter will analyse the profile and the most important characteristics of the different SME sub-sectors in the Erongo region.



Chapter 4 Profile of Businesses and Entrepreneurs in the Erongo Region

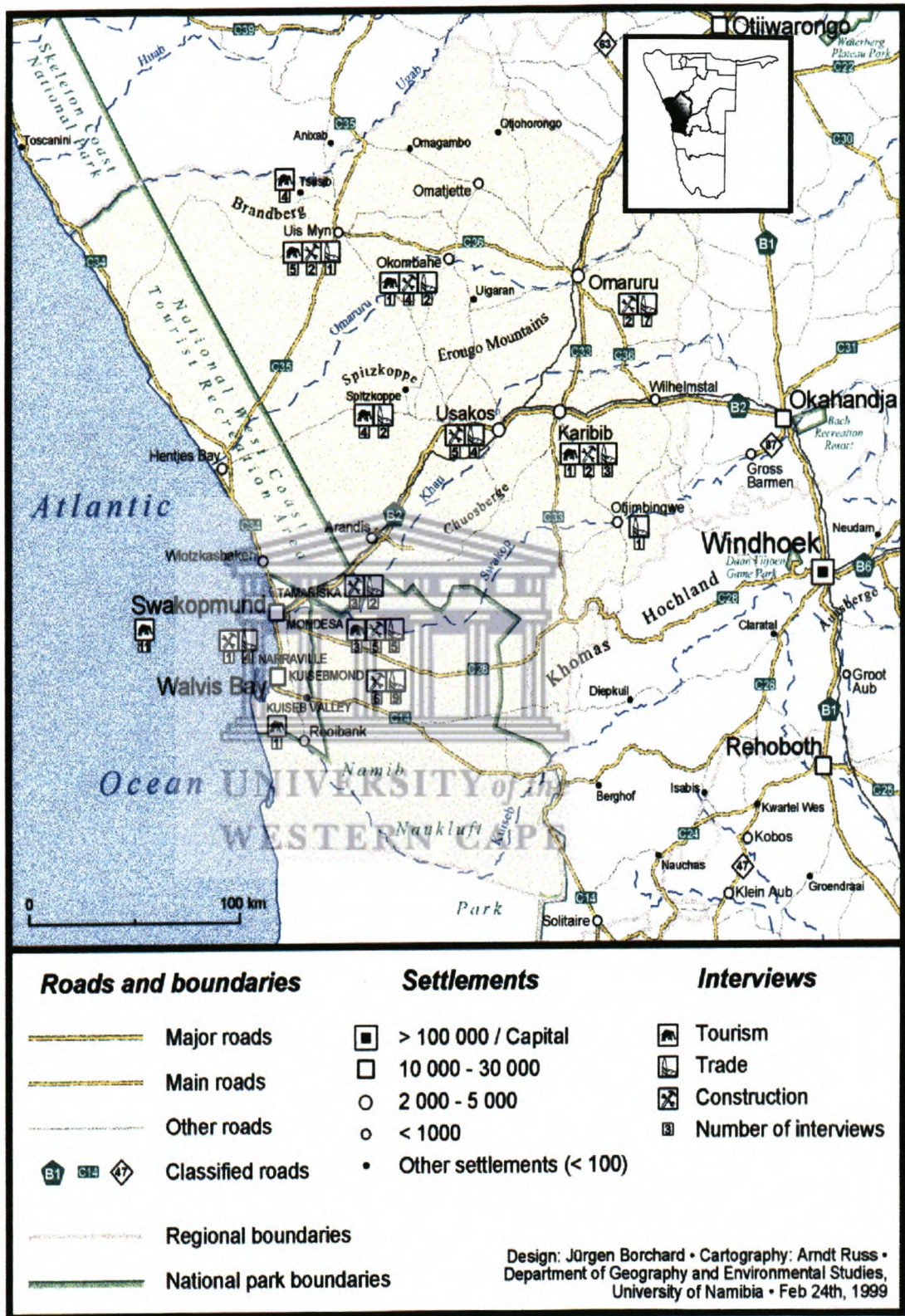
4.1 Geographic Division

Namibia is situated in the south west of the African continent, surrounded by the countries of Angola, Zambia, Botswana and South Africa. The southern and central parts mainly are characterised by desert and semi-arid areas used for cattle or small livestock farming while the north provides the only fertile areas for crop growing.

The Erongo region in western central Namibia consists of several different geographic features that also shape the economic activities of the area. Erongo with its approximately 80,000 citizens forms one of Namibia's thirteen regions and is typical for central and southern Namibia: It consists of two major towns (Walvis Bay and Swakopmund) and the tourist resort in Henties Bay at the coast, the rural centres of Usakos, Omaruru and Karibib as well as the semi-arid former Damara homeland with its impressive rock formation and rich mineral resources bordering the vast Namib desert. Main economic sectors are fishing, mining, tourism and subsistence agriculture, which all have a huge impact on the informal sector (IDC 1997: 80).

Map 1 indicates the regional distribution and how the different sub-sectors are represented in the respective locations. The sample is divided into 50 urban entrepreneurs (Walvis Bay and Swakopmund) and 24 businesses in the rural centres of Omaruru, Karibib and Usakos while 26 interviews took place in the remaining remote rural villages. Trade and retail (40%), tourism (30%) and construction (30%) are equally represented in both urban and rural environment.

Map 1 Geographic Sample Distribution in Erongo Region, 1999



Sources: Russ (UNAM) and Pauck-Borchardt 1999, Insertion: IDC 1997: 76

Interviewees in trade and retail were identified at random mostly around the urban markets of Swakopmund and Walvis Bay (e.g. general dealers, clothes shops, bottle stores), the small business sectors in rural centres (mainly bottle stores, general dealers and take-aways) and villages (horticulture projects, bottle stores, bakeries). Furthermore, community-based tourism projects (rest camps, craft sellers, tour guides) in rural settings were identified with the help of NACOBTA. The tourism sub-sector in towns mainly concentrated on wood carvers, craft sellers and car guards around the open tourist markets in Swakopmund. In order to detect construction firms which are not concentrated at one place the snowball method was applied. Throughout all locations this sub-sector is dominated by builders and bricklayers. Carpenters form the second biggest group in towns while welders and electricians play an important role in the rural areas.

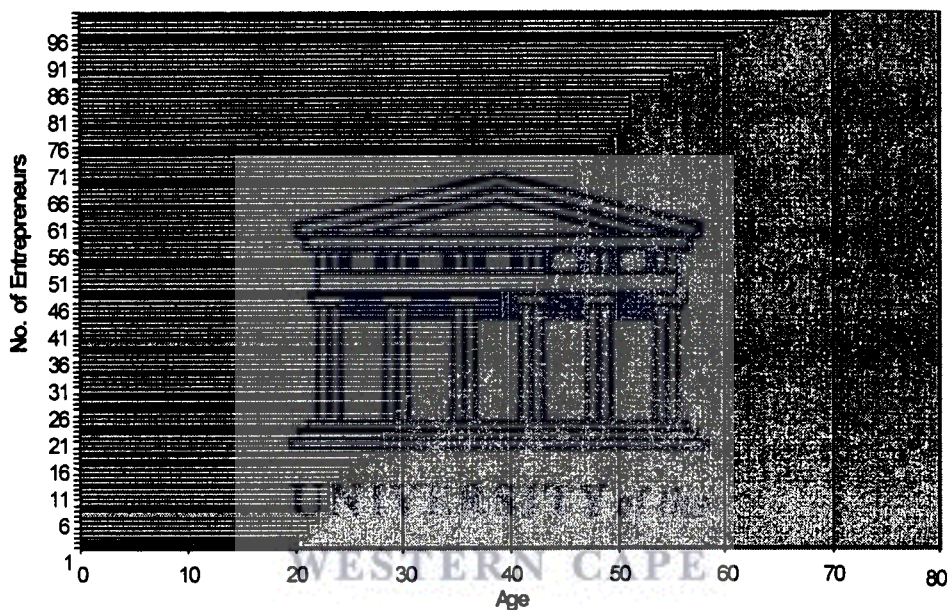
4.2 Profile of Entrepreneurs

After the description of the different sub-sectors and their geographic location it is important to take a closer look at the personal profiles of the entrepreneurs themselves. It is a common observation for all three sub-sectors that approximately three quarters of all businesses are owner-managed. In 17% of all cases an employed manager was interviewed while eight times the owners themselves were willing to answer the questions. This chapter will elaborate the relationship between age, gender and educational background of the businesspersons and their business performance within the three sub-sectors. Other important features like language groups or training experience will be discussed in one of the following chapters.

4.2.1 Age of Entrepreneurs

Age distribution of interviewees reflects a range of 20 to 69 years. Mean age of entrepreneurs is 40.02 years which compares to the average age of 38 years in the baseline survey of MTI (1999: 26) on Erongo and Otjozondjupa regions. The average value is also very close to the median figure of 42 years which indicates the even age distribution shown in Figure 11.

Figure 11 Age of Entrepreneurs, 1999



Source: Own research 1999

Almost a third of the entrepreneurs are belonging to the age group of 20 to 30 years with an above level education and under average net income. The majority of this age group has joined the relatively new tourism sub-sector. On the other hand most of those 20% older than 50 years, mainly active in the trade and construction business, earn significantly more than their younger competitors in spite of their weaker education.

4.2.2 Gender

At first sight the SME sector seems to be a male domain, since almost three quarters of the interviewees are men and only 27% women, in line with the figure of 31.2% female participation in business as described in the Namibia Household Income and Expenditure Survey (NHIES) in 1993/94 (CSO 1994: 79). The picture, however, changes if the exclusively male construction sub-sector is left out. In tourism, women already represent 30% (mainly as craft sellers), and in trade almost half of the enterprises (especially clothes shops and general dealers) are managed by businesswomen. This seems to be that younger women who are particularly affected by urban unemployment²⁵ grab the new opportunities in the tourism area, while older women are often more involved in more traditional trading activities (e.g. clothes shops) where their technical experience is also helpful. Chapter 8 will give an indication how particularly female entrepreneurs can be supported successfully.

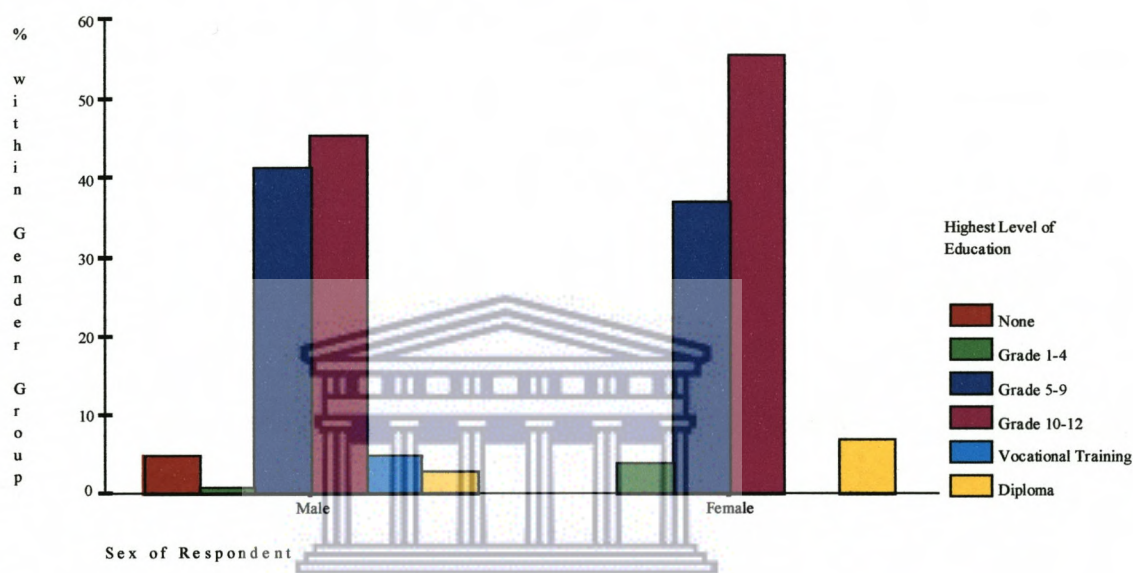
Employment in the investigated businesses shows a similar pattern: Two thirds of all 249 employees are men, of which 101 are working in exclusively male construction companies (one female construction worker only). Tourism gives a more balanced picture (27 male, 19 female) while trade is dominated by female employees with almost two thirds (62 compared to 37 male).

Surprisingly, female entrepreneurs earn on average per month (N\$ 3,733) significantly more than their male counterparts (N\$ 2,729). Experience in other developing countries shows that this is an extraordinary pattern, since usually businessmen are occupying the high income strata of the SME sector. The relationship looks different with regards to the median monthly net income of N\$

²⁵ See Chapter 2.4.4.

1,000 for men and N\$ 500 for women. The reason for these differences is that three of the five enterprises with the highest net income are managed by women mainly in the trading business who cover three quarters of the total average monthly net income of female entrepreneurs.

Figure 12 Sex by Highest Level of Education, 1999



Source: Own research 1999

Figure 12 shows that the educational level of businesswomen with 63% having at least completed grade 10 is higher than their male competitors (54%). The difference in favour of female (52% having at least completed grade 10) opposed to male entrepreneurs (34%) is even greater according to the baseline survey of the MTI (1999: 30) which might be resulting from the national phenomenon of a majority (53.4%) of female students in secondary education (MBEC 1997 in UNDP 1998a: 115). A further explanation for the findings of this study is the sample distribution with its special focus on the exclusively male construction sub-sector where technical skills and experience are often more important than formal education.

4.2.3 Educational Level

After independence the new government had to face an education system that was characterised by:

- inefficiency with a lot of inadequately trained teachers,
- irrelevant curricula and teacher training programmes,
- lack of democratic participation by exclusion of teachers, parents and students from decision-making processes, and
- fragmentation along racial lines with unequal access to education.

In particular the ethnic division is underlined by the fact that per capita resource allocations to second tier authorities for whites in 1990 were thrice the amount calculated for Damara and Hereros and ten times higher than those allocated to Owambo (NPC 1995: 329-330).

In general the SWAPO government has put great efforts in the educational system. The SADC Regional Human Development Report of UNDP (1998b: 143) ranks Namibia second in the region in both the contribution as percentage of the Namibian GNP and of total government expenditure allocated for education. Throughout the period 1991-1997 public expenditure was constantly maintained in the range between 24.4% and 29.1% of total government spending (CBS 1998 in UNDP 1998a: 115). The most prevalent problem remains the lack of efficiency, particularly in the unattractive remote rural areas, where usually teachers received a weaker training, a situation that independent Namibia inherited from the system of Bantu education.

One has to note, however, that the degree of education of entrepreneurs interviewed during this study, in particular in the younger age groups, is relatively high thus showing first successes of the change in the educational system. A mean total of 56% have completed grade 10 or more while there is no difference between the three biggest language groups under investigation (Damara 57.2%, Owambo 57.1% and Coloureds 54.6%).

Table 5 shows that the average level of towns (58%) is surpassed by rural centres with 75% of grade 10 and higher qualifications. But even nearly half of the entrepreneurs in rural areas have completed their secondary education successfully. This study gives a significantly better picture than the small scale enterprise needs survey on Walvis Bay of Hansohm et al. (1996a: 18) where only 50% of the interviewees have progressed beyond primary education. An important factor to explain these differences might be the fact that the Walvis Bay survey concentrated on businesses in the manufacturing and construction industry.

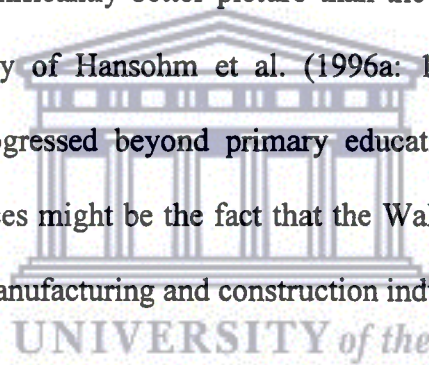


Table 5 Educational Level by Geographical Division, 1994, 1996 and 1999

Grade	Town 1999			Town 1996			Town 1994	
	Rural	Rural	Town	Rural	Rural	Town	Rural	Town
None	8	0	2	10	3	10	12	30
Gr. 1-4	12	0	2	22	4	7	31	32
Gr. 5-9	46	25	38	40	37	27	49	31
Gr. 10-12	35	58	52	26	49	43		
Dipl/Univ	0	17	6	2	7	13	8	6
Total	100	100	100	100	100	100	100	100

Sources: Own research 1999, Hansohm et. al for NEPRU 1996: 18, MTI 1999: 30, CSO 1994: 49

The sector division of this study also shows that trade (72.5%) and tourism (56.6%) entrepreneurs have a stronger educational background than owners and managers of construction firms (33.3%) where technical skills and training-on-the-job are more important for the business performance.

4.3 Profile of Businesses

Having discussed personal characteristics it is important to analyse some indicators of the performance of the enterprise itself, concentrating on age, sales, net income and asset structure. Another important feature of the business profile, namely the capacity for employment creation, has already been discussed in Chapter 2.4.4. It is, however, important to stress the low importance of part-time employment (only 6% of the total labour force in interviewed enterprises), although the author got the impression that employees are often under-utilised.

4.3.1 Age of Business

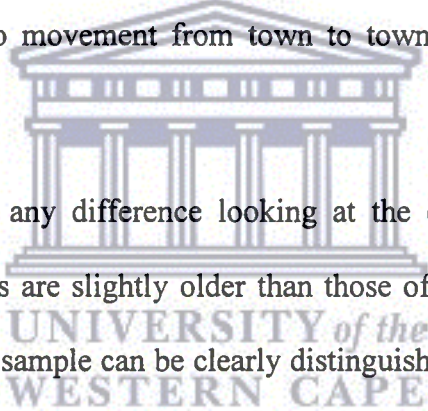
With a range of 1-30 years the investigated enterprises in the Erongo region indicate a mean age of 6.83 years in operation. These businesses are significantly older than those interviewed by MTI (1999: 24) in Erongo and Otjozondjupa region and Hansohm et al. (1996a: 7) in Walvis Bay with two thirds younger than five years.

Table 6 Age of Business by Sub-Sector, 1999

Sub-Sector	Age of Businesses in Years					Total
	1-5	6-10	11-15	16-20	21-30	
Tourism	10	7	10	2	1	30
Construction	4	6	8	7	5	30
Trade	6	13	14	5	2	40
Total	20	26	32	14	8	100

Source: Own research 1999

The former *apartheid* system tried to discourage and harass black enterprises wherever possible. The former *Eerste Nasionale Ontwikkelings Kooperasie* (ENOK - now NDC) even gave subsidised loans to white entrepreneurs in order to set up competitive businesses in the townships²⁶. Thus businesses were often discouraged or had to hide inside private homes. Only after independence numerous SMEs emerged: 78% of all investigated businesses were started after 1990, mostly in rural areas (88.5%). Surprisingly half of these rural businesses have already established themselves well in the meantime having been in operation for five years and more. Supporting the results of this study Hansohm et al. (1996a: 7) found a big share of urban businesses existing for only a short time which is attributed either to their survivalist nature or to movement from town to town on the search for “greener pastures”.



While there is hardly any difference looking at the ethnic component (only the businesses of coloureds are slightly older than those of the other language groups), Table 6 shows that the sample can be clearly distinguished regarding the sub-sectors. Forty percent of the construction firms already existed before 1990 compared to 10% in tourism and 17.5% in trade and retail. This gives a clear indication that small building companies persisted even in times before independence because of strong demand for housing in townships and homelands while community-based tourism emerged as a new concept only in recent years.

Cross tabulation of education and age of business give evidence of the recent positive developments in the educational system of Namibia. Younger entrepreneurs are better educated than their older competitors. While almost half of those (mainly

²⁶ Interview with Professor Ben Fuller (MRC).

young) entrepreneurs with secondary and tertiary education started their business only one to four years ago, six of seven small and micro businesspeople, who have either attended no school or merely finished primary school, have been in business for more than five years.

4.3.2 Sales

Average monthly sales amount to N\$ 11,844, more than double the turnover according to the baseline survey for Erongo and Otjozondjupa regions (MTI 1999: 21) with a lot of micro and survival manufacturing and service businesses. While towns and rural centres are on the same level with slightly more than N\$ 15,000, rural enterprises just manage sales with a mean of N\$ 1,233. This unhealthy situation raises the question whether rural businesses will be sustainable in spite of well intended support²⁷.

In spite of the difficult economic scenario, most of the entrepreneurs interviewed by Hansohm et al. (1996a: 27) in Walvis Bay in 1996 experienced growth in turnover for the previous year and had expected further growth for 1997. This attitude correlates with the perception of 87.5% of the micro and survivalist entrepreneurs in rural areas in this study who expect their turnover to grow during the next year. One has, however, to take a certain bias towards the interviewer into consideration, since the many answers did not correlate to the actual business performance and were intended to paint a better picture of the enterprise.

Even more than 90% of businesses in the tourism sub-sector are positive about expansion even though their monthly turnover (N\$ 1,938) shows a huge difference to trade (N\$ 22,265) and construction (N\$ 7,855). The contrast between trade and

construction is astonishing, since their net income is almost on the same level. The situation could be explained by the importance of stock for trading companies, on the other hand it gives evidence for the practice of building companies to supply labour only, while material is often bought by the client him/herself. In spite of these differences a close relationship between sales and net income can be detected.

4.3.3 Net Income

It came as a surprise to the author that all owners and managers were very frank and open to reveal their financial situation. Since these data are very sensitive, questions regarding the profit had originally not been included in the questionnaire. After the first ten interviewees had been willing to avail this information the question referring to net income was added (Q21.2 of the questionnaire). Whenever entrepreneurs, in particular survivalists, showed problems to calculate their profit, the answers were probed in adding up all cost items and deducting those from the total revenue. Probing also revealed that none of those entrepreneurs with own buildings took opportunity costs into consideration.

Table 7 Net Income by Sector, Location and Language Group, 1999

Sector	No.	Mean	Location	No.	Mean	Language Group	No.	Mean
Constructio	30	3,187	Urban	50	3,744	Coloureds	11	8,182
Trade	40	4,408	Rural C.	24	4,085	Damara	56	1,008
Tourism	30	938	Rural	26	576	Owambo	21	3,267
Total	100	3,000	Total	100	3,000	Total	88	2,444

Source: Own Research 1999

²⁷ See also Case Study 3.

The total mean income of all entrepreneurs interviewed is N\$ 3,000.25, which is quite high compared to the average monthly household income of N\$ 1,433 for Namibia and N\$ 1,755 for Erongo region in the NHIES 1993/94 (CSO 1994: 147). But a look at the median income of N\$ 1,200 shows that the income distribution of the SME sector is very heterogeneous. In particular the five best performing businesses with net profits ranging between N\$ 15,000 and N\$ 40,000 increase the average figure tremendously while the weakest 20% have to be content with net incomes of N\$ 300 and less. Two thirds of the low net income earners are operating in the tourism sub-sector mainly as craft sellers, while the richest five companies are exclusively to be found in trade and construction. The pattern is also reflected in comparing the mean net incomes of the three sub-sectors with trade (N\$ 4,408) and construction (N\$ 3,187) leading tourism (N\$ 938) by far. The last figure compares, however, well to estimates of the MET (Ashley 1995: 19) local income²⁸ per household from tourism in a high potential zone like the former Damara homeland amounting to N\$ 10,000 per annum in 1995.

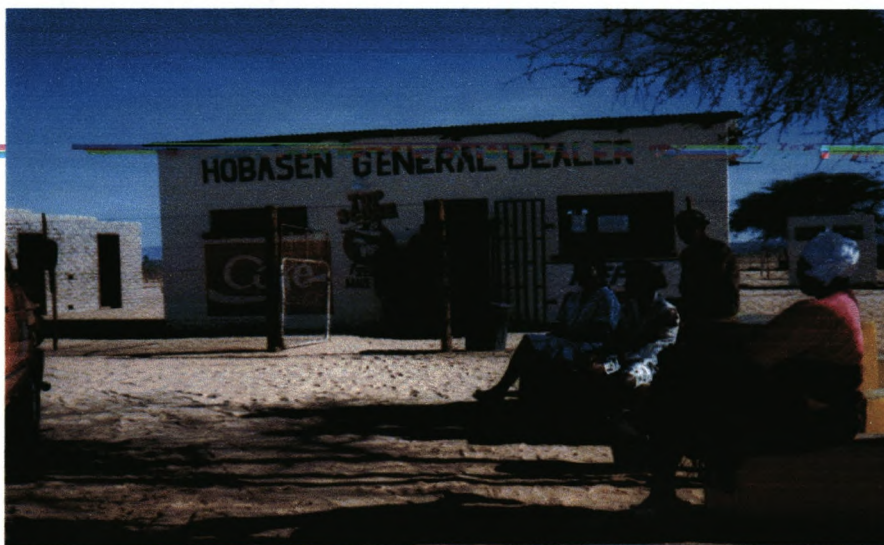
In the geographic division, enterprises in rural centres with their well established general dealers earn surprisingly more than their competitors in towns, where the sample also includes a big number of low-income craft sellers. Rural incomes are consequentially low, a fact also reflected in the figures for Damara (N\$ 1,008) who are representing the majority of the rural villages. In contrast coloureds (N\$ 8,182) who are in strong control of the urban construction sector are the highest income earners with regards to the ethnic division. Owambo, earning thrice the net income of Damaras, also seem to be better off, but this language group shows the most skewed

²⁸ Ashley (1995: 13) refers to 'local income' as "both wages and profits earned by those who live, and always have lived, in the communal area (not, for example, a lodge owner who has moved there) and their institutions".

income distribution having to accommodate both wealthy general dealers and builders, but also craft sellers and car guards.

Hansohm et al. (1996a: 15) states the low importance of other income sources (16 % of the entrepreneurs in Walvis Bay). While this study supports the findings with regard to full-time employment of the entrepreneur in other businesses (4 % in both cases), it reveals a significantly high percentage of 42% of owners who also operate other businesses compared to only 10% in the Walvis Bay baseline survey. The result of this study is more in line with an ILO (1993 in Hansohm 1996a: 10) survey that identified 37.2% of enterprises relying on complementary incomes. One reason for the difference might be the fact that branches and affiliations of businesses of the same entrepreneur were also included in the sample as long as they were belonging to the sub-sectors under investigation and were situated in the Erongo region. The main strategies for setting up additional businesses are either diversification (e.g. opening a bottle store next to a shop) or regional expansion (set up a new branch of the same business in another town or township).

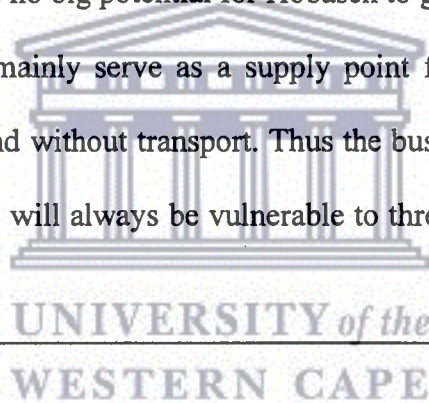
Picture 3 Hobasen General Dealer



Source: Own Photo 1999

Case Study 3 Hobasen General Dealer Okombahe

Hobasen General Dealer being located eight kilometres outside of Okombahe in the former Damara homeland is a typical example for a survivalist enterprise. The owner Harold G., a Chief of the area, serves a few peasant farmers scattered in the area and those cars stopping occasionally on the way from Omaruru to Uis. With a monthly turnover of N\$ 700 he earns a meagre N\$ 350 that supplements his main source of income, a waste removal business in the adjacent village of Omatjette. In employing just one shopkeeper for a low salary and erecting a small building with basic equipment he was already able to survive for period of six years. Hence there is no big potential for Hobasen to grow significantly. The shop will also in future mainly serve as a supply point for small farmers with low purchasing power and without transport. Thus the business can only be sustained on a small scale and will always be vulnerable to threats like theft or price hikes in transport costs.



4.3.4 Asset Structure

As already mentioned in Chapter 2.4.3 Rogerson (1998: 13) regards the strengthening of the asset structure as an important means of poverty alleviation. The results of this study prove that the SME sector plays an important role to achieve this goal. Ninety-three out of one hundred enterprises possess own assets, adding up to a total of more than N\$ 7.5m or mean assets of N\$ 75,021 per enterprise for buildings, machinery, equipment, furniture and vehicles. There exist, however, significant differences between the businesses according to their division in sub-sectors, language groups, regional and educational background.

There are almost linear relations between educational level and asset value. The only surprising feature is the fact that those three entrepreneurs without any formal education own more than those who have at least finished primary school which shows that practical experience on a certain level can be more important for business performance than basic schooling. Mean total value of assets in towns is almost double that of rural centres and six times higher than in rural settings. The ethnic division shows the prevalence of economic *apartheid* with coloureds (N\$ 265,000 per capita) owning more than six times in assets than Damaras (N\$ 41,383 per capita) and Owambo (N\$ 41,119). Oshiwambo speakers actually represent the most skewed language group which is in particular evident when it comes to buildings: While sixteen out of own no real estate, the three richest operate from own premises worth more than N\$ 100,000 each.

With regard to the sector division it is surprising to find a different pattern compared to the income distribution: Trade businesses (N\$ 124,501) own thrice the assets of those operating in the other two sub-sectors; both construction (N\$ 44,092) and tourism (N\$ 39,975) find themselves on the same level. This situation can be attributed to the low significance of fixed capital in the mobile building industry (mean N\$ 6,393) while machinery and equipment with an average of N\$ 25,488 almost reach the level of trade and retail.

Fifty-six percent of all entrepreneurs own buildings or shelters, in the case of construction companies this is very often only a small office at home. While approximately half of the SMEs in towns (mean value N\$ 113,667) and rural centres (mean value N\$ 58,900) it is astonishing that almost 80% of all rural enterprises operate from their own fixed property, albeit with a low average value of only N\$ 12,620 which often can not even be used as collateral because of the lack of title

deeds in communal areas. These findings clearly indicate that the situation of rural SMEs has not improved since Thomas' (1995: 9-10) on hives and small industry parks in Namibia, that established the negligence of NDC and other development agencies to provide workspace shelter and secure storage for small and micro enterprises in villages. Chapter 8 will show that only in an urban environment the municipalities of Swakopmund and Walvis Bay and to a lesser extent NDC support SME development in providing market stalls and business facilities. It is, however, necessary to make a proper needs assessment, particularly of rural enterprises, and to take their traditional business practices into consideration.



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Chapter 5 Traditional Business Practices

It is very difficult to integrate traditional Namibian business practices deriving mainly from agriculture into concepts of economic development, since it is commonplace to label business performance in Africa with characteristics like poor administration and financial management, low labour productivity, underutilised capacities and the inability to resist demands of kinsmen on time and capital. Business success is often confined to corruption, political patronage or attempts to secure quasi-monopolistic market privileges (Kennedy 1980: 8-9). Examples are also obvious in the Namibian economy when it comes to procurement with regard to government building projects or the allocation of fishing quotas. Thus it seems adequate to rank traditional Namibian business practices low in Rostow's five stage model which culminates in "the age of high consumption" (Ingham 1995: 38). Another approach would be to describe them still as an integral part of a primitive society subordinate to intermediate and modern stages of development in Parson's (1964: 341) evolutionary view that at least allows for stagnation or even regression of the advanced levels.

Opposed to these more conservative economists with their line of arguments emphasising the failure of African businesspeople to conform to the conventional northern-type business behaviour, neo-Marxists like Arrighi and Amin (1973 in Kennedy 1980: 9) criticise African entrepreneurs more because of their intermediary status as "import-export bourgeoisie whose profits stem from serving the interests of overseas manufacturers". They also argue that indigenous businessmen serve as covers for foreign companies where legislation has restricted certain economic areas to indigenous companies only by means of affirmative action policies. Kabou (1993:

183-184) joins in the critique of the new African elite, but also acknowledges that often African entrepreneurs do not apply proper management principles. In line with the hypothesis of this dissertation²⁹ she attributes this failure to the fact that traditional values have not been integrated in management theories applied to the African environment. In an attempt to include some of the relevant aspects of traditional Namibian business practices, interdependencies between performance in agriculture and business as well as history of entrepreneurship in the respective families will be analysed. But first of all it is important to have a closer look into the history of economic activities of the most important ethnic groups investigated in this study.

5.1 Ethnicity

“Most of us want to live better and to live the way we have always lived; to participate and to remain separate; to keep up with the Joneses and to distinguish ourselves from them; to give our children new(er) options than we had and to see them choose as we would choose.” Wallman’s (1977 in Pauck-Borchardt 1997: 4) quotation describes a general phenomenon of human societies. People like to combine a desire for a better life with the hope that the pattern of social life is not radically altered. This conflict is of particular relevance for the Namibian situation after independence. There were great expectations for a positive change for the majority of the Namibian people, but the new freedom also resulted in a general feeling of insecurity.

The expectations of social scientists in the 1980s that ethnicity would vanish with the development of a country and that urbanisation would eventually eradicate racial

²⁹ See Chapter 1.2.

differences have become irrelevant in the light of a world-wide resurgence of ethnic allegiance. The disintegration of Eastern Europe, in particular the former Soviet Union and Ex-Yugoslavia, coincide with the emergence of strong right wing parties in France, Austria, Switzerland or Germany, but also with numerous ethnic clashes on the African continent culminating in the Rwanda genocide in 1994. Even though the SWAPO government always advocated the policy of reconciliation and unity, ethnic tensions have frequently resurfaced in Namibia. While the different language groups had to a certain extent been united against the common enemy of the *apartheid* regime³⁰, several ethnic groupings revived their traditional identity and reinstated kingships immediately after independence³¹ (Malan 1995: 5-8). The San and part of the Fwe group in Caprivi felt neglected and oppressed by the Kwanyama dominated SWAPO government, resulting in the exodus of more than 2,000 people to Botswana and in the Caprivi rebellion in August 1999.

In business, too, ethnicity plays an important role and has to be considered in SME support strategies. The general principal also applies to Namibia that outsiders of the kin group are more successful in petty manufacturing and commerce, particularly in more substantial small enterprises with a significant capital investment (Bromley 1996: 456). In line with the Lebanese in West Africa, the Chinese in South East Asia, the Indians in East and South Africa or the Jews in Europe a big Portuguese community seeking refuge from the war-torn Angola controls the small trading enterprises in most of the towns of central and northern Namibia. A similar situation can also be observed in towns and rural centres of the Erongo region where often

³⁰ Sermons in the Lutheran churches of Namibia were, for example, translated into up to five different languages resulting in services often lasting more than three or four hours in order to prove solidarity amongst the different ethnic groups.

Herero or Owambo own the shops in the Damara areas of the former townships. An important explanation for this phenomenon is the lower extent of reciprocity to the extended family and clan with all its social obligations, an issue that will be later discussed in this chapter.

5.1.1 Damara

The Damara in 1994 accounted for approximately 8.5% of the Namibian population with an estimated 132,000 people (Malan 1995: 131). Together with the San the Damara (or *ǀNu-Khoen*) are one of the oldest communities in Namibia. When it comes to the term 'Damara' one has to clearly distinguish at least thirteen autonomous groups most of them living in the arid and semi-arid area around the Erongo and Brandberg mountains (Fuller 1993: 96). Based on the reserves proclaimed by the German colonial forces around Otjimbingwe, Okombahe and Fransfontein in the early twentieth century, the Damara homeland was created as part of the Odendaal plan in 1964 through the integration of 223 commercial farms (Dierks 1999: 97 and 130). Vedder (1923) was the first to give a comprehensive overview on customs and practices of the *Bergdama*. His ethnographic hierarchy has become "the bible of colonial interpretation" (Fuller 1993: 8) and has been subject to heavy criticism because it categorises the Damara as slaves of Herero and Nama and describes them as subhuman creatures who will only change through the influence of mission and German culture (Vedder 1923: 1 and 73).

Originally the Damara were hunters and gatherers, but soon after the arrival of the first pastoralists they also started engaging in livestock farming which was supplemented by horticultural activities introduced by the first German missionaries

³¹ E.g. installation of Kwanyama and Damara kingdoms in 1993.

and colonial administrators in the second half of the nineteenth century (Von François 189...: 277). Their agricultural roots are still visible in several proverbs like “*Ta ʒa tamats hâ pirib ti koba //ama xu*” (Don’t sell the skin of a goat that is not yet slaughtered) or “*Ti ôaro /gôana //ama ê ʒgari*” (You must have animals for difficult times). In spite of a very flexible common property system the Damaraland had to face constant erosion because of overgrazing and severe droughts (Rohde 1994: 1). The majority of business adages particularly of rural entrepreneurs thus describe the survivalist nature of their activities: “*//Gubasen*” (Struggle for yourself), “*/ûöse !kham dan*” (Fight without giving up to win) or “*!Kham hâ hâra i ge ra !kham dan*” (If you go on struggling you will win). Even though their traditional manufacturing skills were limited to basic blacksmith and carpentry work (Rodenberg 1931: 89), the Damara showed their ability to cope with rapid changes in their environment and entered the labour market in western and central Namibia, particularly in the mining sector, both as workers and small-scale miners, and in the building industry (Fuller 1993: 258). Although they have hardly any trading and service background³², their social plasticity enables the Damara also to participate in the emerging community-based tourism projects close to their spectacular mountain ranges, albeit on a significantly lower net income level than coloureds and Owambo³³.

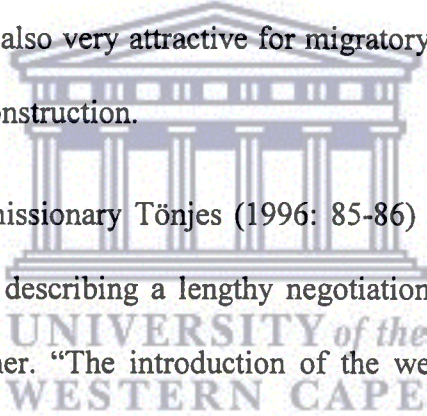
5.1.2 Owambo

The Owambo form the biggest ethnic group in Namibia representing half of the population (CSO 1996: 42). They originate from Central Africa and migrated to the

³² According to Köhler (1959: 62-63) during the 1950s general stores and transport business even the Damara reserve around Okombahe was almost exclusively dominated by whites, coloureds and Herero. The only exception are the Damara living in the Brandberg area who traded self produced pipes made from soap stone already in the nineteenth century (Gockel: 1998: 86).

³³ See Chapter 4.3.3.

area of northern Namibia which is now covering the four O's, Oshana, Oshikoto, Ohangwena and Omusati. 'Owambo' is a generic term for eight ethnic groups dominated by the Kwanyama and Ndonga. The Oshiwambo speakers are traditionally agropastoralists with a strong gender division where the men are responsible for cattle herding and the women for crop planting and horticulture supplemented by berry gathering (women) as well as game hunting and fishing (men). While hunting lost its importance with the vanishing game in the densely populated former Owambo homeland, the Owambo developed skills in manufacturing tools from forgeable iron (men) as well as pottery and basket making (women) even in pre-colonial times (Vesper 1983: 181-182). Their technical experience made them also very attractive for migratory labour in the mines, fishing industry and railway construction.



Already in 1911 the missionary Tönjes (1996: 85-86) also stated the good trading and bartering skills in describing a lengthy negotiation procedure between a cattle farmer and his customer. "The introduction of the western monetary economy to Owamboland has exerted a tremendous influence on traditional barter, the cultivating and collecting of vegetable food, the making of clothes and utensils, the building of huts and many other activities. The demand for food and modern commodities has led to the erection of numerous shops and trading centres throughout the territory. (...) Trading is a much sought after activity. There are few private families who do not offer something for sale – even if it is only food or beer". Malan's (1995: 27) observation is a true reflection of the exceptional trading consciousness of the Owambo compared to most of the other ethnic groups of Namibia and their capacity to adapt to a constantly changing business environment. The differences in entrepreneurship are obvious not only in northern Namibia but in all bigger

townships where mainly in the former Owambo areas informal markets, meat hawkers at the road side as well as *shebeens* and *cuca* shops have emerged in recent years. Most of the wealthy indigenous businessmen are Owambo, the success of this language group, in particular in trading activities, is also evident regarding the net income in chapter 4.3.3 showing that Owambo earn thrice the amount of, for example, Damara.

5.1.3 Coloureds and Baster

Coloureds, however, are still significantly more successful as self-employed businesspeople than Owambo and Damara. They still benefit from better education and employment opportunities in *apartheid* times even though they feel disadvantaged after Namibian independence in 1990. The share of coloureds in the Namibian population can be estimated at 6.6% (103,000 in 1994) which represent a wide spectrum of people with close links to other ethnic groups (Malan 1995: 138-140). The approximately 39,000 *burgers van Rehoboth* or Baster among them form a distinct cultural category whose history is based on the *trek* of their ancestors in 1866 - 1870 coming from the Cape after they experienced problems concerning property rights with the white community of the Western Cape (ELKSWA 1967: 49). The elements that shape this group are the Afrikaans language and the strong observance of Christian rules. Their well-established leadership based in Rehoboth is supported by a set of very detailed *voorvaderlike wette* (ancestral laws) that regulate, for example, the procedures for the election of their leadership, tax payments and property transfer (Britz 1999: 66-71). In the twentieth century a lot of coloureds and Baster were also settling in the bigger cities in townships usually with a better infrastructure and closer proximity to the town centres than the locations of the black population.

The Baster have their background in agriculture; in the Rehoboth area they concentrated on livestock farming since the land is not suitable for crop planting and gardening. They have also developed good technical and administrative skills which qualify them for the public and banking sector as well as for trade and construction industry where they are performing well in terms of asset accumulation and net income³⁴. Contrary to the other language groups the Baster were not restricted, but encouraged to start their own businesses in Rehoboth as part of the Odendaal Plan when the apartheid government in 1967 granted licenses to coloured shop, garage and hotel owners at the detriment of the local white business community (Britz 1999: 46). Based on the Afrikaans language with its Dutch roots and their strong Christian faith, coloureds have, more than the other indigenous groups, integrated western values into their culture. Subsequently abstract market related business proverbs, in particular concerning customer orientation, like “*Die klient is altyd reg*” (The customer is always right), “*Die klient is koning*” (The customer is king) or “*As die klient tevrede is, sal jy ook self tevrede wees*” (If the customer is satisfied, you will also be satisfied) are featured high among the coloureds of which 91% were able to mention an adage closely related to their business activities. The replacement of agricultural proverbs, that are most important for Damara and Owambo, show a certain alienation from their agricultural roots in particular of successful urban entrepreneurs, a phenomenon that will be analysed in depth in the following chapter.

5.2 Business and Agriculture

The overview on the three major language groups of this sample has already indicated the strong traditional connection of the entrepreneurs to agriculture. Almost

³⁴ See Chapters 4.3.3 and 4.3.4.

two thirds (64) of the entrepreneurs are farming with livestock with a particularly strong contingent of Damara (39) representing 70% of their language group. Owambo (12) are the second largest group even though 43% are not farming with livestock which is mainly due to their strong tradition in crop farming and gardening. The coloured businesspeople can be regarded as the only exception; only three of eleven are farming with livestock besides their business activities. This can be attributed to the fact that they have cut off their traditional roots since almost all of them are living in the urban townships of Tamariskia and Narraville where they have established themselves well in the construction and trade sector. Agriculture is in general less important for urban entrepreneurs of whom only 56% are farming compared to 80.8% in rural areas where farming is an important means to enrich the diet and to supplement the income.

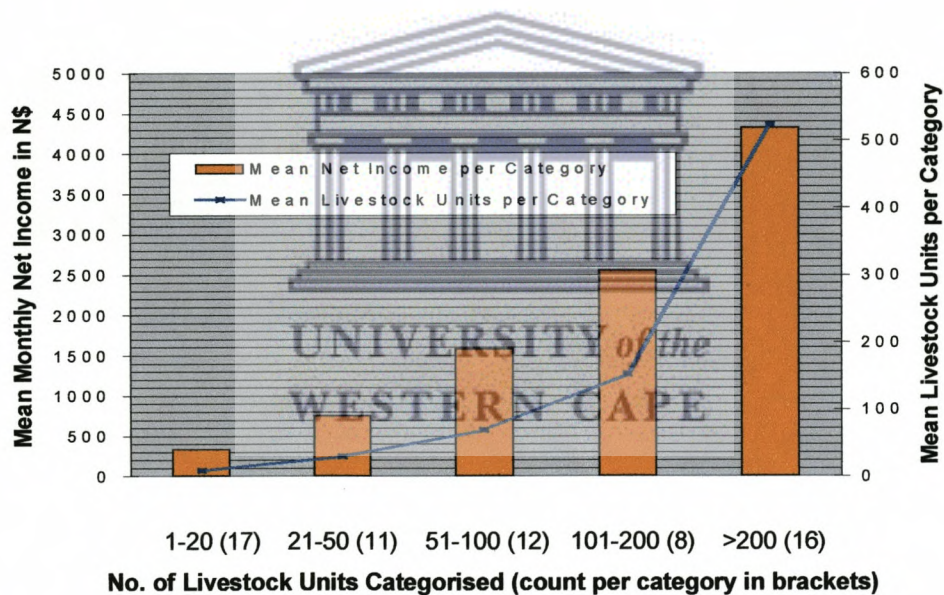
An important aspect to verify the research hypothesis of this study is to analyse the relationship between business performance and agricultural output focussing on livestock farming. So as to compare the answers of all 64 farmers engaged in animal husbandry the different species have been rated according to their economic value:

- Cattle, donkeys, horses: 6 Livestock Units
- Sheep, goats, pigs: 1 Livestock Unit
- Poultry, rabbits: 0.1 Livestock Units

Small livestock herding, the traditional agricultural activity of Damara, dominates cattle farming which is more important in the Herero areas. All other species are of inferior significance for the purpose of this study. The 64 entrepreneurs active in animal husbandry own on the average 169 livestock units with a strong bias towards

the rural centres (330 units) who can keep a closer control of their herds because of their proximity to the communal areas. Urban businesspeople own about sample average (154 units), still double the number of units (77) of the managers of the fifteen rural enterprises. Asked why they are farming with cattle and small livestock, most entrepreneurs referred to traditional reasons like importance in their own culture or because their parents were already farming. Arguments closer related to business like additional income or accumulation of assets for retirement were only mentioned as third and fourth priority.

Figure 13 Livestock Units by Mean Monthly Net Income, 1999



Source: Own research 1999

In categorising the agricultural activities of entrepreneurs according to the number of livestock units and comparing the variables to the monthly net income of their businesses a connection has been established between business performance and farming activities. The almost parallel progression of line and bars of the diagram in Figure 13 shows that for SMEs in the Erongo region indeed a functional relationship

exists between the success in commercial enterprise and communal farming, thus supporting one of the main assumptions of the research hypothesis.

In analysing this result it is important to know whether successful businesspeople actually apply their management skills to their agricultural activities or whether their experience from traditional livestock farming has positively influenced and shaped their business practices. Thus as part of the qualitative research questions about similarities between management of communal farming and business administration were also included in the questionnaire. The answers of the interviewees reveal that the majority of the more successful entrepreneurs with a monthly net income exceeding N\$ 1,000 have learned about important business skills like negotiation, communication, buying, selling, financial administration as well as price calculation from agriculture and have obtained general business and management experience and technical knowledge through their farming activities while 43% of the high income earners see either no similarities or significant differences between the ways they run their business and their farm. This result coincides with answers of the most successful entrepreneurs questioned about their sales strategies of agricultural produce showing that they sell more often to commercial customers like agents, auctioneers, commercial farmers or shops than the lower income group preferring either to sell to or barter with the local community or not to trade at all.

It is, however, also important to note that there is an important connection between agriculture and the division of labour within families of SME owners in the Erongo region. While the majority of entrepreneurs is operating as 'weekend farmers' it is the extended family which is taking care of the livestock in the communal areas often for subsistence wage only (Rohde 1994: 5). The example of Okombahe shows that the experience with family members herding the livestock is often not very good

while the most successful businesspeople in the area who also engage in agriculture are often employing San or Owambo as cattle or goat herders who are usually less demanding and more obedient³⁵. Having established the connection between business and traditional farming, it is also important to know whether employment patterns regarding family members are applied to the commercial activities and what role the family played in the history of the business.

5.3 The Family in Business

“African traditions of family obligation have often been blamed for stultifying entrepreneurship – kinsmen plunder the business of its profits, demand jobs though they are not competent, and squander its assets. The strength of the family group to assert its collective well-being over the prosperity of its individual members is believed to rob personal ambition of reward and incentive”. Even nearly thirty years after the publication of Marris and Somerset (1971: 132) their remarks about the ‘African Businessmen’ in Kenya and their responsibilities for the extended family still seem to be relevant for the Namibian business environment at the end of the 1990s, both on big and small scale. Parastatals have to suffer in the same way from the appointment of incompetent relatives of decision-makers as female entrepreneurs with their small *cuca* shops in the former townships have to face the interference of their husbands depleting the stock. In the same line almost two thirds of the interviewees identified the constant demand of extended family members at least as a slight problem for their business performance, 34% even regard it as a big threat. The case of Otjimbingwe³⁶ will illustrate this dilemma.

³⁵ Interview with A. !Nuwuses (ELCRN), originating from Okombahe, on 8 December 1999.

³⁶ See Chapter 5.4.1.

But is it not possible to integrate the positive values of family solidarity into the business activities? Such a consolidation could in the long run even have a stabilising effect on the commercial performance in a constantly changing business environment. The next chapter will show that an ongoing history of entrepreneurship within the family can actually be an important indicator for business success.

5.3.1 History of Business in the Family

The concept of family enterprises is still new to Namibia since often both experience and capital have been lacking. This has been different for Indian entrepreneurs in East Africa who have been in business for generations and whose children grew up behind the shop counter (Marris and Somerset 1971: 144). Taking the *apartheid* restrictions, particularly in the Erongo region, into consideration it is astonishing that almost fifty percent of the interviewees are entrepreneurs in the second or even third generation, most of them at least in the same sector if not in exactly the same profession³⁷.

Table 8 shows that family tradition is a very important success factor in business performance. Three quarters of the more successful and well established small entrepreneurs have already learned business from their parents or grandparents, for 25% even two or more close relatives have been self-employed. By contrast almost three quarters of the struggling survivalist enterprises have no family tradition in business.

³⁷ It is important to note that communal farming has not been regarded as self-employment.

Table 8 Profession of (Grand-) Parents by Business Type, 1999

Profession of (Grand-) Parents	Small Businesses		Medium Businesses		Survivalist Businesses		Total	
	No.	%	No.	%	No.	%	No.	%
None	4	25.0	25	47.2	23	74.2	52	52.0
1 Self-employed	8	50.0	15	28.3	5	16.1	28	28.0
2 Self-employed	1	6.3	10	18.9	3	9.7	14	14.0
3 Self-employed	1	6.3	3	5.7	0	.0	4	4.0
4 Self-employed	2	12.5	0	.0	0	.0	2	2.0
Total	16	100.0	53	100.0	31	100.0	100	100.0

Sources: Own research 1999

When asked about similarities between how the entrepreneurs and their parents were operating their business, fifteen³⁸ saw no difference in the entire business approach while management functions like selling (10), communication (8), calculation (7) and negotiation (5) were also mentioned frequently. In addition many businesspeople learned a lot of personal life skills important for their performance like hard work (7), self-esteem (4), pro-activity (4) and friendliness (4) from their families. But there are also a lot of differences to the way parents and grandparents went about their business: fourteen entrepreneurs mentioned that finance management and calculation today is more important than in the past; eleven recognised the higher significance of marketing in a world of increasing competition. Twelve businesspeople mentioned they received better training than their relatives while ten saw themselves more self-reliant and pro-active than their parents and grandparents. On the other side of the scale six survivalist entrepreneurs admitted that they generate significantly less profit than their forefathers and -mothers.

³⁸ Multiple answers were possible. Answers of those whose parents and grandparents were not self-employed or merely working as communal farmers are also included.

While those without a family history in self-employment focus more on the differences to their relatives, the answers of the more successful entrepreneurs in the second and third generation show that they have learned a lot of business skills from their parents and grandparents (to a lesser extent also from other family members like aunts, uncles and stepparents mentioned by some of the interviewees). The positive picture of family involvement in the management of the business looks, however, different when it comes to the employment of family members.

5.3.2 Family Members as Employees

- “I wouldn’t like to employ relatives because they might spoil the work, and then if I accused them I’d feel ashamed because of this family relationship.”
- “If a cousin or a brother (is) hardworking and able (there is) no reason to refuse him. (...) If he’s a good person, he’s more reliable than other people, because he feels he belongs to the business.”

The two quotations of Kenyan businessmen (Marris and Somerset 1971: 136-138) still reflect the current ambivalence of Namibian small and micro entrepreneurs towards employment of family members. Even the outcome of the research concerning the attitudes towards relatives in business³⁹ shows almost identical results between the situation in 1971 in Kenya and in 1999 in Namibia: 35% (Kenya) compared to 34% (Namibia) strongly prefer to employ non-relatives and 19% (Kenya) opposed to 22% (Namibia) would definitely employ family members while 46% (Kenya) and 44% (Namibia) are indifferent to either side.

³⁹ See Table 9.

The crosstabulation between the attitude towards family employees and the actual employment of relatives shows that even 41.2% of those employing family members are sceptical to advise a friend to do the same while more than two thirds abstaining from employing family are consistent in their actual recruitment policy. Their attitude is supported by the fact that only two of the ten SMEs with the highest monthly net income are actually employing family members. Creation of employment opportunities for relatives has also been neglected as a main reason to start a business.

Table 9 Advice to a Friend towards Employment of Family Members by Actual Employment of Family Members, 1999

Definitely not Employ Family	3	8.8	31	47.0	34	34.0
Tend to Employ no Family Members	11	32.4	14	21.2	25	25.0
Tend to Employ Family Members	11	32.4	8	12.1	19	19.0
Definitely Employ Family Members	9	26.5	13	19.7	22	22.0
Total	34	100	66	100	100	100

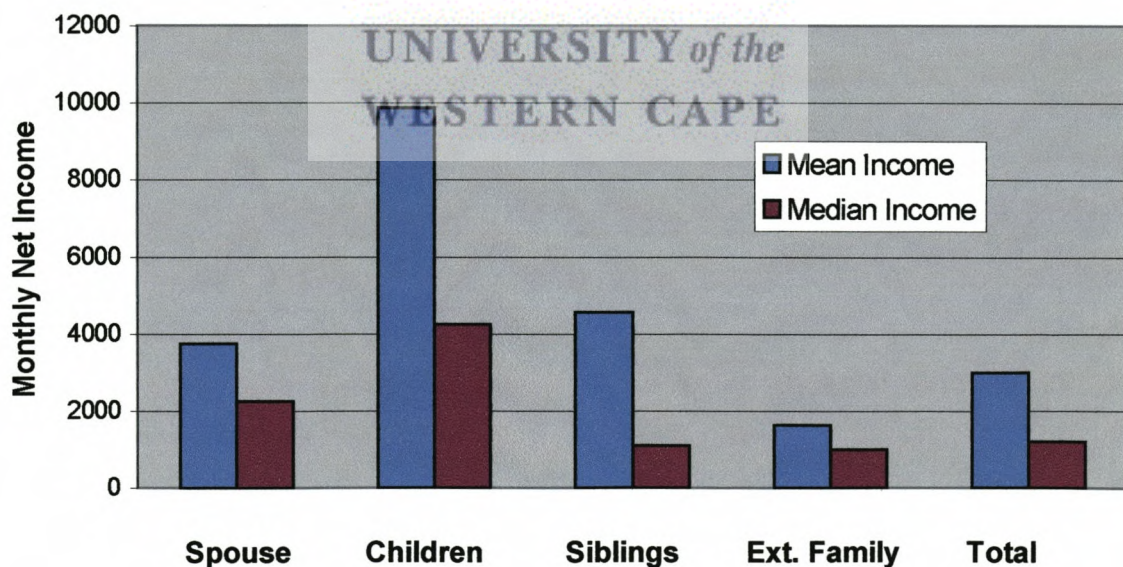
Source: Own research 1999

One should, however, differentiate the degree of relationship when it comes to family employment. Figure 14 shows that businesses employing either spouse (median income N\$ 2,250) or children (median income N\$ 4,250) operate significantly more successful than those entrepreneurs working with siblings (median income N\$ 1,100) or other extended family members (median income N\$ 1,000), both slightly under the level of the whole sample with a median monthly net income of N\$ 1,200. It is important to compare the median incomes since the highest

monthly net incomes for children (N\$ 30,000) and siblings (N\$ 40,000) distort the mean incomes of their category significantly.

Even though employment of spouses (in five enterprises) and children (in four enterprises) is more effective because of a better motivation and identification, the concept of employing either siblings or extended family (in twelve enterprises each) is a more common feature. This coincides with the East African pattern according to Marris and Somerset (1971: 148-150) where the father's duty is to provide but not to rule over his children employed in the company until they inherit it. Heritage is more defined by the number of livestock; grandchildren, not business property, symbolise immortality. Business as such still remains to be a fairly new concept in particular in Namibia where it had been heavily restricted by the *apartheid* regime.

Figure 14 Monthly Net Income by Degree of Family Relationship, 1999



Source: Own research 1999

5.4 The Impact of *Apartheid* Policies on Traditional Business Practices

As already mentioned in Chapters 4.3.1 and 5.3.2 the policies of the former South African government in Namibia were meant to discourage and harass the majority of indigenous entrepreneurs. Only some few enlightened administrators did not apply administrative matters too strictly so that trading and bartering could still prosper to a certain extent, in particular in some of the former homelands. On the other hand the case of Otjimbingwe will show that the South African administration in combining forces with the adjacent commercial farmer community almost managed to extinguish traditional businesses. The following comparison based on the research of Fuller (1993) focussing on the socio economic development of the Damara in Otjimbingwe and Sesfontein will show that indeed indigenous forms of entrepreneurship existed already for a long time that can be drawn upon in SME support strategies. The synopsis of both villages will also show that reciprocity between business and family can either be detriment or beneficiary for the business performance.

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5.4.1 Otjimbingwe

Otjimbingwe is situated halfway between Windhoek and Swakopmund in a semi-arid setting close to the Namib desert at the shore of the Swakop river. Towards the end of the nineteenth century it used to be an important base for trading, military and missionary activities (incl. commercial agriculture) so that it was even serving for a few years as the administrative capital of the German colonial forces. With the building of the railway from the coast to Windhoek the commercial businesses moved eighty kilometres north west to Karibib (Voigt 1999: 14). Since the area around Otjimbingwe was turned into a nature reserve in 1924 (ELKSWA 1967: 73) also the economic activities, mainly small livestock husbandry and horticulture, of

the indigenous people (60% Damara, 40% Herero) were constantly on the decline. Apartheid policies played a major role in the commercial recession of Otjimbingwe. While a resident white commissioner was constantly able to apply restrictions to local informal businesses, the influence of the hostile surrounding white farmer community led to a further reduction of the reserve area. Another important reason for disintegration and overuse was the building of dams in adjacent commercial farm areas and in particular the construction of the Swakoppoort dam resulting in the drying out of the Swakop river. The process was enhanced by constant conflicts between Damara and Herero about the use of scarce natural resources.

After more than sixty years of progressive erosion and constant overgrazing Fuller (1993: 28-30) during his research in the 1980s found a collapsed local economy with only few active micro entrepreneurs trying to overcome the desperate situation⁴⁰. Local farmers had even difficulties in counting their stock or showing the right size of their plot. Even when business opportunities occurred (e.g. the offer of the principal of the United Lutheran Theological Seminary Paulinum to purchase meat), the communal farmers had not enough stock to sell. The situation has even worsened since the Paulinum, one of the main employment providers, was relocated to Windhoek in 1997 (ELCRN 1997: 5). In particular the young people were leaving Otjimbingwe seeking for jobs in the cities and rural centres. In this difficult environment hardly any local Damara or Herero would engage in small scale enterprises in particular regarding the negative effects of reciprocity to the family. Fuller (1993: 281) quotes one of the few locals with regular income: "My yard is full at the end of every month with relatives waiting for some money. (...) I can't refuse them because they are my family. I'd like to move far away, so I could keep some of

my pay". Internal and external factors, in particular the interdependence between business, agriculture and family, thus resulted in an atmosphere of lethargy and low business spirit.

Case Study 4 Otjimbingwe Food Garden

Lazarus A. (59 years old) is one of the few exceptions when it comes to entrepreneurship in Otjimbingwe. Although he represents the only small enterprise within this study with predominantly survivalist characteristics⁴¹ he has sustained the operations of his vegetable garden since 1993 when he returned to his home village from Windhoek where he had been employed as a car and engine mechanic with several companies, among them Namibian Breweries. He remained persistent with the business in spite of several setbacks (droughts, pest, frost and failure of the pump engine) partly because of his technical experience, but in particular because of the marketing skills he inherited from his father and grandfather who were both active in the horticulture business. He also proved his talent in negotiation when he secured grants from ELCRN and UNICEF for his first equipment. His relation to other agricultural activities is also very close being the first to innovate pig farming in Otjimbingwe. The local community in spite of its low potential is very important for him both as employees (up to 15 in good times) and customers. But in line with Fuller's (1993: 281) findings on the negative aspects of reciprocity he is strictly opposed to the employment of family members who pose an ongoing problem to him because of their constant expectations for support.

⁴⁰ See Case Study 4.

⁴¹ See also Figure 9.

Picture 4 Lazarus A. in his Otjimbingwe Food Garden



Source: Own photo

5.4.2 Sesfontein

The situation in Sesfontein with its 800 citizens (a mixture of Damara, Nama, Ovahimba and Herero) is quite different. Situated in the Kunene region in the north western corner of Namibia bordering Namib desert and Kaokoveld on the trade routes to Opuwo and Angola, but far from the commercial centres of Windhoek and the coast, the small oasis behind the veterinarian fence seems to be excluded from development activities. No telephone connection or tarmac road even in 1999 give indications of a low standard of living. During the *apartheid* era the South Africans only applied an indirect rule with the closest colonlia more than one hundred kilometres distant (Fuller 1993: 1). Even though the remoteness of the location limited the potential for growth, it thus helped together with a low degree of restriction by the South African administrators to sustain the small indigenous business community. In particular the agropastoralist Damara are since thirty years experiencing social and economic ascent. Even the poorest and least productive

households still retain a certain surplus in their produce ranging from maize, tobacco and figs to sweet potatoes and spices which they use for trading and bartering either with the pastoralist Hereros and Ovahimba or for manufactured household goods from Kamanjab or Windhoek (Fuller 1993: 31-34).

While in Otjimbingwe reciprocity, in particular regarding the Damara, is limited to the extended family only; Sesfontein's reciprocal links between all four major ethnic groups are used to enhance productive activities, thus maintaining or even increasing the economic situation, albeit from a low level. Unemployment is hardly visible since even the unproductive residents are recruited by the successful producers. The main means of motivation are either the offering of small incentives (e.g. cash or a bag of wheat) or social pressure reminding them constantly of debts incurred (Fuller 1993: 288). The good initiative of people in the Sesfontein area is also obvious in the creation of several community-based tourism projects like camp sites and traditional villages mainly supported by NACOBTA. The potential for ventures like these is limited because of lack of capital and experience in commercial business, but also because of the impact of globalisation. Having prospered in remoteness for decades, Sesfontein and the bordering Kaokoveld have been discovered by commercial tourism companies. Indigenous shop owners lost out and were taken over by white entrepreneurs while German-speaking businesspeople transformed the old Fort Sesfontein into a luxury lodge⁴².

5.5 Conclusion

This chapter has shown that it is still important to take the ethnic background of the different language groups and their tradition in business development into

⁴² Interview with Traditional Chief J. Gaobaeb (Sesfontein) on 25 April 1999.

consideration. The research shows that coloureds in construction and Owambo in trade perform significantly better than entrepreneurs with a different ethnic background.

SME support strategies should recognise particularly the relationship between farming and business activities by including questions about the entrepreneur's performance in agriculture into their appraisal forms for small and micro businesses. Those business people who accumulated a high number of livestock, who are using commercial sales strategies for their agricultural produce and who are using the same employment patterns in farming as in business are likely to perform better also in the management of small and micro enterprises.

Furthermore SME promotion must take note of the strong reciprocity between family and business. While a long history of entrepreneurship in the family is a positive indicator for business performance, agencies supporting small and micro enterprises should differentiate when it comes to the employment of family members. While spouses and children are likely to have a positive effect on business success, the employment of siblings or other extended family could be an indication for the negative aspects of reciprocity.

In addition the geographic location with its business history plays an important role for the potential development of an enterprise. Decades of environmental erosion and constant decline of the business environment and labour market will further increase the pressure for family support resulting in a constant threat for the commercial activities. On the other hand good community co-operation and participation even on a relatively low level could be an asset to sustain business operations for a long time.

Chapter 6 Entrepreneurship

Even though a certain level of traditional business practices has been established in Namibia with significant variations regarding the ethnic background, family history and reciprocity to agriculture, the differences regarding entrepreneurship are significant compared to other African countries⁴³. In Namibia informal sector activities are often only visible in the former townships with a majority of entrepreneurs originating from northern Namibia, in the Erongo region particularly concentrating in Kuisebmond and Mondesa and increasingly at the two main tourist market sites of Swakopmund. But even for those who have found their niches in the trade and tourism sector, pro-activity and negotiation skills are often lacking. Thus it is important to investigate the basic principles of entrepreneurship in order to establish which of its characteristics could actually be improved by SME support, in particular training activities.

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6.1 History of Entrepreneurship

The term 'entrepreneur' originates from the French language and means *between-taker*, focussing on the intermediate position between provider and buyer. A good early example is the attempt of Marco Polo to establish a trade route from Europe to the Far East where he, as the merchant-adventurer, played the active role taking the physical risk while a capital provider, charging interest and getting the major share of the net profit, would bear the passive risk of the loss of his investment (Hisrich and

⁴³ Webster and Fidler (1996: 82, 117 and 207) identify, for example, in West Africa a high degree of entrepreneurial acumen, in particular when it comes to hawking and construction in urban areas (e.g. Burkina Faso and Sierra Leone), but also as a main source of supply in the villages of The Gambia.

Peters 1995: 6). Table 10 shows the further development of the term 'entrepreneur' and the theory of entrepreneurship at large.

Table 10 Development of Entrepreneurship Theory

Year	Definition / Description of Entrepreneurship Theory
Middle Age	Actor (warlike action) and person in charge of large-scale production
17 th Century	Person bearing risks of loss in a fixed price contract with the government.
1725	Person bearing risks is different from one supplying capital (R. Cantillon).
1803	Separated profits of entrepreneur from profits of capital (J.B. Say).
1934	Entrepreneur is an innovator and develops untried technology; entrepreneurship is a phenomenon under the wider aspect of leadership (J. Schumpeter).
1961	Entrepreneur is an energetic moderate risk taker (D. McClelland).
1970s	The concept of self-employment in SMEs gets positive recognition especially in developing countries.
1975	Entrepreneur takes initiative, organises social economic mechanisms and accepts risk of failure (A. Shapero).
1980	Entrepreneur is seen differently by economists, psychologists and politicians (K. Vesper).
1983	Intrapreneur ⁴⁴ is an entrepreneur within an established company (G. Pinchot).
1985	Entrepreneur creates something different with value and receives the resulting rewards of monetary and personal satisfaction (R. Hisrich).
1990s	Outsourcing leads to flexible specialisation and niche orientation creating new opportunities for small micro entrepreneurs but limiting entrepreneurial scope. Deinstitutionalization (P.F. Drucker).

Sources: Hisrich and Peters 1995: 6, Kuratko and Hodgetts 1992: 5, Van Dijk 1997: 210-217, Drucker 1995: 15

⁴⁴ Gifford Pinchot III (1985 in Kuratko and Hodgetts 1992: 25-27) defines an intrapreneur as a person within an organisation responsible for creating innovation of any kind who turns an idea into a profitable opportunity for the organisation.

Looking at the development of entrepreneurial theory it can be observed that the concept has broadened from the focus on big companies only over the separation between capital provision and business venture to the inclusion of small-scale enterprises with their advantages in specialisation and resource allocation. The USA in the 1990s visualise the change from the 'managerial' to the 'entrepreneurial' economy (Drucker 1995: 1). In the same process entrepreneurial functions, e.g. risk taking, innovation and initiative have been clearly distinguished and investigated from the different angles of scientific disciplines. A common feature throughout the centuries is that the entrepreneur has always been the agent of change, the force that initiates and implements material progress and that is constantly challenging the status quo. This view has been heavily disputed by both Marxists and neo-classical Keynesian economists who tended to see entrepreneurial acumen as a dependent rather than an independent variable. Hyman (1970 in Kennedy 1980: 5) in his neo-classical view, for example, referring to the times of 'perfect competition' before the emergence of multinational corporations, describes businessmen as "driven independently of their will and knowledge to behave in certain ways determined by fundamental factors, just as water runs down a hill on certain predictable paths". Chapter 6.2 will thus have a deeper look into some different definitions in order to identify the some significant characteristics of entrepreneurship.

6.2 Defining Entrepreneurship

While early research in entrepreneurship had been concentrating on risk taking or managerial aspects (without even distinguishing between entrepreneur and manager) definitions in the 20th century focussed increasingly on personal aspects of the entrepreneur like motivation, initiative and drive. One of the most important representatives of this new approach was the Austrian economist Joseph A.

Schumpeter. It is argued that he has been critically influenced by early writings of Weber in 1904 who saw the entrepreneur depicted “as an energised individual painted against the clumsy and sluggish background of the traditional economy” (GTZ 1999: 1). Both viewed the entrepreneur as the central figure who sets the process of change in a society in motion. But while Weber saw the European entrepreneur motivated by his religious belief, especially the work ethic focussing on vocation and business success as a visible sign for predetermination (Giddens 1993: 728), Schumpeter was convinced that entrepreneurs used Protestantism to legitimise what they were already doing. Schumpeter was particularly stressing the role of the entrepreneur as an innovator:

“The function of the entrepreneurs is to reform or to revolutionise the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, opening a new source of supply of materials or a new outlet for products, by reorganising a new industry...” (Schumpeter 1952 in Hisrich and Peters 1995: 8).

Schumpeter might be criticised because of his exclusiveness on the innovative function of the entrepreneur (which would not only include new products and production methods, but also improvements), but his concept has to be regarded as a milestone in the development of entrepreneurship theory. The elements of innovation and newness will thus receive special attention in Chapter 6.3.2.

While the element of risk taking⁴⁵ has been investigated more than any other variable and features throughout the historic development of entrepreneurship research, psychological components like motivation, initiative and pro-activity became

⁴⁵ See Chapter 6.3.3.

significant only during the recent forty years mainly based on McClelland's findings. Timmons (1990: 5-6) extended the relevance of psychological success factors further to all stakeholders involved in the production and marketing process: "Entrepreneurship usually requires a vision and the passion, commitment, and motivation to transmit this vision to other stakeholders, such as partners, customers, suppliers, employees, and financial backers." The comparison between Sesfontein and Otjimbingwe⁴⁶ has already shown that entrepreneurial initiative and pro-activity in Namibia is not depending on selection, but rather a result of socialisation strongly influenced by the administrative control of the *apartheid* system. These findings correlate to a comparative longitudinal study between East and West Germany after the fall of the Berlin Wall which established that work control and complexity in East Germany resulted in lower personal initiative (Frese et al. 1996). The minor importance of selection further contradicts the myth that entrepreneurs are born, not made and that traits of an entrepreneur like pro-activity, aggressiveness and skills in human relations cannot be taught or learned (Kuratko and Hodgetts 1992: 6-7).

The most comprehensive definition that views business acumen from the different disciplines and that includes most of the characteristics of entrepreneurship both from the macro and micro perspective has been published by Vesper (1980 in Hisrich and Peters 1995: 9): "To an economist, an entrepreneur is one who brings resources, labor, materials, and other assets into combination that make their value greater than before, and also one who introduces changes, innovations, and a new order. To a psychologist, such a person is typically driven by certain forces – need to obtain or attain something, to experiment, to accomplish, or perhaps to escape authority of others....To one businessman, an entrepreneur appears as a threat, an aggressive

⁴⁶ See Chapter 5.4.

competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, a customer, or someone good to invest in.... The same person is seen by a capitalist philosopher as one who creates wealth for others as well, who finds better ways to utilize resources, and reduce waste, and who produces jobs others are glad to get.”

6.3 Main Indicators for Entrepreneurship

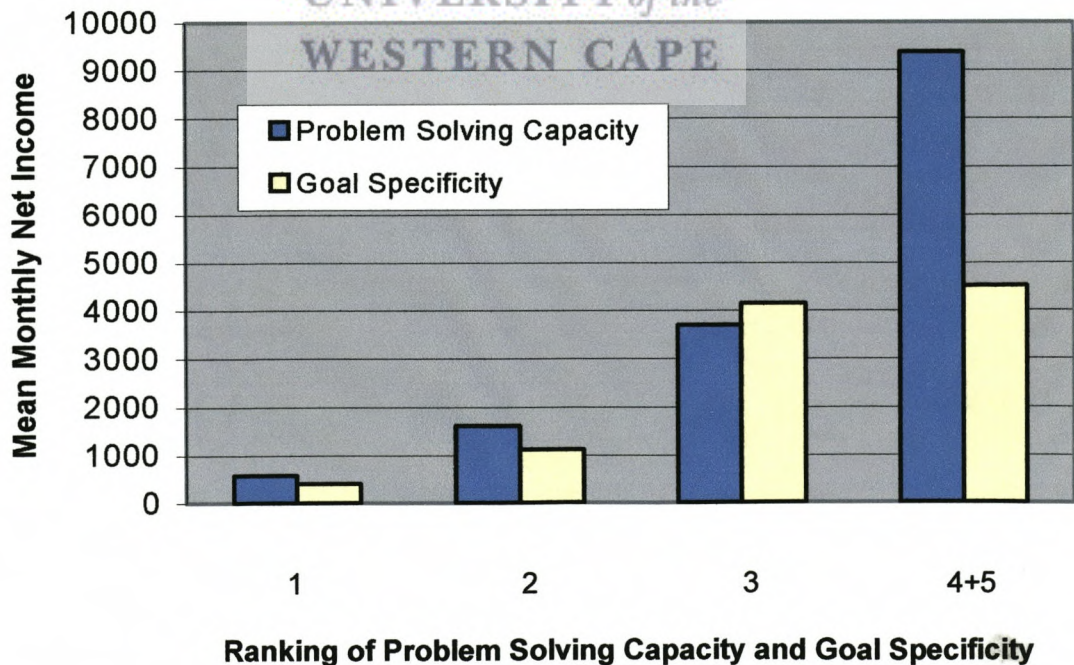
History and definitions have already revealed some of the main indicators of entrepreneurship. Numerous studies have been conducted with the aim of determining the personal qualities of a successful entrepreneur. Kuratko and Hodgetts (1992: 71), for example, mention 42 characteristics ranging from confidence, perseverance and leadership over intelligence and efficiency to accuracy, imagination and the capacity for enjoyment. The scope of this thesis does not allow to discuss all relevant indicators, but will enable the analysis of a few important characteristics that have partly been investigated during this study.

6.3.1 Self-Efficacy in Problem Solving and Goal Specificity

McClelland had already identified the entrepreneur’s individual responsibility for problem solving, goal setting and planning as major characteristics for his overall theory of need for achievement (Hisrich and Peters 1995: 54). With regard to self-efficacy in problem solution the outcome of this study shows a similar pattern to the research of Frese and Friedrich (1998: 8) in Zimbabwe where a majority of businesspeople is not sure whether they are able to solve their business related problems. While constraints and needs themselves will be dealt with in detail in Chapter 7, the entrepreneurs’ self-efficacy has been probed by asking them to describe in detail how they would try to solve their most important problems. On a

scale from 1-5 the specificity of their answers was assessed and compared to the actual business success. More than half (55%) of the interviewees show a very weak problem solving capacity with either a very fatalistic view (“I don’t have the power to change anything – the government must provide”) or only very diffuse ideas how to tackle their biggest problems. While at least a quarter of the entrepreneurs is ranked with the intermediate value of 3, only 19 entrepreneurs show above average self-efficacy. Figure 15 reveals that the ability to overcome business related obstacles is a very important indicator for business success. Those entrepreneurs who achieved a 4 or 5 (N\$ 9,378) earn 2.5 times more in mean monthly net income than those with 3 points (N\$ 3,704), almost six times more than those ranked with 2 (N\$ 1,602) and even sixteen times more than those showing the weakest problem solving capacity (N\$ 584) mainly consisting of survivalists.

Figure 15 Mean Monthly Net Income by Problem Solving Capacity, 1999



Source: Own research 1999



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Goal specificity shows a similar picture even though the result is significantly better compared to the entrepreneurs' problem solving capacity. Only 38% could hardly describe how they would put their most important goals into practice and where thus qualified either 1 or 2. While the medium value of 3 has a share of 22%, the group with a high goal specificity with a percentage of 41% is more than double the size of those with the best self-efficacy. The bigger number of entrepreneurs with high goal specificity results in a lower mean monthly net income because of the inclusion of several lower income micro enterprises with medium problem solving capacity. Again the pattern shows similarities to the research in Zimbabwe where even 50% of the interviewees showed high goal specificity compared 29% who could hardly describe and exemplify their objectives (Frese and Friedrich 1998: 6).

Another element closely related to goal specificity is the planning process. Several studies have been conducted which established a correlation between business success and the amount of time spent on planning (Duchesneau and Gartner 1988 in Cooper and Gascón 1992: 311) as well as the number of people involved in the planning process (Van de Ven et al. 1984 in Cooper and Gascón 1992: 311). For all three indicators of problem solving capacity, goal setting and planning training should be seen as the main support strategy. Most of the entrepreneurs in the Erongo region have recognised their deficits especially in the area of planning where 71% mention the lack of marketing information as a problem and 67% regard assistance in the business planning for a loan as their biggest need when it comes to SME support.

6.3.2 Innovativeness

As mentioned in Chapter 6.2 for Schumpeter innovation is the crucial factor of entrepreneurship, for example when firms produce new commodities, by using a

new yet untried method or by buying means of production in a new market (Schumpeter 1928: 31). "Everyone is an entrepreneur when he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses" (Schumpeter 1936: 78). A non-innovative entrepreneur becomes, automatically, merely a businessman. Although the author does not agree to the exclusiveness of Schumpeter (e.g. the terms 'businessman' and 'entrepreneur' are used synonymously in this study), innovativeness remains an important characteristic of business success as shown by the example of California's economic development in recent years. But concepts like 'creative imitation' (Drucker 1995: 204), when a company develops an invention further in a more market orientated way (e.g. IBM improvement of Apple's PC), should also be regarded as entrepreneurial. Redlich (1955) and Cole (1956 in Kennedy 1980: 121-122) have also modified Schumpeter's theory in the same line with regard to developing countries arguing that actions new to a society or previously unknown to indigenous entrepreneurs can also be regarded as innovative.

In several studies of small and micro enterprises in the Zimbabwean and Namibian context, however, innovativeness does not play a very significant role. Frese and Friedrich (1998: 8) stated that only 22% of those micro entrepreneurs in Harare, when asked about innovative business ideas, were able to describe their invented speciality in detail. Even though Namibian entrepreneurs in Walvis Bay (Hansohm et al. 1996a: 45) rank their creativity with mean 8.7 on a scale from 1 to 10 relatively high, this study reveals a very low degree of innovativeness. In particular in rural trade and construction with its low technical standard and nearly monopolistic structure there is hardly an incentive for an inventive change to more competitiveness. These SMEs tend to benefit from those niches left by bigger

businesses for whom the rural areas are not profitable enough because of the small market and high transport costs. A low level of innovativeness can also be detected amongst urban woodcarvers and craft sellers who often produce and sell similar products and lack negotiating skills and initiative (Sunter 1998: 13). Already in the 1970s Kennedy (1980: 123) stated a similar low degree of innovativeness in trade and construction compared to manufacturing in Ghana which he attributes to the fact that manufacturing requires more creative craftsmanship and organisational innovation than the trade and building industry.

The situation is different only for the rural community tourism projects at the Spitzkoppe and in the Kuiseb Valley which try to market the uniqueness of their landscape and plants providing them with a competitive edge. Only a few urban general dealers and constructions firms show the same strong innovative attitude by constantly improving their product range or building techniques and designs.

An important reason for the low degree of innovativeness is the strong traditional and family background of the majority of entrepreneurs. While family history in management is a positive element in sustaining a successful business⁴⁷ it is likely to have a detrimental effect on innovativeness. Often the son who has obtained new skills at vocational training centres or business schools can only innovate against the will of his parents. Innovation forces the change of culture with its inherent goal to maintain the cohesion of the social structure which is threatened by the introduction of new products and production methods (Kusch 1999: 14-15).

Rostow in his deterministic view would argue that the Namibian economy with its low share of manufacturing and the high dependence of the labour market on

⁴⁷ See Chapter 5.3.1.

subsistence agriculture does not yet show the preconditions for take-off (e.g. decline in birth rate or strong nationalism) and finds itself still in the stage of a traditional society where “the range of possibilities of one’s grandchildren would be just about what it had been for one’s grandparents” (Rostow 1960 in Le Roux 1989: 51). Rostow has been heavily criticised in particular for his non-economic indicators for the take-off stage (Le Roux 1989: 52). The heavily divided Namibian economy⁴⁸ shows that actually two different stages of development can co-exist within one nation, and the results of this study prove that even within the traditional sector of subsistence agriculture a potential for entrepreneurship exists⁴⁹.

The author would therefore more agree with Parsons’ view of social change who accepts that ‘pattern variables A’⁵⁰ typical for simple societies will not entirely disappear even in the most advanced stages, in particular with regard to family values providing emotional security necessary for successful socialisation even in innovative industrial societies (Haralambos and Holborn 1995: 874).

6.3.3 Risk Taking

Every business venture bears a variety of risks⁵¹; the most serious is the risk of failure of the business itself which is, also in developed countries, comparatively

⁴⁸ See Chapter 2.

⁴⁹ See Chapter 5.2.

⁵⁰ Parsons distinguishes two sets of cultural values, the pattern variables A typical for traditional societies focussing on diffuseness, particularism and collective orientation opposed to the pattern variable B characterising advanced industrial societies concentrating on achievement, specificity, universalism and self-orientation (Haralambos and Holborn 1995: 874-875).

⁵¹ Gibson (1999: 2) defines a risk as a probability statement in which the likelihood of undesirable, unforeseen and uncontrollable events occurring is calculated. “Risk taking involves the willingness to commit significant resources to opportunities, which have a chance to fail” (Lumpkin et al. 1996 in Heers 2000: 5).

high during the first five years of operation (in this study nearly 50% of all enterprises are younger than five years⁵²). Schumpeter would argue that a certain level of these failures are part of “creative self-destruction, (...) the dynamics of innovation and economic renewal, a process which requires both births and deaths” (Timmons 1990:9) which can also be regarded as part of an entrepreneurial apprenticeship. But in order to allow for such a learning experience, laws and social norms must not be too restrictive and punishing for the entrepreneur him/herself. The USA in the 1990s should be seen as an example in this regard where firms cease to exist, but not the entrepreneurs.

Without risk taking as an integral part of change, no enterprise can succeed. The historical overview and the definitions in chapter 6.2 have shown that risk taking is a significant, if not the most important element of entrepreneurship throughout its history. But successful entrepreneurs are no gamblers; risks must be controlled and calculated as far as possible which is easier concerning financial and career hazards, more problematic with regard to psychic and social, in particular family risks (Kuratko and Hodgetts 1992: 81). Unnecessary risks should be avoided, particularly financial risks should be shared with partners and investors. The risks of illness, death, accident, liability, fire or burglary could be passed on to an insurance company. Community-based health insurance (CBHI) schemes with a special product for SME co-operatives and associations, recently introduced by the ILO (1998: 1) in Tanzania⁵³, can be regarded as a promising way to insure the most

⁵² See also Chapter 4.3.1.

⁵³ The “Strengthening Small and Micro Enterprises and their Co-operatives and Associations Project” (SSMECA) started with a sensitisation process in March 1997 and was officially launched in July 1998 in Dar es Salaam. The author himself is a member of the East African CBHI Network established in November 1999 in Arusha/Tanzania.

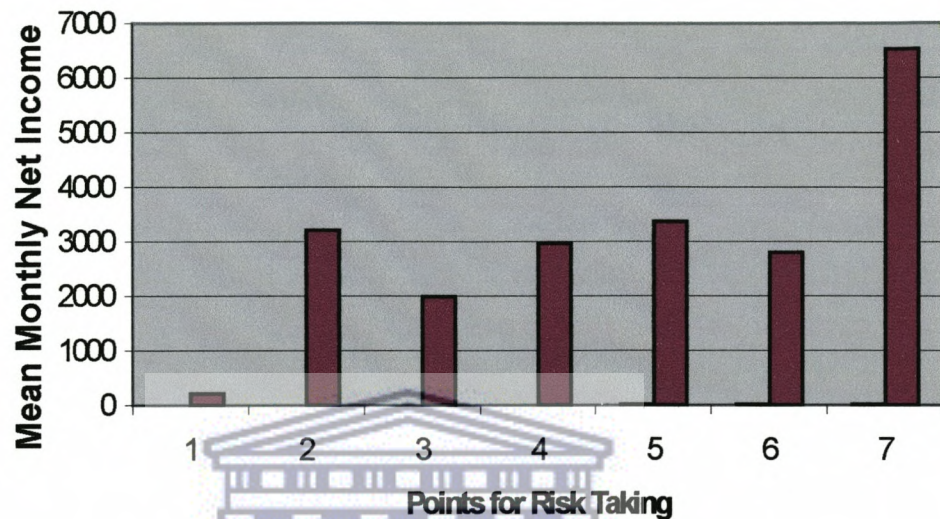
important asset of the entrepreneur, his health. Other means of risk management are to minimise the risk of failure in the initial stage of business while still being employed elsewhere, which is the case in only 5% of the interviewed businesses, or to spread the risk by engaging in different business activities, a phenomenon that is featuring very high amongst the small and micro entrepreneurs in the Erongo region with a percentage of 42%.

But risk taking behaviour also has a personal psychological dimension. Many studies have been conducted to analyse the component of risk taking propensity in general resulting only in mixed findings. At least a correlation between the effort to avoid or reduce risks and performance could be established (Cooper and Gascón 1992: 309). While hardly any differences with regard to gender could be found it is obvious that a minimum willingness to take risks is prerequisite to entrepreneurship. Based on a checklist of Hisrich and Peters (1995: 55) the risk taking behaviour of the small and micro entrepreneurs has been assessed both on the business (e.g. 'Can you take risks with money, that is, invest, and not know the outcome?') and personal level (e.g. 'Can you walk up to a stranger and start a conversation?').

Each entrepreneur scored a point whenever he/she answered positively towards risk taking. Seven businesspeople replied affirmatively towards risk taking in all seven cases while another 21% also achieved a high risk taking level of 6 points. Nearly half of the interviewees can be allocated in a medium risk taking level of 4 or 5 points while exactly a quarter tries to avoid risks wherever they can (1-3 points). While usually a majority of entrepreneurs would respond positively to questions towards risk taking in the personal sphere it was striking that only 22% of the interviewees would be willing to invest money, for example in shares, without

knowing the outcome. Probing of these answers revealed that the concept of the equity market is hardly known amongst small and micro entrepreneurs in Erongo.

Figure 16 Risk taking by Mean Monthly Net Income, 1999



Source: Own research 1999

The comparison to the mean monthly net income in Figure 16 shows, however, that no functional relationship exists between the degree of risk taking and business success. With the exception of those scoring only one point and also generating the lowest profit as well as the high risk takers with the highest income by far, all entrepreneurs with 2-6 'risk points' are earning almost on the same level. Those with two points (N\$ 3,214) receive even more on average than those with a high score of six. This result coincides with the research of Hisrich and Peters (1995: 54) who also could not establish a conclusive causal relationship between risk taking and business success. Both a very careful and a risky approach may lead to failure, but also to success of a small and micro enterprise.

6.3.4 Motivation

The a.m. definition of Timmons⁵⁴ gives already a good example for an explication of entrepreneurship with a strong focus on the aspect of corporate identity, communication and motivation. Probably the most well known of those who have been working on a relationship between business success and entrepreneurial value patterns that preceded rapid growth was the Harvard psychologist David McClelland. In his book, "The Achieving Society", McClelland (1961) tries to establish a connection between economic progress and a culture of a personal need for achievement, being motivation for business initiative in itself rather than for the gain of power, love, recognition or profit. He examined, for example, folk tales of different cultures scoring them for the strengths of characteristics like the standards of excellence, long term involvement or the desire for success in competition with others. Even though several generalisations have been subject to strong criticism, McClelland represents the theoretical shift "to a more dynamic model of entrepreneurial behaviour in which the entrepreneur (is) both a product of society as well as an initiator of societal norms" (GTZ 1999: 3). In this view McClelland is very close to Giddens' structuration theory which sees human beings at the same time as products and producers of society thus supporting neither voluntarism nor determinism (Haralambos and Holborn 1995: 905). In his later works, mainly together with D.G. Winter, McClelland laid out specific recommendations for creating a favourable environment for growth, in particular achievement motivation training for executives that will be discussed in depth in Chapter 8.

McClelland's view of the competent entrepreneur intrinsically motivated by his professional competence, independence and enjoyment of his work (Kusch 1999: 15)

is only partially applicable to the SME sector in the Erongo region. All entrepreneurs have been asked about their two main reasons to start their businesses⁵⁵. Table 11 shows that the dominating motive is the lack of other job opportunities proving that a big number of Namibian businesspeople were merely pushed into self-employment seemingly supporting Hyman's deterministic view⁵⁶. Nearly half of the interviewees mentioned at least one "push argument" (also including 'the only chance to survive' and 'lost job or was laid off'). Even though retrenchment can also be regarded as an initial point to start a business, most of these interviewees who also show various other survivalist characteristics cannot be regarded as true entrepreneurs.

Table 11 Most Important Reasons to Start Business, 1999

No job opportunities elsewhere	67
Wanted to be my own boss	45
Saw a profitable opportunity and took it	40
Because my parents were in the same business	27
Tried to prove my personal capacity	27
Put training into practice	25
The only chance to survive	24
Lost job or was laid off	12

Source: Own research 1999

Further entrepreneurial training in the light of McClelland's suggestions would be efficient only for the remaining 51% (among them the strong groups of coloured entrepreneurs who also show the highest degree of competitiveness and customer

⁵⁴ See Chapter 6.2.

⁵⁵ The most important reason scored two points, the second important one point.

⁵⁶ See Chapter 6.1.

orientation in their proverbs⁵⁷). Similar to the Kenyan experience end of the 1960s (Marris and Somerset 1971: 62-63), most of these more successful entrepreneurs had been employed before, but voluntarily chose to start their own business where they can work independently and creatively.

No significant gender differences are existing when it comes to the division between push and pull factors even though the percentage of women pushed into self-employment is slightly higher than their male counterparts. An ambivalence about being competitive and profit-making (Kuratko and Welsch 1994: 333) could also not be detected since both men and women were equally willing to take up a profitable opportunity with their business. The only differences within the pull factors were the overwhelming male domination to follow their parents in business (25 out of 27 points) while more than half of those entrepreneurs who wanted to put training into practice were female even though they only represent 23% of the whole sample, again an indicator for the greater importance of education for women⁵⁸. No evidence was found for Hisrich's and Peters' (1995: 62-63) gender differences that women are more likely to enter into self-employment because of previous job frustration or that men start their business predominantly to be in control or to improve self-image and status.

6.4 Conclusion

Entrepreneurship is one of the main forces of economic progress and growth. Recent developments like outsourcing and sub-contraction have shifted the focus of entrepreneurship research on small and micro enterprises because of their advantages

⁵⁷ See also Chapter 5.1.3.

⁵⁸ See also Chapter 4.2.2.

in resource allocation and niche strategies. While a new concept like intrapreneurship is of minor significance for SMEs, the characteristics of risk sharing, innovation and motivation are important elements in the process of shaping the entrepreneur as an agent of change in a given society.

Within the Namibian context it is evident that family background and experience in communal agriculture may have a positive effect on entrepreneurial behaviour, even though family tradition might limit innovative activities because of its tendency to maintain existing social structures. SMEs in the Erongo region show a relatively low level of innovativeness with the exception of a few rural community based tourism projects and some urban general dealers and construction firms. Self-efficacy in problem solution is also very weak while goal specificity shows significantly better results. In both cases a functional relationship to the firms' mean monthly net income could be established. Although risk taking has been recognised as a main element of business acumen since the beginning of entrepreneurial research, no notable interdependence to business performance is evident which shows that careful administration, particularly in financial matters, can lead to success. The analysis of motives to start the business reveals that half of the businesspeople have been pushed into self-employment which correlates to the low level of other indicators.

In spite of the unfavourable results all characteristics have the potential for improvement through outside assistance, especially through training albeit on different levels. After proper assessment of constraints and needs of the entrepreneurs in Chapter 7, SME support strategies in training and education will thus receive a special focus in Chapter 8.

Chapter 7 Problems, Constraints and Needs of SMEs in Erongo

This study has already touched on several aspects that limit the activities of the SME sector in western Namibia, e.g. the high dependence on trade with South Africa or the low share of manufacturing in the Namibian economy. Problematic, but also encouraging, aspects of the close relationship to tradition deriving mainly from agriculture and family background have been discussed in Chapter 5 while the previous chapter has shed some light on the limited potential of entrepreneurship regarding innovativeness and self-efficacy. Asked about their business constraints⁵⁹ the following mostly supply related problems were identified as urgent:

Table 12 Most Frequently Reported Business Problems, 1999

Business Problem	Points
Lack of finance	131
Lack of transport	110
Competition	103
Transfer payments to family members	97
Lack of management training	96
Lack of customers	96
Lack of marketing information	86
Lack of skilled workers	76
No adequate bookkeeping system	71
Lack of communication facilities	67
Equipment too old	59
Lack of basic services (water, electricity)	47
Lack of technical training	39
Too many regulations	33
Taxes too high	31

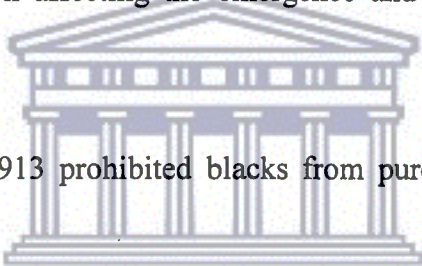
Source: Own research 1999

⁵⁹ The interviewees had to rate problems from a given list of constraints as a big problem, slight problem or no problem at all. A big problem scored two points, a slight problem one point. Additional answers were possible.

This chapter will now assess how the entrepreneurs themselves perceive problems and constraints related to their business focussing on the legal environment, finance, training, markets and infrastructure.

7.1 Legal Restrictions and Regulations

The low rating of regulations on the problem scale by Erongo entrepreneurs seems to suggest a low level of restrictions. But the example of Otjimbingwe⁶⁰ has already shown the detrimental effect of restrictive legislation on the SME sector during the *apartheid* regime in addition to the problems often lowly recognised small businesses all over the world have to face when it comes claim enforcement. Several South African laws have been affecting the emergence and growth of black enterprises (Riley 1993: 5-6):

- 
- The Land Act of 1913 prohibited blacks from purchasing land outside the so-called native areas.
 - Formal businesses in black townships were, according to the Native (Urban Areas) Act No. 21 of 1923, restricted to provision of daily essentials like milk, bread, vegetables or coal, a restriction that was extended in 1976 and removed only during the 1980s.
 - The Group Areas Act evicted even the few remaining black small entrepreneurs who still had managed to secure a business site in white areas.
 - The “one man - one business” policy in 1963 limited black entrepreneurs to only one business and prevented them from forming companies and partnerships.

⁶⁰ See Chapter 5.4.1.

- All business premises in black townships had to be built by local authorities.
- Bantu education and job reservation policies restricted blacks from being given apprenticeships and jobs in certain trades.

Davies (1987 in Rogerson 1996: 20) has singled out political restriction as “without doubt (...) the most important factor that has limited black entrepreneurial growth and development” in South Africa. During the 1980s deregulation was started mainly on the initiative of free marketers who realised the potential of black customers as part of the general paradigm shift in RSA that also resulted in improved government expenditure patterns benefiting various parts of the population (Van der Berg 1989: 188). This process was continued by the new Namibian government immediately after independence in order to create a more favourable business environment even though still in 1999 two different regimes are still regulating the country’s economy (Bruns and Hinz 1997: 5). In particular, amendments to the highly restrictive Road Transportation Act of 1977, the new Trades and Occupational Licenses Repeal Act of 1995 with its liberal approach, and the Married Persons Equality Act of 1996, which has eliminated the gender bias against women also with regard to their business activities, can be regarded as good legislative measures in the deregulation process (Tonin et al. 1998: 7).

Since neither the enactment of health regulations⁶¹ nor tax laws pose a problem to the Erongo SMEs (partly because of the inefficient administration of the Ministry of Health and Social Services and Receiver of Revenue⁶²), the conclusion of Horn et al. (1993 in Rogerson 1996: 22) in his South African urban township study that “legal

⁶¹ See also Ncube and Sisulu (1991: 14).

⁶² See Chapter 3.1.3.

restrictions are no longer regarded as a major limiting feature”, is valid also for the Namibia legal framework.

7.1.1 Municipal Regulations

There is, however, a need to further reduce legal and bureaucratic obstacles to the establishment and operation of SMEs especially regarding the processing of permits, licenses and approvals on municipal level where town planning is still mainly regulated by the highly restrictive Town Planning Ordinance of 1954 (Bruns and Hinz 1997:10). Inflexible zoning regulations often have a detrimental effect particularly on home occupations, hawkers and food sellers. On the other hand a bottle store owner in Omaruru was complaining that existing regulations were not enforced on informal competitors when it comes to quality of beverages and business hours. As the example of Tanzania (SADC 1997: 27) shows, registration in rural areas, particularly if a village is still in the process of proclamation or where responsibilities between ministries, local authorities and traditional leaders are not clearly defined, might still take 24 months or more before completion (Tonin et al. 1998: 8). The situation is better in Swakopmund and Walvis Bay where most of the entrepreneurs were content with the way applications for licences or market stalls were handled by the municipalities.

7.1.2 Land Tenure and Ownership

As mentioned above, the towns and rural centres are quite effective in processing property transactions and deeds of transfer even in their former townships, but it is difficult to get title deeds in Uis and Arandis, which are currently undergoing the proclamation process, and almost impossible in the rural areas. While at least a permission to occupy (PTO) gives a certain kind of security to the tenants in the

small mining towns, entrepreneurs in communal areas like Okombahe or close to the Brandberg are usually lacking ownership rights. The positive exception in this regard is the community based tourism project in Spitzkoppe that eventually received a PTO from the Ministry of Lands, Resettlement and Rehabilitation (MLRR 1996: 1). The difficult situation is enhanced by the fact that even ten years after independence the SWAPO government was not able to pass a new Communal Lands Bill although it had already been drafted in 1994 and its sister piece of legislation, the Agricultural Commercial Land Reform Bill, has been in effect since 1995 (Pankhurst 1996: 124). This leads to an unstable situation in the communal areas where land allocation and appropriation as well as health standards and working conditions are hardly controlled. The lack of collateral is another important aspect to deny rural small and micro entrepreneurs access to credit (MTI 1997: 10). This problem is of particular significance for female entrepreneurs even though they are since 1996 able to acquire property without their husbands' consent. But it will take time until the practical impact of the Married Persons Equality Bill will be visible in Namibia's patriarchal society.

7.2 Financial Constraints

“To an African entrepreneur with only a few years education and a few shillings in post office savings, with no security to offer (... , and) nothing achieved to convince his acquaintances to trust him with their money, capital must seem the crucial obstacle.” Marris' and Somerset's (1971: 203) experience with businesspeople in Kenya and their need for external capital still seems to dominate the perception SMEs by supporting agencies in Namibia, even though the Erongo small and micro entrepreneurs are significantly better educated and save substantially more than their Kenyan counterparts thirty years before. In the same line a stream of empirical

studies to finance in South Africa⁶³ as well as the Namibian MTI (1997) in its policy and programme on small business development have identified lack of credit as one of the core constraints of the SME sector.

Lack of finance is also perceived as the most important problem of SMEs in the Erongo region. Nearly three quarters regard financial constraints as serious, 58% even call it a big problem. One should, however, be cautious to draw the conclusion that most of the entrepreneurs complain about being denied credit by banks. In probing the answers it became evident that particularly the survivalist and part of the micro entrepreneurs entertain a diffuse feeling of financial difficulties which also includes problems in payment, particularly regarding the practice of giving credit to customers (Hansohm et al. 1996b: 32). While saving is very prominent (82% are saving with either commercial banks or the post office), the concept of a loan, especially interest and repayment schedules, is not clear to them.

7.2.1 Inadequate Access to Capital

A look at the Namibian national accounts shows that there is no shortage of capital available for investment in Namibia, in particular since the country's insurance companies have to invest a certain percentage of their portfolio domestically. But because of insufficient investment opportunities, a net outflow of capital mainly to South Africa can be observed (NEPRU 1999: 45). Significant amounts in grants and subsidised loans are also made available to the SME sector by foreign donors and development banks through NDC or various local NGOs⁶⁴. Thus it has to be

⁶³ E.g. Rogerson 1996, Liedholm and McPherson 1993, Ruiters et al. 1994, Riley 1993, Matsebula 1993.

⁶⁴ In 1994 the German "Gesellschaft für Technische Zusammenarbeit" (GTZ) provided N\$ 3.6m to NNCCI, IMLT and Private Sector Foundation for a revolving credit fund (Nilssen 1994: 17). In 1998 the Development Bank of Southern Africa (DBSA) made N\$ 65m available to NDC for onlending to the SME sector (AZ 1998: 1).



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questioned why still only 38% (with a strong bias towards urban traders) of the interviewed entrepreneurs have ever applied for a loan of which 74% were successful, a pattern almost identical to the findings of the MTI with 39% having sought credit from an institution of which 80% were approved. Most of the rejected applications were construction firms, while entrepreneurs in tourism hardly did apply for a loan. Table 13 shows the main reasons for not applying for or not receiving a loan.

Table 13 Reasons for not Applying for / not Receiving a Loan, Erongo and Otjozondjupa Regions, Percentage Contributions, 1999

Reasons for not applying for / not receiving a loan	Erongo 1999	Otjozondjupa 1999	Own Research
I had enough own capital	19	29	0
Lack of Collateral	19	20	20
Failure to draw up business plan	13	25	0
Interest too high	13	15	30
Lack of trade record	11	10	0
Family loans are easier to obtain	9	4	0
Banks are too far	4	7	0
Bank was not interested	3	0	10
No reason given	0	0	40
Others	1	0	0
Missing	5	0	0
Total %	100	100	100
Total number of	62	157	10

Sources: Own research, MTI 1999: 36

⁶⁵ While the MTI primarily asked for the most important argument, the questionnaire of this study also provided the opportunity for a second reason which was integrated into the calculation of the percentage with 50% of the value of the most important argument.

Most important reason for not applying for a loan in both studies was the availability of internal resources, an argument which is also verified by the saving pattern with 80% of entrepreneurs saving regularly relatively high amounts between N\$ 240 and N\$ 120,000 (median N\$ 2,400). By adding the successful applicants and those who were able to get credit from other sources, in particular family members, 45% of all entrepreneurs in both studies do not have a problem with the accessibility of the commercial credit system. The remaining 55% mainly consist of survivalist enterprises which would have problems to access credit in any given society because of their inherent high risk level particularly in the initial stages. Thus Hansohm's (1999: 2) argument against the mainstream is supported who regards it as "a myth that credit is the key constraint to small scale enterprise development".

The positive attitude regarding accessibility of the banking sector is further underlined by the fact that the distance to the next branch of a commercial bank is not perceived as too far. Hence lack of collateral and trade record as well as the high interest level and the failure to draw up a sufficient business plan are perceived as the real constraints preventing SMEs from obtaining a loan. These were also the major reasons why credit applications were not successful: The MTI (1999: 36) identified the lack of a trade record and the failure to draw up a business plan as most important while the Erongo businesspeople in this study prioritised the lack of collateral and the high interest level with prime rates peaking in 1998 at 14.7% (NEPRU 1999: 30). On one hand entrepreneurs are satisfied with the normal banking services in particular when it comes to saving; on the other hand, 50% of the unsuccessful loan applicants complain about the lacking interest of commercial banks in processing their application. This might be explained by the traditional reluctance of commercial banks to lend to the informal sector because of high costs and risks involved

(Commonwealth Secretariat 1994: 23) but also because SME credit as a relatively new product is currently still mainly restricted to the capital of Windhoek only⁶⁶.

7.2.2 Problems during the Start-up Phase

Lending to SMEs in the stage of setting up a business, is regarded as risky by commercial banks, a perception that based in the fact that mortality rates of SMEs are actually very high in the initial phase (Levitsky 1993: 6-7). Thus only 18 out of those 28 who have ever successfully applied for a loan received credit for the start-up phase. The results of this study show, however, that entrepreneurs in Erongo are able to build up substantial personal savings (mean N\$ 18,411 in constant 1999 prices).

Table 14 Source of Starting Capital by Type of Enterprise, Percentage Contributions and Mean and Median Amount per Source, 1999

Source	Small	Micro	Subsidiary	Total	Mean	Median
Personal savings	52	56	55	55	18,411	2,829
Family assistance	0	11	10	9	14,706	2,389
Borrowed from friends	0	2	3	2	6,625	6,625
Inherited	0	3	0	2	79,738	79,378
Grants	13	8	25	14	44,372	4,497
Local money lenders	0	0	0	0	0	0
Loans from Banks/Inst.	13	13	0	9	100,568	69,180
Others	22	6	8	10	46,833	8,340
Total⁶⁸	100	100	100	100	33,353	4,497

Source: Own research 1999

⁶⁶ Interview with Co-ordinator of Standard Bank SME initiative J. Jacobs on 22 November 1999.

⁶⁷ Based on inflation statistics of the Bank of Namibia (BoN 1999: 1) the capital amounts were recalculated to a constant price 1999 depending on the starting year of the business.

⁶⁸ Total answers add up to more than 100 as more than one response was possible. Furthermore figures may not add up to 100% because of rounding.

While personal savings are having the same high importance for all types of enterprises, other sources for starting capital show the differences in particular between small and survivalist businesses. While, as to be expected, loans from banks and other finance institutions are available for only the best performing small and micro enterprises, the percentage of grants for survivalist businesses is surprisingly high. This pattern will receive further recognition in Chapter 8. Another interesting feature is the high importance of severance payments by former employers among “others” for small enterprises (not only as percentage but also in absolute amounts) which suggests that more successful entrepreneurs first obtain working experience as employees before starting their own business. Family assistance is the only traditional source for start-up capital while local money lenders are contrary to the South African experience (Ncube and Sisulu 1991: 10) of inferior significance. In a rural environment local money lenders seem to be non-existent and even for the urban townships of Walvis Bay, Hansohm et al. (1996a: 26) identify only a few informal or semi-formal financial institutions.

With regard to the actual amounts utilised for the start-up of business the high divergence of initial capital needed is a common observation for almost all sources which is evident in the differences between mean and median amounts. The value of the highest grant, for example, is higher than the total of all remaining seventeen grants. Thus in most of the cases the median value is the more reliable figure, a phenomenon that is also visible in the baseline study of the MTI (1999: 34) on Erongo. Since those enterprises with a high start-up capital are also the best performers, Kennedy’s (1980: 45) argument is disputed that high initial capital is not necessarily a very important ingredient of business success.

When it comes to the major financial problems of SMEs during the initial phase of business, particular emphasis is placed on shortages of working capital (Matsebula 1993 in Rogerson 1996: 22). Forty-two percent of all interviewees in the MTI baseline study on Erongo and Otjozondjupa identified lack of working capital a major constraint. The need for operating funds is, however, likely to decrease during growth phases while correspondingly the need for investment capital tends to grow in the same period (Riley 1993: 25). With demands of SMEs changing during the development of a business throughout the time, providers of financial services have to combine their financial support with adequate training programmes on different levels in order to ensure a proper understanding of the principles of financial accounting⁶⁹.

7.3 Education and Training

Contrary to a 1993 ILO survey, but in line with the NEPRU/GOPA feasibility study of 1995, the small and micro entrepreneurs in the Erongo region are comparatively well educated⁷⁰ (Hansohm 1996a: 11-12). But the deliberations about entrepreneurship and financial constraints have already indicated the need for adequate training in several managerial aspects. Lack of training, both for the entrepreneurs and employees, is also perceived as one of the most pressing problems although it is necessary to differentiate. While the lack of skilled workers indicates insufficient technical and vocational training, the owners and managers have realised their need for more training in management, marketing and basic accounting. In the

⁶⁹ Rudkins (1990:5) defines financial accounting as “the process by which financial statements (for example, the balance sheet, and profit and loss) are created. Invariably these are double entry (although effective single-entry systems do exist) and almost always accrual (matching revenues and expenses to the same time period), the system has various stages (the ‘accounting cycle’) through which it moves.”

⁷⁰ See also Chapter 4 and MTI 1999: 30.

first place it is, however, necessary to analyse the current state of entrepreneurship education on school level which could build an important foundation for a business friendly environment.

7.3.1 Entrepreneurship and Business Management in Secondary Education

“Most people have some degree of entrepreneurship, but the motivation to start and run a business may not necessarily be very prominent within the hierarchy of motives as described by McClelland and Winter” (GTZ 1999: 7). In order to overcome this lack of motivation especially in a society where self-employment was restricted for the majority of the population for a long time, cultural values improving entrepreneurial acumen can only be introduced on primary and secondary school level. In spite of the fact that education is featuring high on the agenda of the Namibian government in terms of resource allocation, the practical teaching of entrepreneurship is lacking. Although the topics to be addressed in the recently introduced IGCSE system include decision making, problem solving, basic bookkeeping and small business management (MEC 1993: 92) it is clear from the syllabi that the dominating concept in pre-vocational education is preparation for employed position. In any case the curriculum is hardly linked to professional and practical activities, even not as an employee. Furthermore the lecturer centred teaching is no adequate means to develop entrepreneurial aspects like pro-activity, innovativeness or independence (Hansohm et al. 1996c: 11).

7.3.2 Management and Technical Training

“The low level of skills in the small business sector reflects (...) foremost the lack of appropriate training facilities for entrepreneurs and workers” (Hansohm 1996b: 12). This problem applies to both management and technical training. Furthermore a

strong urban bias is obvious when it comes to the teaching of management techniques either on tertiary level by UNAM and colleges or by NGOs where only IMLT is regularly offering courses in the different regions. This situation results in low standards of financial and personnel management. Erastus-Sacharia (1996: 39) attributes the high rates of business failures in Namibia mainly to the weak managerial skills combined with a poor ability to think ahead and plan the development of the business. More than half of all interviewees have realised these constraints, 38% even as a major problem. In line with the findings of Hansohm et al. (1996a: 49) in Walvis Bay, vocational training demands, however, are not prevalent in the Erongo region. Only 22% of the businesspeople complain about lack of technical training which indicates a relatively good quality of training-on-the-job that almost all builders and woodcarvers have received.

Contrary nearly half of the entrepreneurs mention a lack of skilled workers which indicates the absence of an appropriate skills base amongst the currently unemployed members of the labour force (ILO 1993 in Erastus-Sacharia et al. 1996: 39). Before independence, proper technical training was virtually denied to the majority of the Namibian population. In spite of the SWAPO government's efforts⁷¹, vocational training is still regionally concentrated at the expense of peripheral areas and does not meet the actual needs of the SME sector with regard to product innovation and appropriate technology. It is also doubtful whether further efforts to decentralise vocational training supported by the European Union, NGOs and overseas development agencies will bear fruits in the medium term. The whole scenario results in a lack of innovativeness. Namibian entrepreneurs tend to restrict themselves to certain types of business predominantly in retail, petty trading or

needlework while merely a few are active in manufacturing activities (Erastus-Sacharia et al. 1996: 39). In the construction sector, only urban building firms use higher sophisticated machinery, while the lack of training and unavailability of machinery restricts rural SMEs mostly to a low technical standard.

7.4 Markets and Competition

The SME sector in Namibia is characterised by a “lack of purchasing power, limiting the market for small industry products, especially in the rural areas” (Jezkova 1995). While urban entrepreneurs complain about the tough competition rural informal SMEs have to face the negative effects of lacking competition being exploited by agents and wholesalers with their monopolistic power (Commonwealth Secretariat 1994: 24). The disadvantages of the majority of SMEs are enhanced by the lack of market information and marketing skills of particularly the survivalist businesses.

7.4.1 Marketing

Marketing problems are an important constraint to the establishment and growth of SMEs throughout the developing world because new businesses find it difficult to make themselves known to their customers while growing business often lack access to market information (Commonwealth Secretariat 1994: 24). This constraint is also perceived at least as a slight problem by 58% of the Erongo entrepreneurs which compares to the figures of 50% in the MTI baseline study (1999: 40) and to the findings of the Commonwealth Secretariat (1994: 23) with 56% for the whole of Namibia. It is, however, necessary to differentiate between the urban and rural environment. Most of the SMEs in Swakopmund and Walvis Bay have easier access to relevant sources and can merely be regarded as a management problem for the

⁷¹ E.g. the new vocational training centres in Windhoek and Rundu.

survivalist craft sellers and woodcarvers who often already lack negotiation skills or a basic knowledge of English and Afrikaans. Rural producers in the former homelands often have to rely on agents and auctions for the marketing of their tourist articles like gems, baskets and woodcarvings because they have no own means of transport (Vesper 1983: 206). The same applies to community based tourism projects which are strongly dependant on urban tour guides. Marketing is usually not very important for rural shops and construction firms because of their own monopolistic market position.

7.4.2 Competition

As shown in Table 12 competition is one of the most important problems for small and micro entrepreneurs in the Erongo region. Forty percent regard competition as a big problem and 23% as a slight problem, quite more than the Walvis Bay entrepreneurs interviewed by Hansohm et al. (1996a: 36) with two thirds regarding competition as reasonable while only 30% would describe it as tough. With the integration of Namibia in the Southern African Customs Union (SACU) Namibian SMEs have to face the fierce competition of the big South African chain stores and building companies. The SWAPO government has so far failed to provide protection to smaller businesses from unfair competition of larger South African businesses or their Namibian subsidiaries in form of a competition law at least for infantry industries. A new plant manufacturing toilet paper, for example, had to face their RSA competitor dropping prices by 40-50% to recapture market shares and eliminate the new smaller company (Commonwealth Secretariat 1994: 27). Protection mechanisms available under the SACU are also not used while compensation mechanisms of SACU mainly benefit the government budget and are not channelled to the private sector (Hansohm et al. 1996c: 11). Thus small shops are restricted to

niches (e.g. selling of local traditional clothes) or franchising and building companies to sub-contracting with often very small margins.

7.4.3 Procurement and Sub-Contracting

Small builders are practically excluded from procurement by the government, in particular because of the complicated and time consuming tender procedures (Hansohm et al. 1996c: 12). In order to participate in some of these projects sub-contracting to a bigger company is often the only option for small contractors. But “the culture of subcontracting may have either a progressive or exploitative impact on small firms” (Manning 1993 in Rogerson 1996: 19). Like in South Africa the SMEs have to face a system where large companies prefer to deal with one another since their transaction costs would increase once dealing with a large number of small sub-contractors (Kershoff 1996: 21). The ambivalence of sub-contracting is entirely ignored by Erongo builders who in spite of its disadvantages with low profit margins and exploitative nature unanimously regard sub-contracting as a major factor of a successful business performance. A good example is a survivalist carpenter from Usakos who in spite of several losses from contracts with bigger building firms is still in favour of sub-contracting. Regarding the fact that Erongo builders regard sub-contracting as such an important business strategy, it is surprising that the World Bank has recognised stimulation of these kind of forward and backward linkages between formal and informal sector only since the early 1980s in its programmes (Levitsky 1986: 16)⁷².

⁷² See also Chapter 3.4.

7.5 Infrastructure

“Access to adequate infrastructure is a particular problem of the ‘growth’ enterprise, as opposed to the survivalist enterprise (which is usually located in the home).” Rogerson’s (1996: 24) view is relevant also in the Namibian environment where the survivalists are often working from their own private sites. But they have to face other major constraints like lack of transport or basic municipal services as well as insecurity regarding tenure of business premises and far distances from suppliers and customers. Hence this chapter will focus on the provision of market sites by municipalities and their zoning regulations as well as the availability of basic services like water, electricity, telecommunication and transport.

7.5.1 Provision of Business Premises

The lack or unsuitability of business premises is in contrast to other African countries not regarded as a big problem since an astonishingly high number of SMEs (56%) is operating from own buildings. The percentage is particularly big in rural areas⁷³ where the business is often run from a separate room of the private dwelling with low value that can hardly be used as collateral for bank loans, a problem often enhanced by the unavailability of title deeds⁷⁴. While entrepreneurs in the rural centres are mainly depending on private landlords, the towns (partly with the support of NDC) are prominent in providing market stalls for shops as well small carpenters and welders.

⁷³ See also Chapter 4.3.4.

⁷⁴ See also Chapter 7.1.2.

Picture 5 The Unused Market Stalls in Mondesa (Swakopmund)



Picture 6 The Hive at the Kuisebmond Market in Walvis Bay

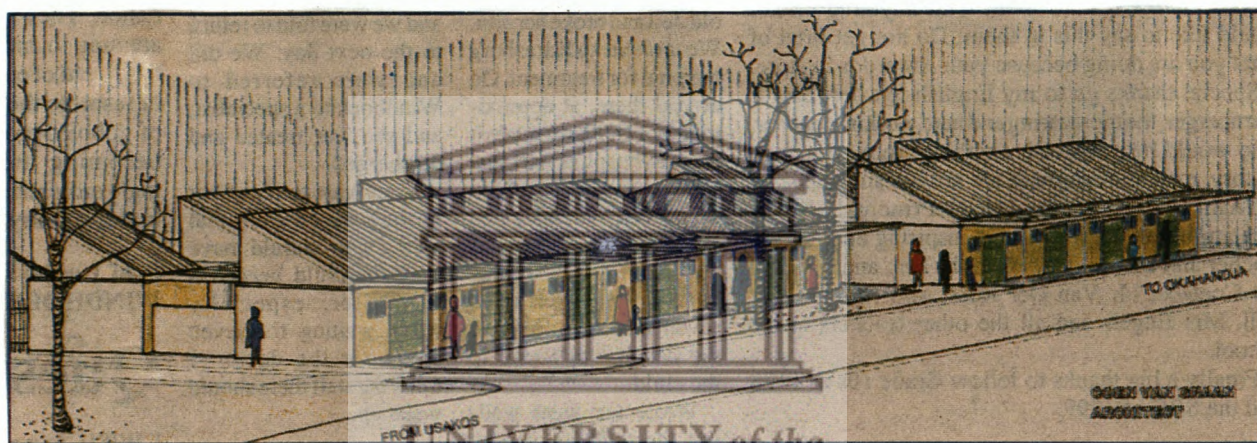


Source: Own Photos 1999

The municipality of Walvis Bay was quite successful in providing attractive sites either for shops close to the former single quarters where a high number of customers live or for workshops in the centre of the new extensions of Kuisebmond where a lot of building activities have started. The only disadvantage is the uniformity of stalls which become inadequate when a small firm grows (Rogerson 1996: 24). In contrast

the hive at the entrance to Swakopmund-Mondesa with more than forty stalls is basically unused, in the opinion of local small businesspeople because of the wrong location. Already five years ago Thomas (1995: 7) regarded the failure of these centres as a result of “glaring absence of participatory planning”. He is also critical about the NDC industrial park in Mondesa arguing that none of the entrepreneurs is really an “emerging black operator” and that all tenants would also be able to afford privately developed accommodation.

Picture 7 Planned SME Module in Karibib



Source: *The Namibian* (1999: 16)

In contrast the two tourist markets close to the mole and on the road to Hentiesbay are strategically well situated and attract a lot of customers. While the license costs for an open space are reasonable in the view of the woodcarvers and craft sellers, almost all of them were complaining about the absence of secure storing facilities. The only comparable project in rural areas is the planned SME module in Karibib (NDC 1999: 16) on the main road from Windhoek to Swakopmund opposite the existing private tourist information. While this hive is likely to attract tourists passing by, the location is, however, very distant from the former township where most of the

small entrepreneurs and their employees are living. For the remote rural areas of Okombahe and Spitzkoppe, only infrastructure improvements in provision of electricity and telecommunication can be stated while the MTI's plans for the establishment of industrial estates for rural entrepreneurs without water, electricity, transport and market contacts have not materialised since Thomas' research (1995: 9) for the NEPRU/GOPA study.

In larger towns like Swakopmund and Walvis Bay "(t)he problem of lack of business premises is exacerbated by the zoning regulations of municipal and local authorities" (SADC 1997: 33). Zoning regulations were also regarded as the second biggest obstacle in the NEPRU research on SMEs in Walvis Bay (Hansohm, et al. 1996a: 29), in particular by welding companies. Usually industrial areas far from the customers in the residential zones are identified, thus the small or micro entrepreneur has to face either eviction or high transport costs. In the light of this situation it remains to be seen whether the plans for SME units in the envisaged remote recycling plant in Walvis Bay will succeed (AFRICON 1998: 30).

7.5.2 Municipal Services, Transport and Telecommunication

The success of the new government policy after independence to provide the formerly neglected areas with water and electricity is evident in the answers of three quarters of the small and micro entrepreneurs in the Erongo region who do not have any problem with these basic services. This situation has further improved immediately after the completion of field research with the recent connection of Spitzkoppe and Okombahe to the power supply. The result is supported by findings of the MTI (1999: 43) where the majority of SMEs does not need support with regard to water (69%) and electricity (61%) supply. The scenario is slightly worse regarding

the provision of telecommunication, in particular for some of the villages with only a few party line connections. Transport, however, is the worst infrastructure problem. Forty-four percent, again mainly representing the rural areas where high transportation costs threaten the viability of an SME, regard it as a major constraint, another 22% still view lack of transport as a slight problem.

7.6 Conclusion

This chapter has discussed constraints and needs of the SME sector in the Erongo region mainly from the entrepreneurs' personal point of view. Although legislation is not perceived as a big problem, particularly rural micro and survivalist enterprises have to suffer under the two regimes of legislation where the system inherited from the South African government has been gradually amended since independence in 1990 to a more liberal approach. While the majority of urban entrepreneurs does not complain about municipal regulations, rural SMEs are lacking security in land tenure and ownership because of the absence of a proper Communal Lands Bill. Lack of finance is reported as the most frequent business constraint which also includes problems regarding credit to customers. Since a big number of entrepreneurs has been able to mobilise substantial amounts from internal resources, only the survivalists and parts of the micro enterprises are excluded from access to bank loans in the start-up phase of business. While demand for working capital is dominating in the initial stages, the need for investment capital grows the longer the business is in operation.

The two main constraints of Namibia's educational system for the SME sector are the lack of preparation for self-employment on secondary level and the concentration of management schools and vocational training centres on urban settings only.

Entrepreneurs in the Erongo region are generally satisfied with their technical expertise obtained during previous jobs, but complain about the lack of skilled workers. The managers and owners themselves have realised their weaknesses in management matters, in particular when it comes to financial administration and marketing which is very difficult especially for rural SMEs. Competition is regarded as one of the main problems in the cities while rural enterprises often benefit from their monopolistic position. On the other hand they are disadvantaged because of their dependence to formal wholesalers, main building contractors, agents and tourism companies. This problem is often the result of lack of transport, the major constraint regarding the infrastructure for rural SMEs which are to a lesser extent also experiencing difficulties in telecommunication. Entrepreneurs are in general content with water and electricity supply. The support strategies regarding business premises are viewed controversially with regard to the provision of market stalls, mainly because of their partly unsuitable location and the lack of participation in the planning process. Rural areas are still entirely ignored in the provision of industrial estates.

Even though this study has concentrated on sub-sectors with a certain potential for growth, a wide range of problems exist that can only be solved with a mixture of demand and supply orientated support strategies (Hansohm et al. 1996c: 9). Chapter 8 will now assess some of the main providers of assistance to SMEs in Namibia including NGOs, government and private sector. Main focus will be how far these agencies take problems and needs of small and micro businesses into consideration and how their interference is viewed by the entrepreneurs themselves.

Chapter 8 Concepts of SME Promotion

Considering all the problems, needs and constraints of the SME sector, both governments and NGOs tend to merely concentrate on deficits of the supply side in their support strategy, mostly based on social motives like poverty alleviation and employment creation. The deficits on the demand side, e.g. the competition of cheap industrial products from South Africa or the lacking purchasing power of the clientele, are often ignored in the same way as the potential of the sector is not recognised. Instead of activating the high educational standard and the entrepreneurial capabilities⁷⁵ of a significant part of the businesspeople, grants for unfeasible projects are creating further dependencies or help these firms at least to survive for a certain period of time (Hansohm et al. 1996c: 9-11).

This chapter investigates the provision of services actually delivered to Erongo SMEs taking both the positions of entrepreneurs and service providers into consideration. Table 15 shows the answers of all businesspeople asked about the number and quality of services they received from the different stakeholders in the private and public sector as well as from the donor community.

The table proves the high accessibility of the commercial banking system and the strong availability of municipal services. However, as mentioned above there is still a huge potential for the development of demand orientated services regarding marketing, franchising or sub-contracting. In general the majority of services is perceived between good and excellent on a scale between 2 and -2. All training efforts and market support services, albeit few, are highly appreciated. Even the positive rating of banking services is exceptionally high, taking the large number and

regional spread into consideration. Only the poor water supply in the rural Spitzkoppe area accounts for the weaker result of municipal services which score above average in towns (1.28) and rural centres (1.52).

Table 15 Services Delivered to Erongo SMEs, Rating of Services, 1999

Service	No. Services	Services Provided	Rating
Finance	2	98	1.13
Training	36	64	1.59
Marketing	89	11	1.38
Other Demand Orientated Services ⁷⁷	82	18	1.42
Provision of Business Premises	64	36	1.16
Municipal Services ⁷⁸	10	90	0.81

Source: Own research 1999

The a.m. results will be analysed in detail also assessing the views of the different service providers either based on interviews, policy documents, reports or secondary research. As the point of departure the macroeconomic view will concentrate on the government as policy maker and creator of the legal framework and the Joint Consultative Commission (JCC) as the most important lobby group for SMEs.

8.1 Support Policies and Legal Framework

Even though the MTI is the main role player in SME policies public support of small and micro businesses is characterised by the doubling of efforts in different government departments (Erastus-Sacharia et al. 1996: 17-18). In various ways both

⁷⁵ See also Chapters 5 and 6.

⁷⁶ The interviewees could rate the services either excellent (2 points), good (1 point) or unsatisfactory (-2 points).

⁷⁷ E.g. franchising, sub-contracting or wholesale.

⁷⁸ Mostly water, electricity and waste removal. Minimum standard was the provision of water.

Ministries of Education, the Ministry of Regional and Local Government and Housing (MRLGH), the Ministry of Agriculture, Water and Rural Development (MAWRD), the Ministry of Mines and Energy (MME), the Ministry of Finance, the Ministry of Justice and the former Ministry of Youth and Sports (since March 2000 integrated in the newly created Ministry of Women Affairs) are dealing with SME issues, partly in an overlapping or even contradictory way.

Chapter 7.1 has already given an indication of the problems SMEs in Erongo and overall in Namibia still have to face in spite of recent positive amendments of legal framework. The Namibian government in its policy and programme on small business development has committed itself to further deregulation, in particular by reducing the remaining bureaucratic obstacles in establishing and running SMEs. The MRLGH in its decentralisation process has been tasked with the simplification of administrative procedures especially regarding town planning, zoning and proclamation. This process, however, is further undermining the existing traditional legal system which, at least in the Erongo region, has already lost its significance in terms of registration and regular control of small and micro businesses. Another supplementary policy to be introduced by the MTI (1997: iv-v) will be a new Competition Act that is envisaged to provide incentives for SMEs like the threshold with Receiver of Revenue at N\$ 50,000. Other programme activities concerning finance, marketing, purchasing or training will be discussed later in this chapter.

If co-ordination amongst government institutions is difficult it is yet more problematic regarding the numerous NGOs, CBOs, embassies and foundations. Already 65 NGOs and CBOs are to be found in the Namibia Development Directory under the keywords “small business” and “informal sector” and even more are involved in training or economic development (Republic of Namibia 1995: C2/20-

21). Besides the DED⁷⁹, it is particularly the JCC⁸⁰ that is co-ordinating the efforts of 39 member organisations and a further 22 honorary members active in SME support including all commercial banks, the municipality of Windhoek, churches and NGOs active in training, research and finance. JCC gives a platform for member organisations to discuss key issues and best practices of SME support. Furthermore the organisation promotes entrepreneurship and advocates the further development of an enabling environment for the SME sector (JCC 1999: 7). Even though most of the members still pursue their own agenda, JCC is facilitating constant exchange in several standing committees dealing with credit, training, capacity building, marketing as well as sites and premises. In the area of entrepreneurship JCC has launched a new SME Innovation Award in December 1999 (JCC 2000: 2-4). Albeit small and lacking the infrastructure of an enterprise promotion agency like Ntsika (1998: 1) in South Africa, JCC has in the meantime been well recognised by the Namibian public and government which is, for example, visible in its representation on the board of the new Small Business Credit Guarantee Trust⁸¹.

8.2 Financial Assistance

Provision of financial assistance to SMEs has undergone several paradigm shifts over the last forty years (Tonin et al. 1998: 11-16):

- In the view of early development economists during the 1950s, growth of capital could only be achieved as the result of saving. Poverty would perpetuate itself

⁷⁹ DED is co-ordinating a monthly meeting of NGOs and embassies active in SME support where interesting SME topics are discussed and project proposals for possible funding are exchanged in a more informal way.

⁸⁰ JCC was created by SME service providers in 1996 as a member-based organisation not for gain. Main donors are the MTI, FES, UNDP and GTZ.

⁸¹ See Chapter 8.2.3.

because incomes are too low to enable savings, a gap that could only be closed by the influx of development capital.

- Having realised in the 1970s that the effect of large development projects would not trickle down to the poor, the focus shifted more to poverty alleviation and income generation. Credit was regarded as the crucial bottleneck and specialised development banks were set up offering generally subsidised credit to poor and risky target groups. Because of the non-economic criteria, part of the programmes did not reach the intended beneficiaries since often those with the best political connections gained access to the subsidised loans rather than the poor. In addition the low interest rates discouraged saving and made borrowing also attractive to SMEs that would not have been profitable at market interest rates.

- As a result, a third view favoured deregulation of the financial system that in order to improve access of the poor to reasonable rates rather than subsidised credit. It was assumed that in a favourable legal and economic environment banks and financial intermediaries would mobilise enough savings to ensure proper lending practices.

- A recent development during the 1980s and 1990s known as the new theoretical institutionalisation rejected the claim that total liberalisation would inevitably lead to optimal financial resource allocation. Since SME lending still remains risky and expensive because of the high mortality rates and administrative costs, improved access of the poor strata of society to the financial system could only be achieved by well governed institutions. Effective information systems and an attractive incentive system would motivate repayment and eventually result in decreasing administrative costs.

Concepts for financial support of SMEs in Namibia are still very much based on the second and even the first approach which is, for example, evident in the high significance of grants or subsidised credit programmes. Information and incentive systems are not in place, financial intermediaries have been experiencing too much political pressure on the disbursement of loans (NDC) or have failed entirely (PSF⁸²). In addition the commercial banks, in spite of first initiatives, have not enthusiastically embraced the idea of lending to SMEs. A positive result of this study, however, is the high degree of availability of saving services to SMEs also evident in the mean monthly savings to commercial banks, building societies and insurance companies.

8.2.1 Banking Services

Even though lack of finance is perceived as the biggest problem of Erongo's small and micro businesses⁸³, a very high percentage (98%) of the SMEs make use of the formal finance system, even exceeding the savings rate (82%) significantly. The result is quite astonishing since bartering is the traditional way of trading and accumulation of livestock the habitual means of saving particularly for Damara and Owambo. Thus the general argument is supported that financial constraints are more related to the difficult, often survivalist financial position of the businesses themselves rather than the accessibility of the banking system⁸⁴. Also, the discrepancy between problems of businesspeople and services delivered can not be attributed to a lack of quality of the banking systems because Table 16 shows that the

⁸² The Private Foundation (PSF) had to terminate its operations of lending to SMEs in 1997.

⁸³ See Chapter 7.2.

⁸⁴ See Chapter 7.2.

different banks and post offices were rated very well. Only 8 out of 98 bank clients were dissatisfied with their financial institutions.

While Bank Windhoek and Commercial Bank (both more related to corporate and commercial clients) are concentrating on the towns of Walvis Bay and Swakopmund, the Post Office only plays an important role in the remote area of Uis where no branch of First National Bank (FNB) or Standard Bank is available. It comes to a surprise that FNB is so strongly dominating the rural centres since Standard Bank also operates with the same number of branches in of Omaruru, Usakos and Karibib.

Table 16 Providers of Banking Services by Location, 1999

Location	Number of Banks	Number of Clients	Rating
Urban			
Bank Windhoek	17	17	1.12
Commercial Bank	7	7	1.29
First National Bank	11	11	0.91
Standard Bank	15	15	1.13
SWABOU	1	1	1.00
Post Office	1	1	1.00
Total Urban	52	51	1.10
Rural			
First National Bank	34	33	1.29
Standard Bank	4	4	1.00
Post Office	11	11	0.82
Total Rural	49	49	1.16
Total Banking Services	101	100	1.13
No Banking Services	2	2	

Source: Own research 1999

⁸⁵ Three enterprises co-operated with two banks.

⁸⁶ Figures do not add up because of rounding.

⁸⁷ The interviewees could rate the services either excellent (2 points), good (1 point) or unsatisfactory (-2 points).

The difference between the rural branches of FNB and Standard Bank finds its explanation comparing the rating of services by the clients. In spite of the big number (two thirds of the rural SMEs) FNB shows the highest score for the best services only matched by Bank Windhoek in Walvis Bay and Swakopmund. Even though the total rating for rural banks also includes the weaker performance of the post office in Uis, the positive FNB result eventually leads to higher total score of rural banks compared to their urban counterparts. This outcome is very surprising since higher competition in towns should lead to better services while the almost monopolistic structure in rural areas is usually associated with a lower standard of quality. Since FNB in the coastal towns performs significantly worse, the favourable result in the rural centres must be attributed to the branch managers' positive attitude rather than to the bank's overall SME policy.

8.2.2 Loans

In the absence of a functioning traditional money lending system in Erongo, SMEs are restricted to the formal banking system. As already explained in Chapter 7.2.1, a total of 38 entrepreneurs have applied for a loan of which 30, mainly urban traders, were successful. Forty seven percent of the loans were provided by commercial banks (most of them by FNB), 13% by NGOs, 24% by public institutions (ministries, regional or town councils) and 16% by NDC. None of the commercial banks takes communal agricultural activities into consideration, family history, however plays a role in the trade record of a small firm.

Significant differences between the credit providers can be detected regarding the quality of services. While all commercial banks were rated with the maximum of two points and NGOs with a relatively high score of 1.33 points, NDC has only achieved

0.25 and the public loan providers even a mere -0.75 points. The only positive exception is the Development Fund of the Walvis Bay municipality which so far supported thirteen small enterprises and community initiatives with loans in the range of N\$ 500 – N\$ 2,000 combined with courses conducted by IMLT and PSF (CISP 1997: 20-29).

Particularly the poor result of NDC in quality and quantity is astonishing since the parastatal is the main implementing agency of the governments financial SME policy. The list of financing products includes several interesting schemes for the three sub-sectors investigated in the Erongo region. For example, they include a Small Builders Bridging Fund for construction firms with cash flow problems during the periods before completion of work as well as various products for traders ranging from franchise, lease and wholesale financing to the Traders Aid Fund mainly aiming at tenants of NDC premises. In addition another development scheme is allocated to the disadvantaged group of female entrepreneurs in rural areas (NDC 1998: 5-10 and JCC 1999: 47). But hardly any of the interviewees has ever heard about the range of NDC products, let alone benefited from them. The report of Hansohm et al. (1996d: 70-71) on credit delivery systems for SMEs in Namibia establishes a similar low level of SME lending for NDC mainly due to slow methods of appraisal and disbursement combined with a high cost level and poorly developed monitoring systems leading to high default rates. Hence NDC requires serious improvement before it can fulfil its role as a well governed company in the sense of the new theoretical institutionalisation, in particular because a lot of black entrepreneurs still perceive it as the successor of ENOK with its strong relation to the *apartheid* government.

The a.m. report of Hansohm et al. (1996d: 21-25) distinguishes four types of credit providers ranging from semi-formal NGO-based partly revolving funds with different degrees of subsidisation and limited staffing levels over parastatals like NDC with almost market related interest charges but relatively low disbursement rates to formal commercial banks with only limited exposure to SME lending that take the risk component into consideration adding between 4 and 9% to the prime rate. A remarkable observation of this study is the establishment of a relationship between degree of subsidisation and the effectiveness of a scheme. The more a credit programme is subsidised the lesser the degree of monitoring, accessibility, disbursement rates, personnel involvement and size of total available capital. In actual figures for 1996 this means on average 16 SME clients per year for six of the seven highly subsidised providers compared to 579 per commercial bank, N\$ 1.5m compared to N\$ 22m in total loan portfolio, 21% compared to 100% in capacity utilisation and 8 compared to 1.5 persons involved in the disbursement of a loan. The unsatisfactory performance of NDC in the last category with even 14 persons involved in processing a credit application sheds some light on the low efficiency of the parastatal (Hansohm et al. 1996c: 14-15).

8.2.3 Credit Guarantee Fund

Since social collateral is only accepted by the Agricultural Bank for loans of communal farmers⁸⁸, a good way to overcome the problem of lacking security of SMEs in gaining access to credit⁸⁹ are guarantee schemes. The World Bank already in the early 1980s introduced such schemes in different Southern countries with

⁸⁸ Interview with J. Steyn (Agricultural Bank Windhoek) on 07 August 1998.

⁸⁹ See Chapter 7.2.1.

guarantees the commercial banks 50-75% of sub-loans made available to SMEs (Levitsky 1986: 23-24). Even though the start was not very encouraging credit guarantee schemes on different levels have developed into a good market related incentive to reduce the risk aversion of commercial banks and make use of their existing infrastructure.

With the launching of the Small Business Credit Guarantee Trust in June 1999 the MTI in conjunction with GTZ, EU, NDC, JCC and the commercial banks took an important step to substitute the lack of collateral of SMEs (Hamutenya 1999: 8). The scheme is based on a minimum capital corpus of N\$ 10m and provides guarantee coverage of 80% of the outstanding principal loan (Hamp 1999: 7), thus even exceeding the conditions of Khula in South Africa which provides retail financial intermediaries (RFI) with 60% and emergent entrepreneurs with 75% guarantees, both limited to certain maximums within a three years period (Khula 1999: 11). In the long run the trust is intended to operate on a self-sufficient basis earning income from interest and guarantee fees. One should be only cautiously optimistic about the potential success of guarantees in Namibia since the commercial banks seem to be slightly hesitant to join the scheme.

Some other SME service providers, however, are already supplementing the formal market of small credit guarantee schemes. IMLT, for example, fully guarantees loans provided by FNB ranging from N\$ 5,000 – N\$ 50,000 for selected businesses excluding liquor stores, agricultural projects and taxi operators. An owner contribution and viable business plan are prerequisites. Collateral is arranged through a hire purchase agreement (JCC 1999: 33-34). A similar scheme is run by NDC issuing guarantees for working capital and/or acquisition of assets if proof of

business management experience is given and a viable business idea presented. NDC co-operates with any third financial institution (NDC 1999: 4).

8.2.4 Grants

A total of thirty grants, predominantly in the rural areas, have been given to 21 SMEs in Erongo (14 in the start-up phase). The fact that some enterprises received up to three grants proves the ability of some entrepreneurs to write persuasive project proposals. Main donors are the US embassy (6 grants), ELCRN (6), NACOBTA (5) and the Rössing Foundation (5) while tourism related activities at the Spitzkoppe and in Uis were dominant on the receiving end. Grants are usually not given unconditionally, but attached to certain prerequisites. While the US “Ambassador’s Self-Help Program” targets only co-operatives with a minimum of own contributions, ELCRN requires the successful completion of basic management and record keeping courses (British High Commission 1999: 2). A general problem for both is the monitoring, e.g. the US embassy is only able to arrange for one follow-up visit after a year⁹⁰. Roessing and NACOBTA have a better infrastructure, for example, they are able to combine their grants with marketing in Uis (Roessing) or constant counselling for various tourism projects (NACOBTA).

Since the SME activities in the communal areas rarely qualify for formal loans, there is no competition between credit and donations. Thus contrary to the view of Hansohm et al.⁹¹ (1996c: 9-11) grants still have a certain role to play as long as a proper feasibility study has been prepared in advance.

⁹⁰ Interview with K. Powell, Self-Help Co-ordinator of US Embassy, on 1 March 1999.

⁹¹ See introduction to Chapter 8 .

8.3 Training

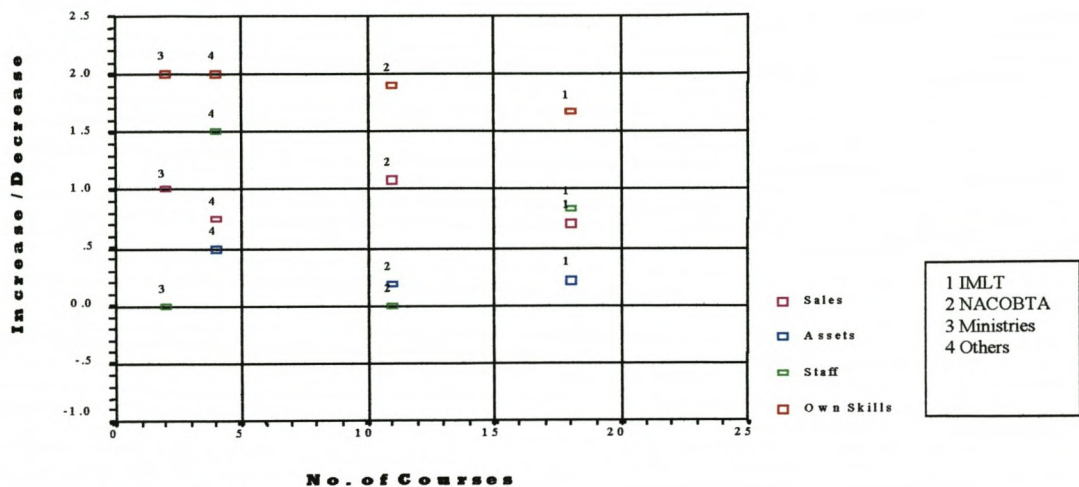
The MTI (1997: 48) in its policy and programme on small business development merely concentrates on the technical aspects of training by trying to improve vocational training centres, thus ignoring the lack of management skills and business acumen in Namibia. Hence training in basic management and entrepreneurship has to be provided by the private business world and NGOs hardly operating in the regions.

8.3.1 Management Training

The “Small and Medium Enterprises Service Providers’ Directory” published by JCC (1999: 6) already mentions twenty different training providers which are offering management courses to SMEs. But most of the institutions are restricted to Windhoek, hence businesspeople from the regions have limited access to training. Even if the entrepreneurs would manage to pay the course fees, they are forced to leave their business unattended for weeks. Thus it does not come as a surprise that IMLT and NACOBTA, as the sole institutions also operating in most of Namibia’s regions, are covering 83% of all management courses.

In spite of the high number of courses, both institutions received a high rating with IMLT scoring 1.71 points and NACOBTA 1.13. Figure 17 gives a more detailed picture of the impact of courses where the entrepreneurs were asked how indicators like own skills, sales, assets and number of staff changed immediately after the courses. In general, the entrepreneurs highly appreciate the improvement of personal skills and knowledge gained from the courses. Sales figures on average have slightly increased immediately after the courses while an impact on asset accumulation was difficult to establish. A significant effect in employment creation can only be attributed to the courses organised by ministries and IMLT.

Figure 17 No. of Management Courses by Development⁹² of Own Skills, No. of Staff, Assets and Sales, 1999



Source: Own research 1999

Overall the impressive results for IMLT and NACOBTA are encouraging since they offer varied quality training courses with measurable outcome. The success of these two organisations can also be attributed to the fact that both are conducting their courses in indigenous languages and using examples from the traditional living environment which is of particular importance for survivalists and beginners (e.g. the 6M Simulation Course of IMLT). A lot of examples out of the agricultural background of the small and micro entrepreneurs are included in the courses of IMLT. Action plays give the opportunity to put theory into practice. Courses on different levels of SME development are offered so that the entrepreneurs can go back to their businesses in between the courses in order to apply their newly gained theoretical knowledge⁹³.

⁹² The development of own skills, no. of staff, assets or sales was rated as following: Significant increase (2 points), slight increase (1 point), remained the same (0 points), slight decrease (-1 point), significant decrease (2 points). The figures in this graph show the mean value per training organisation.

⁹³ Interview with W. de Klerk (Business Trainer of IMLT) on 20 June 2000.

Case Study 5 Namibia Community Based Tourism Association (NACOBTA)

The main goal of NACOBTA is “taking indigenous people and their environment seriously and adapting to local circumstances without feeling isolated or lost” (NACOBTA 1999: 1). The organisation was initiated in 1995 by various communities involved in tourism and aims at promoting the interest of the emerging community tourism industry. In 1999 NACOBTA was supporting 21 community based tourism (CBT) projects throughout Namibia and assisted a further 16 communities in organising themselves with the ultimate aim of setting up a tourism enterprise. These small and micro businesses include camp sites, rest camps, craft centres, traditional villages, indigenous tour guides, tourism information centres and open air museums. In the Erongo region NACOBTA supports five existing projects or groups, of which four have been interviewed during the field research: The Spitzkoppe Community Project, the Daureb Craft Centre in Uis, the Brandberg Mountain Guides at Tsisab Gorge, the Topnaar Community in the Kuiseb Valley as well as the Okombahe Rest Camp⁹⁴. In addition to the management training, NACOBTA is also providing business advice to individual enterprises, initiating community organisation and needs assessment, assisting with marketing of CBT products and trying to create linkages to the formal sector (NACOBTA 1999: 3-5). The author himself witnessed during a visit in April 1999 that business advice for NACOBTA even deals with conflict management and immediate counselling after the murder of a German tourist inside the Spitzkoppe tourism camp.

⁹⁴ Interview with M. Louie (NACOBTA).

Picture 8 The Community Tourism Project in Spitzkoppe supported by NACOBTA



Source: Own Photo 1998

8.3.2 Technical Training

Only 13.4% (28) of all courses attended by the owners and managers of Erongo SMEs, particularly from the construction industry, were offering technical training. The low percentage is another indication that training on the job enjoys a higher preference in the SME field than formal courses. The Roessing uranium mine in Arandis along with its development arm, the Roessing Foundation, is the main provider in the field of technical training in the Erongo region. They are responsible for more than two thirds (19) of all technical courses, followed by the ministries, in particular the Ministry of Works, Transport and Communication (MWTC), with 25% (7) of the courses. Again most of the entrepreneurs felt that their own skills had improved significantly after the courses with Roessing (+1.84) scoring slightly better

than the ministries (+1.43). Only Roessing's courses resulted in a slight increase of staff (+0.47), assets (+0.32) and even a strong boost of sales (+1.16) while government courses did not have any practical impact on assets (0) and even experienced reduction of staff (-0.29) and sales (-0.43) immediately after the courses. Vocational schools played only a minor role in the education of small and micro entrepreneurs of the Erongo region (two courses only) because vocational training centres (VTCs) were only confined to Windhoek until the middle of the 1990s.

Another important reason for the low involvement of VTCs is the fact that the curriculum of vocational training in Namibia mainly focuses on the teaching of technical knowledge, although certain elements of managerial and entrepreneurial key qualifications have recently been included in the vocational training programme (JCC 1999: 75). The limitations of entrepreneurship education are furthermore visible, for example, in the carpentry and construction section of the Windhoek Vocational Training Centre (WVTC). Here, since the early 1990s, teachers have already voluntarily included topics like cost calculation, characteristics of entrepreneurship and a comparison between employment and self-employment into the syllabus. But owners and managers of building firms complained because they feared that the trainees' knowledge of organisational aspects and price calculation would enable them to engage into informal sector and black market jobs after working hours⁹⁵.

8.3.3 Entrepreneurship Education

While vocational training hardly includes elements of entrepreneurship, IMLT in its courses strongly focuses on the aspects of business acumen which might also explain

⁹⁵ Interview with S. Kärcher, development worker at the WVTC from 1992 until 1997, on 29 January 2000.

the success of this particular training institution. Part of its programme includes the CEFE⁹⁶ method which further develops McClelland's findings on entrepreneurial motivation⁹⁷. McClelland's main assumption was that human behaviour is ruled by a hierarchy of motives. The more a person thinks about a particular motive the stronger it becomes. Applied to observations in the Erongo SME sector it can be stated that in particular Damara and Owambo entrepreneurs are still strongly influenced by their traditional roots in agriculture and obligations to the family. Entrepreneurship training should thus take these strong traditional values as a point of departure for change of motivation. Behaviour training could influence the motivation of an entrepreneur by increasing the frequency of reward for a desired behaviour, by affirmation of certain arguments through the facilitator or the support of change with the affiliation to a new reference group (GTZ 1999: 3-4).

The best chance, however, to bring about cultural change is already during the early stage of primary and secondary education building on the traditional background of the pupils, particularly in agriculture. Chapter 7.3.1 has already shed some light on the low significance of entrepreneurship in Namibian schools. "The opportunity is there for a radical appraisal of the education curriculum to help children to understand what it is like to run a small business, and, in the case of those in the vocational trades, help them convert their trade or skill into self-employed business; and to prepare young people to work in a flexible manner in small and medium businesses so that they understand small companies, recognizing that at least a third

⁹⁶ CEFE stands for Competency-based Economies, Formation of Enterprise. The CEFE network is rooted in experiments of GTZ during the 1980s in three different continents targeting particularly lower income groups and aiming at the stimulation of enterprise behaviour, guided self-analysis and the building up of business competencies by means of real-life simulation exercises (GTZ 1999: 2-3).

⁹⁷ See Chapter 6.2.

of the adult workforce will ultimately work in small firms. Perhaps, more importantly, we must create circumstances for the development of enterprising young people, reinforcing and building enterprising behaviors such as opportunity seeking, decision taking and problem solving, as well as by interpersonal skills training and development to build their self-confidence, self-awareness and ability to work in groups” (Gibb 1995: 8). Encouraging examples of a paradigm shift also integrating entrepreneurship in the curriculum are to be found in South Africa where pupils already at the age of eight begin with business games, start small manufacturing or engage in petty trading on open school days and learn how to draw up a business plan already as part of their secondary education (Sunter 1998: 10-11). After graduation school leavers have the opportunity to make use of Ntsika’s (1998: 3) “School Leaver’s Opportunity Training Programme” and can find a Chair of Entrepreneurship at various universities and technicons which is yet unavailable in Namibian tertiary education. A positive example in the Namibian NGO sector, however, is the “Katutura Youth Enterprise Centre” (KAYEC), a training organisation initiated by ELCRN and the Anglican Church that has also integrated the CEFE programme. KAYEC (1999: 5-8) specifically targets school leavers with courses in life skills, basic management courses and job search abilities mainly in the Windhoek area. The organisation also provides an officially recognised vocational training module in construction that combines technical and entrepreneurial education.

8.4 Markets

A policy change in SME promotion from supply to demand orientation would necessarily require increased market orientated support services. Even though establishment of business linkage and vendor development programmes, stimulation

of the development of merchandising intermediaries and export market development form a major part of the MTI's policy and programme on small business development it is hard to believe that market stimulation can come from the public sector with almost no entrepreneurial experience. Thus this chapter will mainly concentrate on viable linkages to the private and NGO sector and only touch on government support when it comes to procurement or outsourcing.

8.4.1 Linkages

The most sustainable market related strategy of supporting SMEs, is the strengthening of linkages between the enterprises and the formal sector with a mutual monetary interest in the relationship. Chapter 3.4.3 has already elaborated on the interdependence between formal and informal sector, e.g. between formal tour operators and communal tour guides or rest camps. Sub-contracting is a further existing linkage particularly in the construction industry, even though the preconditions in Namibia, like in South Africa, are not yet ideal for SMEs, because they often lack the quality to meet officially recognised standards (Riley 1993: 58). Another good model of viable linkages is the marketing system of Namibian Beverages, the sole supplier of Coca Cola in Namibia. As the basic material means of support, Namibian Beverages provides small and micro shops and liquor stores, both in formal and informal sector, with refrigerators for their products, even with gas operated appliances in areas without power supply. During regular monthly visits, sales representatives not only identify the monthly demand of the shops, but also provide constant monitoring and training regarding business management, costing and pricing, customer relations, book- and record keeping.⁹⁸

⁹⁸ Interview with C. Kustaa, Sales Manager Namibian Beverages on 1 December 1999.

Case Study 6 Car Guards in Swakopmund and Walvis Bay

Another example of linkages between formal and informal sector is the system of car guards being established in Swakopmund and Walvis Bay in 1998. A local businessman pays for a license fee to position car guards in certain areas of the town. The guards themselves are self-employed and pay a daily fee depending on the season to the businessman. This system has provided quite a number of additional jobs in the coastal towns during recent years and has improved security of cars in a systemised way. Dependence on the businessman and the absence of permanent contracts and social security, however, also show the exploitative nature of the system.

Other linkages exist to the public sector especially when it comes to outsourcing and procurement. Half of the eight municipalities interviewed for the 1999 MTI SME Baseline Survey were already busy outsourcing several functions to the private sector. Another two were considering the possibility of outsourcing refuse removal, building maintenance and security services (MTI 1999: 14). Similar procedures are taking place in rural areas where, for example, the owner of Hobasen General Dealer⁹⁹ is responsible for the removal of sewer water in the Omatjette region. Procurement is particularly important for the small and micro construction firms which are repeatedly excluded from tender procedures often because of the weak knowledge in English and their lack of guarantee capital. Only a few municipalities actually have a policy of SME procurement. Thus following the example of Ntsika (1998: 3) in South Africa, the establishment of tender advice centres that provide

⁹⁹ See Case Study 3.

information, counselling and training for SMEs on tender procedures could be a helpful municipal service to small and micro businesses.

8.4.2 Purchasing

A disadvantage Namibian SMEs have to face is “the lack of competitiveness in sourcing components as well as raw materials and goods for resale” (MTI 1997: 44) which is particularly relevant for the sub-sectors of construction and trade. In the cases of informal enterprises these problems are often enhanced by a negative attitude of formal sector suppliers. Until now only the NNCCI has a system for bulk purchases in place (JCC 1999: 14). In the future, the MTI in conjunction with NDC envisages to establish a database evaluating the most competitive sources; particularly in South Africa but also including the global market which shall be shared with SMEs and wholesalers. Having also identified the requirements of small and micro businesses it is intended to launch a group purchasing scheme so that they can also benefit from improved terms (e.g. in setting up cash-and-carry stores in locations). Furthermore buyers of larger organisations who give particular assistance to SMEs should receive recognition by some form of an awards system.

It remains doubtful whether a group purchasing scheme will really succeed. Without an economic advantage for bigger companies attached to the scheme, awards alone will not be a sufficient incentive. In addition, long distances will prevent SMEs in the rural areas from access to the stores. But the main obstacle is the attitude of the entrepreneurs themselves of which 44% regard group purchasing schemes as not really necessary. Probing of the negative answers revealed that traditionally the owner of a business is responsible for him- or herself while suspicion and mistrust prevail towards mutual action with their competitors.

8.4.3 Marketing

Taking into consideration that lack of marketing information, competition and lack of customers feature among the most important problems of Erongo small and micro entrepreneurs¹⁰⁰, it is surprising that only six service providers (three tourism associations, two NGOs and a church) are involved in the marketing of products. One has, however, to take into consideration that demand of marketing support is very different amongst the three sub-sectors under investigation. While construction firms more or less advertise through the quality of their work, shops and SMEs active in the tourism industry have to rely on strong marketing. A lot of those entrepreneurs with strong traditional roots especially in the rural areas have not yet realised the importance of promotion and advertising and lack pro-activity in this regard.

The 13 SMEs that are actually receiving marketing support are focussing almost exclusively on crafts and gems. ELCRN, Save the Rhino Trust and the Tourism Centre in Karibib are selling their products on a commission base in their own shops or headquarters while Rössing arranges for transport of picture frames and mobiles from Uis to the Craft Centre in Windhoek, an outlet where several community based projects are selling their goods to tourists. In general the SMEs are content with the services rating them either good or excellent. Not mentioned by the entrepreneurs but pointed out by the supporting firms and NGOs are the advertisements of several tourist camps in a brochure published by NACOBTA (1999) and marketing support by Namibian Breweries¹⁰¹.

¹⁰⁰ See Chapter 7.4.

¹⁰¹ See Chapter 8.4.1.

8.5 Infrastructure

Provision of infrastructure for SMEs is mainly regarded as an obligation of the public sector, particularly the municipalities and village councils. While services like waste removal, water and electricity supply are available for the majority of entrepreneurs – even though the quality differs significantly as shown in chapter 8.5.2 – provision of public business sites by municipalities or NDC is only used by a quarter of the interviewed businesses. According to interviews with town clerks in the Erongo region (MTI 1999: 13-15) only a few municipalities actually have an SME support policy in place, among them Walvis Bay with its development programme catering for finance, training and market stalls.

8.5.1 Provision of Business Sites

Thirty four of one hundred SMEs are leasing or renting buildings, market stalls or open spaces from municipalities (21), NDC (4) or private landlords (9), the majority in urban areas. In addition two community based tourism camps have been provided with PTOs by the MLRR. Private lease contracts are in general rated very high (1.48 on a scale from -2 to 2) while NDC only scores -0.25. The problems of Swakopmund's entrepreneurs with their municipality stemming from the provision of business premises¹⁰² are also evident in the rating of services where the coastal tourist town only scores a meagre 0.08. In contrast Walvis Bay achieved the top result of 1.57, another proof of the good SME policy of the harbour town where SME development plays a major role in town planning, e.g. regarding zoning regulations in the former townships of Kuisebmond and Narraville¹⁰³. As already mentioned in

¹⁰² See Chapter 7.5.1.

¹⁰³ Interview with Walvis Bay Town Planner B. Stewart on 08 October 1999.

Chapter 7.1.1 zoning regulations are not entirely regarded positively, in particular by those entrepreneurs working from home. The same applies to hawkers being restricted in their mobility. The recent case of the Okutumbatumba Hawkers Association (OHA) against the Windhoek municipality illustrates the detrimental effect of a strictly imposed zoning policy that even went as far as taking vendors operating outside permitted areas into custody (JCC 2000: 1). According to the town clerks local authorities in the Erongo and Otjozondjupa regions, however, take a relaxed approach to standards and registration because otherwise businesses would close down (MTI 1999: 14).

8.5.2 Municipal Services

Municipal services in the Erongo region include water and power supply as well as waste removal. Table 17 gives the explanation of why only few entrepreneurs actually complained about the lack of municipal services¹⁰⁴.

Table 17 Rating of Municipal Services, 1999

Province	No. of Responses	Average
Municipality Swakopmund	27	1.33
Municipality Walvis Bay	20	1.20
Municipality Karibib	5	2.00
Municipality Omaruru	9	1.56
Municipality Uis	7	1.43
Municipality Usakos	10	1.22
NamPower / NamWater	3	2.00
Ministry of Agriculture, Water and Rural Development	9	-0.90
No Services	10	
Total	100	1.16

Source: Own research 1999

¹⁰⁴ Compare Chapter 7.5.2.

Only 10% of all SMEs in the remote areas of Brandberg, Okombahe or Spitzkoppe as well as the car guards in Swakopmund were left without any service entirely. Ninety percent were at least supplied with water - 20% more than the needs survey of Hansohm et al. (1996a: 61) indicates for Walvis Bay and MTI (1999: 43) for Erongo and Otjozondjupa region - while 75% received electricity and 66% regularly had their waste removed.

Ratings, however, show that not only quantity but also quality of services on average is very high on a scale from -2 to 2. It comes as a surprise that the quality of municipal services in rural centres and even in the deserted mine village of Uis is even higher than in towns. While the few SMEs supplied by the parastatals of NamWater and Nampower are content with the excellent services, it is only the rural entrepreneurs in Spitzkoppe that are extremely dissatisfied with the provision of water by the Department of Water Affairs within the MAWRD.

8.5.3 Transport

Public transport is only provided by train to the towns and rural centres while the rural areas only receive the basic infrastructure of constantly maintained roads. The transport sector hence shows the highest discrepancy between needs (In Table 12 lack of transport is perceived as the second biggest problem) and actual support (only 6 out of 304 services delivered to Erongo SMEs deal with the question of transport). It is just the Rössing Foundation and ELCRN that are organising transport of crafts and carpets (partly also raw materials like wool, paint or glue) regularly between Uis or Okombahe and Windhoek. The formal trading sector provides for transport even to the remote rural areas, but charge exorbitant fees leaving those with the lowest purchasing power paying the highest prices. The same applies to professional gem

dealers or craft buyers paying only small amounts for gems or wood carvings. This situation often restricts the rural survivalist SMEs to their time consuming traditional transport donkey carts or to expensive lifts with local car owners.

8.6 Conclusion

Even for Namibian standards SMEs in the Erongo region are receiving relatively good support in quantitative terms, especially when it comes to supply orientated services like finance or training as well as provision of water and electricity. Support strategies, however, only answer the actual needs of small and micro entrepreneurs to a certain extent while neglecting, for example, problems with transport or the lack of marketing information.

The general SME policy of the Namibian government incorporates numerous positive elements, in particular regarding deregulation, finance, market linkages and technical training. Nevertheless there is a significant potential for improvement concerning better co-ordination between the various Ministries involved in SME promotion, the lack of efficiency in the operations of NDC as the main implementing agency of the government or the absence of entrepreneurial elements particularly in secondary education and vocational training. On the municipal level, the public sector scores high ratings by Erongo entrepreneurs in services like water and power supply or waste removal. The picture looks different regarding concrete SME support strategies including procurement, outsourcing or provision of business sites where only the municipality of Walvis Bay shows excellent results. In order to improve the overall picture, one should follow best practices of other countries and start publishing an annual plan of business sites and infrastructure to support small businesses (MTI 1999: 14).

In spite of the good efforts of the JCC also the NGO sector has a co-ordination problem with SME support. Dissimilar agendas, backgrounds and target groups make a joined action almost impossible. Management training and marketing support are areas where NGOs, particularly IMLT and NACOBTA, perform far above average. While IMLT has a very differentiated programme focussing strongly on entrepreneurial aspects and taking personal and traditional background into consideration, NACOBTA is very effective in reaching the intended target group of the poor rural communities in an effort to combine income generation and nature conservation. Achievements of both organisations are measurable in growth rates of sales, capital accumulation and job creation. In the absence of traditional money lenders NGOs are not very successful as credit providers mainly because of lack of qualified personnel and infrastructure in the regions. Even though donations are more connected to early development theories, NGOs have their role to play in the provision of grants to survivalist enterprises which should preferably be combined with basic training in management, record and bookkeeping¹⁰⁵.

The private sector has its role to play especially in the areas of finance, training on the job and market related services. Commercial banks and to a lesser extent the post offices in Erongo region are highly accessible to SMEs with regard to savings while loans are almost exclusively available to small enterprises only. The Small Business Credit Guarantee Trust should thus enable commercial banks to target particularly the potentially viable micro enterprises. Following the example of Agricultural Bank SME financing should also take social collateral into consideration in order activate traditional values especially within the extended family. In order to achieve sustainability for SMEs in particular in the rural areas linkages to the formal sector

¹⁰⁵ See Chapter 8.2.4.

have to be further extended in the fields of transport, sub-contracting, marketing and purchasing. It is, however, necessary to overcome the often exploitative nature of this relationship. The NNCCI could possibly serve as mediator between the interests of formal and informal sector enterprises.



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Chapter 9 Conclusion and Recommendations

This study has provided a reflection of the general economic state of affairs in Namibia, particularly regarding the impact of SME support on poverty alleviation and income distribution in the Erongo region. In conclusion, this chapter will analyse how far the study provides answers to certain problem areas identified in Chapter 1.1. The second part of the conclusion will assess to what extent the hypothesis could be verified followed by specific recommendations for the stakeholders involved in the SME sector.

9.1 Response to Problem Statements

In the beginning of this thesis¹⁰⁶ problems in the fields of research, policy making, development and management were mentioned. Each problem area will be assessed as to how far solutions could be found and where further research is necessary.

9.1.1 Research Problem

The fact that only three of the hundred entrepreneurs had been interviewed before underlines the need for more research of the Erongo SME sector, particularly in the former homeland and rural centres. This study has made additional data available that have already been integrated in NPC's 'Erongo Regional Development Plan'. In qualitative terms for the first time a study about Erongo SMEs has assessed the interdependence between business success and agricultural performance as well as family history.

¹⁰⁶ See Chapter 1.1.

After comparison of different approaches including those from other countries adequate definitions of 'small, micro and survivalist enterprises' as well as 'informal sector' have been established for the Namibian context. Several methods to quantify the sector have been discussed in order to enable the paradigm shift from the often politically motivated definition to a more scientific explanation of the phenomenon. A model on the linkages between formal and informal sector reveals the functional relationship between both sectors, in particular elaborating on the costs and benefits remaining in either sector¹⁰⁷. These effects have to be considered in the different SME support strategies.

9.1.2 Policy Problem

On the policy level, this study has concentrated on the support programme of the MTI with its focus on poverty alleviation and job creation. The results of the research show that SMEs have an important role to play in enabling particularly survivalist enterprises to earn at least a minimum income on subsistence level and to accumulate basic assets, hence having a positive effect on the skewed income distribution of Namibia. The Ministry has, however, to be cautioned with reference to the job creating capacity of the SME sector that seems to be highly overestimated, since this study only established an average employment of 2.5 persons per enterprise combined with a decreasing trend in employment per enterprise since 1994.

The perception of entrepreneurs towards the public support strategies of MTI is generally positive regarding finance, training, common facility centres, market information, sites and premises. On the contrary, group purchasing schemes were mainly not perceived as a valid option. Even though regulations are not seen as a

¹⁰⁷ See Chapter 3.4.2.

serious problem by the businesspeople, the study has clearly revealed the necessity to eventually amend *apartheid* legislation, in particular when it comes to deregulation and decentralisation. Here also the regional and local authorities have a role to play. Overall municipal services are viewed positively, but lack a participatory approach in the provision of business premises or zoning regulations. In general improved co-ordination is needed both on the government level between the Ministries involved in SME policies and also between the different layers of national, regional and local administration.

The lack of co-ordination is also evident between the different NGOs involved in SME support which are partly competing with each other. Churches and NGOs proved to be most efficient in the provision of management training and the disbursement of grants to survivalist enterprises while credit administration in general was very weak. As a response to political pressure, loan programmes for SMEs have become part of the portfolio of all commercial banks albeit on a very small scale. However, such programmes are usually regarded as a social obligation and thus principles of business and risk management are hardly adhered to. In general most of the stakeholders involved in SME promotion do not take aspects like traditional legal systems, social collateral or reciprocity of small business to agriculture and family obligations into consideration.

9.1.3 Development Problem

SME support in Namibia is constrained by various development problems. For example, the ethnic groups of Damara, Owambo and Coloureds/Basters have different traditional backgrounds as hunters and gatherers, horticulturists or livestock herders and have been exposed to other trades for different periods of time. Herd size

of small livestock and cattle is still dominating the value system of particularly Damara and Owambo while business success only plays a minor role. Positions as employees in government or bigger companies, for example, have a higher status in public opinion. Although part of the Damara have far more experience in manufacturing and trade than assumed in the first ethnologic reports during the early twentieth century, they are disadvantaged compared to Owambo and particularly Coloureds/Basters. The *apartheid* regime played a specific role in manifesting these differences by applying restrictive control to the Damara businesspeople¹⁰⁸ while ignoring the Owambo and promoting Coloureds and Basters. These discrepancies are still evident in the income distribution of entrepreneurs strongly dominated by Coloureds and Basters and result in very different degrees of business acumen. Albeit change even from an unjust system is difficult, the SME sector particularly through a few innovators has its significance for the development process and the change of values towards, for example, business success.

Another important development problem is the status of women in the Namibian society which is also evident in the low median income of female entrepreneurs¹⁰⁹. So far, the amendment of legislation¹¹⁰ did not have a significant impact on the actual living situation. But the results of this study also show some signs of hope: Firstly women are more innovative and willing to grab new opportunities¹¹¹, secondly three of the five highest income earners are women who can serve as role models for their fellow female entrepreneurs.

¹⁰⁸ See Chapter 5.4.

¹⁰⁹ See Chapter 4.2.2.

¹¹⁰ E.g. the Married Persons Equality Bill.

9.1.4 Management Problem

With regard to the management experience within the Erongo SME sector the qualitative research in this study reveals the strong relationship between business and agriculture, particularly when it comes to livestock husbandry. Management functions such as negotiation, selling and organisation of work, often have their roots in the agricultural background of the entrepreneurs. Other valuable learning fields for successful managers are the family business, employee work experience or management courses organised by either IMLT or NACOBTA. A certain ambivalence can, however, be detected concerning the employment of family members which has positive effects on the performance with regard to close relatives like spouse or children, but is detrimental when it comes to other extended family members. A similar pattern is evident in agriculture where often members of a different ethnic group are found to be more reliable than extended family members.

Even though high risk takers have been identified as the most successful entrepreneurs for the majority of small businesspeople in Erongo no causal relationship between the degree of risk taking and business performance could be established. More controlled risk management strategies include horizontal diversification into different business activities, regional extension, sub-contracting and engagement in a well known trade even though it might be less profitable than other new opportunities.

9.2 Hypothesis

The hypothesis in Chapter 1.2 assumes that current support strategies for SMEs in Erongo are not sufficient and can be significantly improved by agencies taking

¹¹¹ E.g. the Community Based Tourism Project in Spitzkoppe.

regional differences into consideration. This part of the conclusion wants to assess how far the hypothesis has been supported by the research results. From the entrepreneurs' perspective the section of the hypothesis regarding the negative judgement of current SME support strategies in Namibia has only partly been verified by the research results.

9.2.1 Existing Support Systems

Unexpectedly, for example, the formal banking system was found highly accessible. In addition most of the predominantly supply related services provided (particularly municipal services, banking services and training) have been rated either good or even excellent. A huge discrepancy is, however, evident concerning demand orientated services, at least in quantitative terms. In spite of the high savings rate, credit is not available for the majority of businesspeople. Entrepreneurship training is lacking in all levels of formal education. In addition, vocational training has hardly been accessible for entrepreneurs in the Erongo region.

9.2.2 Regional Differences

With the exception of education, the regional differences regarding income distribution, asset accumulation and business exposure are immense. While Namibia in the African context and Erongo amongst the Namibia regions are better off in terms of GDP per capita, the intra-regional income distribution is very skewed. In contrast to SMEs in rural centres, which are surprisingly on almost the same level as urban entrepreneurs, businesspeople in a rural setting of the former Damara homeland are almost exclusively operating on subsistence level. Income distribution also has an ethnic component with Bastards and Coloureds as beneficiaries of *apartheid* legislation entirely high income earners and Damara in majority finding

themselves at the bottom of the scale. The most distorted income distribution is to be found amongst the Owambo with some very successful entrepreneurs who already developed their business acumen relatively unchallenged under the South African rule, but there are also a lot of former peasants who try to make a living under subsistence conditions.

Business acumen is particularly strong in urban trade and tourism and in the construction sector of rural centres while the rural entrepreneurs are often more passive because of their desperate situation. The tendency to expect everything from the government, churches and trade unions is particularly strong in the settlements of the former Damara homeland. The degree of entrepreneurship is very high amongst the Coloureds and Basters, but also within the ethnic group of Owambo who have obtained significantly more traditional experience in trade and manufacturing than the Damara. The comparison of Otjimbingwe and Sesfontein¹¹², however, shows that these differences are mainly a result of socialisation and not of selection, thus education, training and increased exposure to business can bring about change.

9.2.3 Traditional Business Practices

The core objective of this study is to analyse possible linkages between business success and traditional business practices. Chapter 5 has clearly established the functional relationship between business performance and asset accumulation in agriculture. While traditional leadership structures (e.g. business registration through chiefs or headmen) lose their significance in higher developed regions like Erongo, habitual business practices continue to influence management strategies of small and micro entrepreneurs. The majority of high income earners states that they have

¹¹² See Chapter 5.4.

obtained skills in marketing, organisation and negotiation from their farming activities. In addition experience obtained from self-employed parents and grandparents proves to be a major asset of small and micro entrepreneurs in the Erongo.

On the policy level MTI and other ministries involved in SME support (with the exception of MET) in the light of reconciliation policies do not take traditional and ethnic aspects into consideration. In the same light, with the exception of IMLT and NACOBTA, none of the interviewed training agencies regard traditional business practices, performance in communal agriculture and family history in the informal sector as important.

In the area of finance the most common sources of starting capital are personal savings often combined with the customary element of family assistance. In the absence of traditional money lenders, small and micro entrepreneurs have to rely on the formal banking system when it comes to credit. As the only representative of the banking sector the Agricultural Bank is willing to accept social collateral, which is surprising since its experiences in the poor North of Namibia show only minor default rates. Since the bank's nearest branch is situated in Otjiwarongo more than 100km from the majority of SMEs none of the interviewed entrepreneurs has made use of the services of Agricultural Bank.

9.3 Recommendations

Taking the findings and conclusions of this study into consideration the following is recommended to the different stakeholders in SME support from NGOs, the public and private sector, and last but not least from the SMEs themselves:

9.3.1 Public Sector

- The Namibian government in its SME support strategy needs to broaden its current focus on social aspects like poverty alleviation and affirmative action by adding elements of economic development like augmentation of market linkages or creation of incentives to integrate informal SMEs into the formal sector .
- The government, particularly MTI and Receiver of Revenue, should ensure that CBS in co-operation with UNAM and other research institutions creates and maintains a proper database on the size of the informal sector. Research should be based on the aggregation of labour force residual method and surveys that measure the actual income generation of informal enterprises, so that complete, reliable and more realistic national accounts and labour market statistics can be recorded (Kirsten 1991: 158).
- The Ministry of Finance must create incentives for SMEs by lifting the threshold for tax registration even up to N\$ 100,000 or offering newly registered small businesses a five year tax free period, but improve at the same time the enforcement of tax payments to the Receiver of Revenue (Commonwealth Secretariat 1994: 58).
- Taking the low significance of traditional registration in the more developed Erongo Region into consideration, SMEs in other regions should also only be registered with municipalities, Ministry of Finance or MHSS in order to achieve consistency¹¹³.
- Local authorities should be encouraged to ensure a participatory attitude in the process of zoning and the provision of market stalls and business premises in order to

¹¹³ See Chapter 3.1.3.

create an SME facilitating environment. A more flexible approach is necessary for hawking and home occupation in order to provide for a conducive environment for traditional and family businesses (Bruns and Hinz 1997: 37-39).

□ Rentals of NDC or municipal business premises in towns and rural centres like Karibib or Usakos with a certain tourist market should be market-related and cost-covering. “Tenants should be encouraged to leave after a few ‘incubator years’ ...” (Thomas 1995: 21).

□ A more demand orientated public SME support strategy should also comprise increased procurement and inclusion of small and micro businesses in tender procedures.

9.3.2 Private Sector

□ It is necessary for private sector companies to strengthen the linkages between formal and informal sector and restrain from exploitative practices. Examples are to be found in the construction sub-sector concerning sub-contracting, in the relationship between commercial tour guides and community based tourism projects and regarding wholesale to rural shops, bottle stores and shebeens (Rogerson 1994: 48).

□ Existing market linkages between formal companies and the informal sector (e.g. franchising) should be utilised¹¹⁴, e. g. constant monitoring, technical assistance, collective equipment, access to raw materials and training on the job provided by the franchiser in exchange for franchise fees and the obligation of the entrepreneur to

¹¹⁴ See Chapter 8.4.1.

adhere to certain quality standards (Working Group on Non-Financial Services for Small Enterprises: 1996: 28).

□ When it comes to provision of credit, banks should focus more on loans for the expansion of viable small and micro enterprises (incl. working capital) since Erongo SMEs have a proven record of mobilising personal savings and family resources for the starting phase of their businesses.

9.3.3 NGOs

□ In contrast to the government that is bound to the policy of reconciliation, NGOs can be more flexible taking the traditional differences between the various ethnic groups regarding management and entrepreneurship into consideration.

□ NGOs and especially CBOs and churches have a role to play in building up relationships between informal micro and survivalist enterprises on one side and the private as well as the public sector on the other. They should, however, co-ordinate and streamline their activities and concentrate on lobbying, start-up grants for survivalists or training activities.

□ Namibian and foreign NGOs should particularly refrain from subsidised loan disbursements that have proven to be comparatively inefficient (Hansohm et al. 1999c: 15). Instead the strong accessibility of the existing formal banking sector in savings and banking services should be utilised in convincing the financial institutions by means of, for example, guarantee schemes to make credit also available to SMEs in rural areas.

□ When it comes to training international NGOs should make use of local institutions, in the Erongo region particularly of IMLT in general and of NACOBTA

in the tourism sub-sector, in order to allow for the inclusion of traditional business practices and the use of local languages. Regarding the international tourism market expertise is, however, needed regarding marketing and identification of standards. In the sub-sectors of trade and construction, foreign experts should restrict themselves to monitoring, curriculum development or training of trainers standards (Working Group on Non-Financial Services for Small Enterprises: 1996: 30).

□ NGOs active in purchasing from SMEs and marketing these products should apply clear market related rules like paying producers only on delivery after satisfactory inspection. In order to make their services comparable to the market they should at least earn a small commission.

9.3.4 Small and Micro Entrepreneurs

□ At least the small and micro segments of the SME sector with their basic infrastructure and potential for growth should associate in order to realise a certain bargaining power and to enforce their legal position against the bigger competitors, thus not leaving representation to NGOs only. The potential for co-operation between SMEs is, however, limited. The results of this study show that common facility centres have a role to play in joint action policies while group purchasing schemes are constrained by negative traditional perceptions of the entrepreneurs towards their competitors.

□ Such an SME association in collaboration with the chambers, training institutes and other NGOs could organise apprenticeship programmes exposing young people to a more traditional and practical approach to entrepreneurship than the

inappropriate programmes of the formal education and vocational training¹¹⁵ (Commonwealth Secretariat 1994: 9 of Annex 2).

□ Personal initiative of the entrepreneurs can also be enhanced by introducing a voucher system for certain accredited training institutions, thus leaving the choice of programme and organisation to the businesspeople themselves and creating a competitive environment amongst the training providers' standards (Working Group on Non-Financial Services for Small Enterprises: 1996: 29).

In general SME support institutions, whether belonging to the public, private or NGO sector, hardly take traditional aspects into consideration during their application procedures. In addition the results of this study show that working experience and previous training on the job are more valid criteria than education. The question of gender is particularly relevant in the male-dominated construction industry while female entrepreneurs have a certain advantage in the tourism sub-sector. The potential of own savings and family support for new businesses has to be taken into consideration.

This study shows that those SMEs operating their 'business as usual' in the way tradition and family have taught them are on average more successful than their competitors. However, those SME support agencies who continue their 'business as usual' in simply applying strategies, that have succeeded in northern economies or even in other developing countries, are likely to fail in the Namibian context. All stakeholders in SME promotion should thus recognise that agricultural trade record and family history in business are valid criteria to allocate funds and to assist potentially successful enterprises. Questions regarding these traditional elements

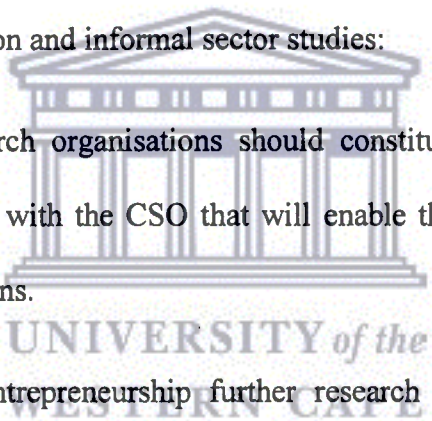
¹¹⁵ See Chapter 8.3.2.

should be included in application forms and receive specific attention by rating them in addition to the business plan.

Nevertheless it will eventually be essential that SMEs refrain from the passive attitude of expecting too much from government or NGOs and instead take their fate into their own hands, either to associate for the advocacy of SME issues or practically through the development of marketing and purchasing companies owned by small and micro businesses (Commonwealth Secretariat 1994: 69).

9.4 Necessity of Further Research

Taking the results of this study into consideration further research is needed in the areas of SME promotion and informal sector studies:

- 
- The various research organisations should constitute a database on the SME sector in co-operation with the CSO that will enable the government to take well-founded policy decisions.
 - In the field of entrepreneurship further research is essential, particularly in measuring the outcome of support programmes that take traditional business practices into consideration.
 - In co-operation with the commercial banks, particularly based on the experiences of Agricultural Bank, a field study should be undertaken that measures the sustainability of social collateral and gives projections for the feasibility of extending credit to the SME sector on a commercial approach.



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Appendix I: Questionnaire

Questionnaire No.: _____

Name of the Interviewer: _____

Date: _____

PERSONAL DETAILS OF INTERVIEWEE

Q1.1 Name : _____ Q1.2 Sex:

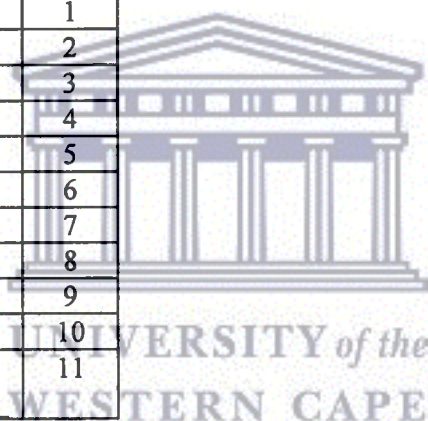
Male	1	Female	2
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Q2 Town/Village: _____

Q3 What is your age? _____

Q4 To which language group do you belong?

Language Group	
Afrikaans	1
Coloured	2
Damara	3
English	4
German	5
Herero	6
Kavango	7
Nama	8
Ovambo	9
San	10
Others – Please specify:	11



Q5 Position held in the business.

Position held	
Owner	1
Owner and Manager	2
Employed Manager	3
Others – Please specify:	4

Q6 Highest Level of Education and Training completed:

Educational Level	
None	1
Grade 1-4	2
Grade 5-9	3
Grade 10-12	4
Vocational Training	5
Diploma	6
University Degree	7

Q7 Have you been trained on the job during previous employment?

Yes	1
No	2

Q8 If yes, trained as: _____

CHARACTERISTICS OF THE ENTERPRISE

Q9 Name of the Business: _____

Q10 With whom is your business registered?

Registering Authority	
Not registered	1
Chief	2
Headman	3
Ministry of Trade and Industry	4
Receiver of Revenue (Ministry of Finance)	5
Ministry of Regional/Local Government and Housing	6
Town Council	7
Others – Please specify:	8

Q11 Please indicate the business sector you are in.

Q11.1 Tourism related	
Car Wash/Cleaner	1
Craft Seller	2
Gem Dealer	3
Lodge/Pension/Rest Camp	4
Needlework	5
Restaurant	6
Taxi/Transport	7
Tourist Guide	8
Woodcarver	9
Others – Please specify:	10

Q11.3 Food Production and Retail	
Bakeries	1
Bottle Store	2
Butcher	3
Cuca Shop	4
Firewood Seller	5
Hawker	6
Horticulture (Vegetable Gardens)	7
Petrol Station	8
Seed/Fertiliser Seller	9
Take-Away	10
General Dealer	11
Clothes Shop	12
Others – Please specify:	13

Q11.2 Construction	
Bricklayer	1
Brick Maker	2
Builder	3
Carpenter	4
Electrician	5
Painter	6
Plumber	7
Thatcher	8
Welder	9
Others – Please specify:	10

Q12 What were your two main reason to go into this business?
 Most important reason = 1, second priority = 2

Motive to go into business	Indicate 1 and 2
Because parents were in the same business.	
No job opportunities elsewhere.	
The only chance to survive.	
Put training into practise.	
Saw a profitable opportunity and took it.	
Lost job or was laid off.	
Wanted to be my own boss.	
Tried to prove personal capacity.	
Others – Please specify: _____	

Q13 For how many years has your present business been in operation?

Number of years: _____

Q14 Do you also operate other businesses?

Yes	1
No	2

Q15 If yes, what type of business is it / are they?

Q16 Where are they located?

Q16.1 _____
 Q16.2 _____

Q17 Are you currently permanently employed elsewhere?

Yes	1
No	2

Q18 If yes, in what capacity?

Q19 Is this employment full-time or part-time?

Full-Time	1
Part-Time	2

Q20 Which of the following assets do you have in your business?

Type of Assets	Estimated Value in NS
Buildings/Structures	1
Machinery/Equipment	2
Furniture	3
Vehicles	4

Q21 What are your average monthly sales and net income of the business?

Q21.1 Monthly Sales: N\$ _____ Q21.2 Monthly Net Income _____

Q22 How many people (excluding the manager) does the business currently employ?

	Full-Time	Part-Time	Total
Total number of employees			
Number of family members			

Q23 How many people (excluding the manager) did the business employ in 1994, when Walvis Bay became independent?

	Full-Time	Part-Time	Total
Number of employees			
Number of family members			

Q24 How many women and how many men work for you (excluding the manager) and how many of these are family members of the manager?

Gender	Total Number of Employees	Number of employed Family Members
Male		
Female		

Q25 Division of Family Members

Status	Number of employed Family Members
Spouse	1
Children	2
Parents	3
Siblings	4
In-laws	5
Extended Family	6

Q26 Would you advise a friend to employ members of his/her extended family in his business?

Advice to a Friend	
Definitely not employ family members	1
Tend to employ no family members	2
Tend to employ family members	3
Definitely employ family members	4

Q27 If you employ family members, what percentage of salary do the family members receive compared to other employees with the same responsibilities?

Percentage of Average Salary of other Employees	
No salary	1
Pocket money only (not more than 25 % of average salary)	2
Approximately half of the salary	3
Approximately the same salary	4
More than the average salary	5

Q28 To which language group do your employees belong? (excluding manager, including family members)

Language Group	Number of Employees
Afrikaans	1
Coloured	2
Damara	3
English	4
German	5
Herero	6
Kavango	7
Nama	8
Ovambo	9
San	10
Others – Please specify: _____	11

3. TRADITIONAL BUSINESS PRACTICES

Q29 What work did your parents and grandparents do?

	Profession
Profession of father	1
Profession of mother	2
Profession of your grandfather	3
Profession of other grandfather	4
Profession of your grandmother	5
Profession of other grandmother	6

Q30 What is similar between what your parents and grandparents were doing and what you do in your business?

Q31 What is different between what your parents and grandparents were doing and what you do in your business?

Q32 What proverbs (sayings) about business do you know in your mother tongue?

Q33 Do you farm with livestock?

Yes	1
No	2

Q34 If yes, how many cattle and/or small livestock do you own?

Number of Animals	
Cattle	1
Goats	2
Sheep	3
Donkeys	4
Horses	5
Poultry	6
Others – Please specify:	7

Q35 To whom do you sell your animals?

Buyer	Never	Sometimes	Fairly Often	Regularly
Livestock Auction	1	2	3	4
Agent	1	2	3	4
Community Members	1	2	3	4
Commercial Farms	1	2	3	4
Shop Owner	1	2	3	4
Butcher	1	2	3	4
Others – Please specify:	1	2	3	4

Q36 Why are you farming besides running your business?

Most important reason = 1, second priority = 2

Reason	Indicate 1 and 2
In order to get additional income	
My parents were already farming	
It is very important in my culture to own livestock	
Create working opportunities for family members	
Assets for retirement	
Others – Please specify:	

Q37 What similarities do you see between the way you are farming and the way you run your business?

4. TRAINING

Q38 How many courses related to your business did you attend during the last five years?

Attended	
None	0
1	1
2	2
3	3
More than 3	4

Q39 Which topics were covered during the training and who organised the course?

Topic covered	Organised by:
Basic Management	1
Bookkeeping	2
Marketing	3
Personnel Management	4
Price Calculation	5
Record Keeping/Stock Control	6
Technical Training	7
Others – Please specify:	8

Q40 How did your business develop after the most recent courses?

Course organised by:	1				1				1			
	Own Skills	No of Staff	Assets	Sales	Own Skills	No of Staff	Assets	Sales	Own Skills	No of Staff	Assets	Sales
Increased significantly	1	1	1	1	1	1	1	1	1	1	1	1
Increased slightly	2	2	2	2	2	2	2	2	2	2	2	2
Remained the same	3	3	3	3	3	3	3	3	3	3	3	3
Decreased slightly	4	4	4	4	4	4	4	4	4	4	4	4
Decreased significantly	5	5	5	5	5	5	5	5	5	5	5	5

5. FINANCE

Q41 Do you save part of the income of your business?

Save	
Yes	1
No	2

Q42 If yes, how often and how much do you save on average?

Rate of Saving	Amount NS	Annual Total
Weekly	1	
Monthly	2	
Yearly	3	
Irregular (Please specify: _____ _____	4	

Q43 If you save, where do you put your savings?

I save in/with	Annual Amount NS
Bank	1
Post Office	2
Cash	3
Family members	4
Livestock	5
Others – Please specify: _____ _____	6

Q44 Where did you get the money to start your own business?

Sources of Money	Amount NS
Own Savings	1
Family assistance	2
Borrowed from Friends	3
Inherited	4
Grants (Please name Institution)	5
Loans from local Money Lenders	6
Loans from Banks, NGOs or other Credit Institutions (Please name Bank/NGO/Institution)	7
Others – Please specify: _____ _____	8

Q45 Did you ever apply for a loan from a bank, NGO or other credit institution?

Yes	1
No	2

Q46 If yes, was your application successful?

Yes	1
No	2

Q47 If yes, what was the loan used for?

Loan was used for	
Buildings	1
Equipment	2
Furniture	3
Vehicle	4
Goods for Resale	5
Raw Materials	6
Salaries	7
Others – Please specify:	8

Q48 If no, what was the reason for not getting the loan?

Reasons	
Bank interest Rates are too high	1
Lack of collateral (security)	2
Failure to draw sufficient business plan	3
Lack of trade record or trade references	4
Bank was not interested	5
Application procedures were too complicated	6
No reason given	7
Others – Please specify:	8

Q49 If you did not apply for a loan from an institution, please indicate the reason.

Most important reason = 1, second priority = 2

Reasons	
Bank interest rates are too high	
Lack of collateral (security)	
Failure to draw sufficient business plan	
Lack of trade record or trade references	
Bank was not interested	
Banks are too far	
Loan application procedures are too complicated	
I had enough own capital	
Loans from family members and local money lenders are easier to obtain	
Others – Please specify:	

6. Entrepreneurship

Q50 Choose one of the statements that will describe best how you expect your business performance to develop during the next three years.

Statement Business Performance	
Business will expand.	1
Business will stay the same.	2
Business will merely exist.	3
I will close down the business.	4

Q51 Choose one of the statements that will describe best how you expect the demand of your customers to develop during the next three years.

Statement	
Demand will rise.	1
Demand will stay as it is now.	2
There will be fewer customers.	3

Q52 What are your personal goals during the next three years?

Most important goal = 1, second priority = 2

Goals	
I want to create new working opportunities.	
I want to expand my business.	
I want to improve production methods.	
I want to perform better than my competitors.	
I want to make more profit.	
I want to get a job as employee in the government.	
I want to get a job as employee in a private business.	
I want to be happy and maintain my living standard	
Others – Please specify:	

Q53 What kind of activities have you planned to achieve your two most important goals?

Q54 What are the major problems you are facing in your business?

Type of Problem faced in the Business	Big Problem	Slight Problem	No Problem
Market			
Lack of marketing information	1	2	3
Lack of customers	1	2	3
Competition	1	2	3
Finance / Equipment / Working Force			
Lack of finance	1	2	3
Taxes are too high	1	2	3
Transfer payments to family members	1	2	3
Lack of skilled workers	1	2	3
Equipment is too old/needs replacement	1	2	3
Infrastructure			
Lack of basic services (water, electricity)	1	2	3
Lack of transport	1	2	3
Lack of communication facilities (telephone, fax)	1	2	3
Too many regulations	1	2	3
Training			
Lack of management training	1	2	3
Lack of technical training	1	2	3
No adequate Bookkeeping system in place	1	2	3
Others – Please Specify			
	1	2	3
	1	2	3

Q55 What are you doing to overcome your biggest problem?

Q56 Answer the following questions with circling yes (1) or no (2).

Questions (Risk taking)	Yes	No
Can you take risks with money, that is, invest, and not know the outcome?	1	2
If you are frightened of something, will you try to conquer the fear?	1	2
Do you need to know the answer before you'll ask the question?	1	2
Have you taken risks during the last six months?	1	2
Can you walk up to a stranger and start a conversation?	1	2
Have you ever intentionally travelled an unfamiliar route?	1	2
Do you need to know that something has already been done by somebody else, before you try it out?	1	2

7. SUPPORT SERVICES

Q57 What type of support do you need to improve your business?

Support	Most Needed	Could be of Help	Not Really Necessary	Not Applicable
Market				
Market Information	1	2	3	4
Better Location	1	2	3	4
Better Market Sites	1	2	3	4
Sub-Contracting (Doing part of a job for a bigger company)	1	2	3	4
Ideas about new Products	1	2	3	4
Finance				
Loan	1	2	3	4
Business Planning to get a loan	1	2	3	4
Infrastructure				
Transport	1	2	3	4
Water	1	2	3	4
Electricity	1	2	3	4
Telephone/Fax	1	2	3	4
Common Facility Centres (Tools and machinery shared by several businesses)	1	2	3	4
Group Purchasing Schemes together with other SMEs	1	2	3	4
Training				
Technical Training	1	2	3	4
Management Training	1	2	3	4
Training in Recordkeeping and Accounting	1	2	3	4
Others – Please Specify				
	1	2	3	
	1	2	3	

Q58 Did you get any support for your business from government, institutions or organisations?

Yes	1
No	2

Q59 If yes, from which organisations and which services were provided? How do you rate these services?

Organisation	Services Provided	I rate the services of the organisation as:		
		Excellent	Good	Unsatisfactory
Training Bodies				
		1	2	3
		1	2	3
		1	2	3
Financing Bodies (incl. Banks)				
		1	2	3
		1	2	3
		1	2	3
Organised Business				
		1	2	3
Parastatals				
		1	2	3
Central Government				
		1	2	3
Municipality/Reg. Council				
		1	2	3
		1	2	3
Churches				
		1	2	3
Others - Please specify				
		1	2	3
		1	2	3

Appendix 2: Additional Tables and Crosstabulations

CROSSTABLATIONS BY GEOGRAPHICAL DIVISION

Table 1 Educational Level by Geographical Division

	Towns		Rural Centres		Rural		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
None	1	2.0	0	.0	2	7.7	3	3.0
Grade 1-4	1	2.0	0	.0	3	11.5	4	4.0
Grade 5-9	19	38.0	6	25.0	12	46.2	37	37.0
Grade 10-12	26	52.0	14	58.3	9	34.6	49	49.0
Voc/Dipl/Univ	3	6.0	4	16.7	0	.0	7	7.0
Total	50	100.0	24	100.0	26	100.0	100	100.0

Table 2 Years in Business by Geographical Division

	Towns		Rural Centres		Rural		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
1 year	12	24.0	5	20.8	3	11.5	20	20.0
2-4 years	11	22.0	7	29.2	8	30.8	26	26.0
5-9 years	15	30.0	5	20.8	12	46.2	32	32.0
10-19 years	9	18.0	3	12.5	2	7.7	14	14.0
20 years and more	3	6.0	4	16.7	1	3.8	8	8.0
Total	50	100.0	24	100.0	26	100.0	100	100.0

Table 3 Mean Assets by Geographical Division (Count All)

	Towns		Rural Centres		Rural	
	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	50	54560	24	29450	26	9708
Machinery/Equipment	50	30653	24	16383	26	2234
Furniture	50	4838	24	2904	26	1540
Vehicles	50	17216	24	20229	26	5115
Total Assets	50	107267	24	68967	26	18597

Unit in N\$

Table 4 Mean Assets by Geographical Division (Count Owners only)

	Towns		Rural Centres		Rural	
	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	24	113667	12	58900	20	12620
Machinery/Equipment	42	36491	24	16383	21	2766
Furniture	33	7330	17	4100	16	2503
Vehicles	22	39127	12	40458	9	14778
Total Assets	44	121894	24	68967	25	19341

Unit in N\$

Table 5 Mean Monthly Sales and Income by Geographical Division

	Towns		Rural Centres		Rural	
	Count	Mean	Count	Mean	Count	Mean
Monthly Sales	50	15314	24	16108	26	1233
Monthly Net Income	50	3744	23	4254	26	576

Unit in N\$

Table 6 Mean Livestock Units by Geographical Division

	Towns		Rural Centres		Rural	
	Count	Mean	Count	Mean	Count	Mean
Cattle	20	11	8	61	6	5
Goats	27	74	15	88	19	46
Sheep	8	82	7	79	7	47
Donkeys	8	7	7	3	9	4
Horses	4	2	2	2	1	1
Poultry	19	19	6	35	12	7
Others	0	.	2	3	1	11

Table 7 Mean Number of Courses by Geographical Division

	Towns	Rural Centres	Rural
Count	50	24	26
Mean	1	0	2

Table 8 Mean Annual Own Savings by Geographical Division

	Towns	Rural Centres	Rural
Count	40	18	23
Mean	13553	8024	1810

Table 9 Successful Loan Application by Geographical Division

	Towns		Rural Centres		Rural		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Yes	18	85.7	8	72.7	2	33.3	28	73.7
No	3	14.3	3	27.3	4	66.7	10	26.3
Total	21	100.0	11	100.0	6	100.0	38	100.0

Table 10 Type of Business by Geographical Division

	Towns		Rural Centres		Rural		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Small business	10	20.0	3	12.5	3	11.5	16	16.0
Micro Business	29	58.0	14	58.3	10	38.5	53	53.0
Survivalist Business	11	22.0	7	29.2	13	50.0	31	31.0
Total	50	100.0	24	100.0	26	100.0	100	100.0



CROSTABLATIONS BY LANGUAGE GROUPS

Table 1 Educational Level by Language Groups

	Afrikaans (Coloured)		Damara		Owambo		Others		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
None	0	.0	2	3.6	0	.0	1	8.3	3	3.0
Grade 1-4	0	.0	3	5.4	1	4.8	0	.0	4	4.0
Grade 5-9	5	45.5	19	33.9	8	38.1	5	41.7	37	37.0
Grade 10-12	5	45.5	29	51.8	12	57.1	3	25.0	49	49.0
Voc/Dipl/Univ	1	9.1	3	5.4	0	.0	3	25.0	7	7.0
Total	11	100.0	56	100.0	21	100.0	12	100.0	100	100.0

Table 2 Years in Business by Language Groups

	Afrikaans (Coloured)		Damara		Owambo		Others		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
1 year	3	27.3	6	10.7	7	33.3	4	33.3	20	20.0
2-4 years	1	9.1	21	37.5	3	14.3	1	8.3	26	26.0
5-9 years	4	36.4	18	32.1	5	23.8	5	41.7	32	32.0
10-19 years	1	9.1	8	14.3	4	19.0	1	8.3	14	14.0
20 years and more	2	18.2	3	5.4	2	9.5	1	8.3	8	8.0
Total	11	100.0	56	100.0	21	100.0	12	100.0	100	100.0

Table 3 Mean Assets by Language Groups (Count All)

	Afrikaans (Coloured)		Damara		Owambo		Others	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	11	130545	56	17450	21	15000	12	79917
Machinery/Equipment	11	68318	56	13352	21	16490	12	11532
Furniture	11	12864	56	2049	21	2343	12	3850
Vehicles	11	53273	56	8532	21	7286	12	21875
Total Assets	11	265000	56	41383	21	41119	12	117173

Unit in N\$

Table 4 Mean Assets by Language Groups (Count Owners only)

	Afrikaans (Coloured)		Damara		Owambo		Others	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	7	205143	36	27144	5	63000	8	119875
Machinery/Equipment	11	68318	51	14661	14	24736	11	12580
Furniture	10	14150	34	3375	14	3514	8	5775
Vehicles	7	83714	24	19908	6	25500	6	43750
Total Assets	11	265000	55	42136	15	57567	12	117173

Unit in N\$

Table 5 Mean Monthly Sales and Income by Language Groups

	Afrikaans (Coloured)		Damara		Owambo		Others	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Monthly Sales	11	37027	56	4087	21	9727	12	28663
Monthly Net Income	11	8182	55	1026	21	3267	12	7083

Unit in N\$

Table 6 Mean Livestock Units by Language Groups

	Afrikaans (Coloured)		Damara		Owambo		Others	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Cattle	0	.	17	21	9	11	8	35
Goats	3	193	37	70	11	15	10	87
Sheep	3	160	16	47	1	7	2	150
Donkeys	1	4	16	3	5	8	2	4
Horses	0	.	1	1	2	2	4	2
Poultry	1	30	19	9	10	20	7	35
Others	0	.	3	6	0	.	0	.

Table 7 Mean Number of Courses by Language Groups

	Afrikaans (Coloured)	Damara	Owambo	Others
Count	11	56	21	12
Mean	1	1	0	0

Table 8 Mean Annual Own Savings by Language Groups

	Afrikaans (Coloured)	Damara	Owambo	Others
Count	9	47	17	8
Mean	31467	4332	12459	3698

Table 9 Successful Loan Application by Language Groups

	Afrikaans (Coloured)		Damara		Owambo		Others		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Yes	5	100.0	12	63.2	6	85.7	5	71.4	28	73.7
No	0	.0	7	36.8	1	14.3	2	28.6	10	26.3
Total	5	100.0	19	100.0	7	100.0	7	100.0	38	100.0

Table 10 Type of Business by Language Groups

	Afrikaans (Coloured)		Damara		Owambo		Others		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Small business	5	45.5	4	7.1	4	19.0	3	25.0	16	16.0
Micro Business	6	54.5	32	57.1	7	33.3	8	66.7	53	53.0
Survivalist Business	0	.0	20	35.7	10	47.6	1	8.3	31	31.0
Total	11	100.0	56	100.0	21	100.0	12	100.0	100	100.0

CROSSTABULATIONS BY EDUCATIONAL LEVEL

Table 2 Years in Business by Education

	None		Grade 1-4		Grade 5-9		Grade 10-12		Voc/Dipl/Univ		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
1 year	0	.0	1	25.0	5	13.5	12	24.5	2	28.6	20	20.0
2-4 years	0	.0	0	.0	9	24.3	17	34.7	0	.0	26	26.0
5-9 years	1	33.3	2	50.0	14	37.8	13	26.5	2	28.6	32	32.0
10-19 years	1	33.3	0	.0	5	13.5	6	12.2	2	28.6	14	14.0
20 years and more	1	33.3	1	25.0	4	10.8	1	2.0	1	14.3	8	8.0
Total	3	100.0	4	100.0	37	100.0	49	100.0	7	100.0	100	100.0

Table 3 Mean Assets by Education (Count All)

	None		Grade 1-4		Grade 5-9		Grade 10-12		Voc/Dipl/Univ	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	3	4667	4	350	37	29546	49	40012	7	86286
Machinery/Equipment	3	6813	4	238	37	20229	49	23720	7	7393
Furniture	3	667	4	150	37	2744	49	2959	7	14643
Vehicles	3	15000	4	0	37	13859	49	15571	7	22643
Total Assets	3	27147	4	738	37	66379	49	82263	7	132964

Unit in N\$

Table 3 Mean Assets by Education (Count All)

	Voc/Dipl/Univ	
	Count	Mean
Buildings/Structures	7	88286
Machinery/Equipment	7	7393
Furniture	7	14643
Vehicles	7	22643
Total Assets	7	132964

Unit in N\$

Table 4 Mean Assets by Education (Count Owners only)

	None		Grade 1-4		Grade 5-9		Grade 10-12	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	3	4667	1	1400	25	43728	25	78424
Machinery/Equipment	3	6813	2	475	34	22014	41	28348
Furniture	2	1000	3	200	21	4835	35	4143
Vehicles	2	22500	0		17	30165	21	36333
Total Assets	3	27147	4	738	35	70172	44	91611

Unit in N\$ (cont.)

Table 6 Mean Livestock Units by Education

	None		Grade 1-4		Grade 5-9		Grade 10-12		Voc/Dipl/Univ	
	Count	Mean	Count	Mean	Count	Mean	Count	Mean	Count	Mean
Cattle	1	11	0	.	13	21	18	22	2	21
Goats	3	169	4	15	22	65	29	73	3	36
Sheep	2	65	1	4	7	110	12	53	0	.
Donkeys	2	2	0	.	9	6	13	4	0	.
Horses	0	.	0	.	4	2	2	2	1	2
Poultry	3	14	3	9	13	22	18	17	0	.
Others	0	.	0	.	1	11	2	3	0	.

Table 7 Mean Number of Courses by Education

	None	Grade 1-4	Grade 5-9	Grade 10-12	Voc/Dipl/Univ
Count	3	4	37	49	7
Mean	1	0	1	1	1

Table 8 Mean Annual Own Savings by Education

	None	Grade 1-4	Grade 5-9	Grade 10-12	Voc/Dipl/Univ
Count	3	3	30	42	3
Mean	6000	480	11251	7852	13800

Table 9 Successful Loan Application by Education

	None		Grade 5-9		Grade 10-12		Voc/Dipl/Univ		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Yes	2	100.0	8	61.5	17	85.0	1	33.3	28	73.7
No	0	.0	5	38.5	3	15.0	2	66.7	10	26.3
Total	2	100.0	13	100.0	20	100.0	3	100.0	38	100.0

Table 10 Type of Business by Education

	None		Grade 1-4		Grade 5-9		Grade 10-12		Voc/Dipl/Univ	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Small business	0	.0	0	.0	9	24.3	6	12.2	1	14.3
Micro Business	3	100.0	0	.0	17	45.9	28	57.1	5	71.4
Survivalist Business	0	.0	4	100.0	11	29.7	15	30.6	1	14.3
Total	3	100.0	4	100.0	37	100.0	49	100.0	7	100.0

(cont.)

Table 10 Type of Business by Education

	Total	
	Count	Col %
Small business	16	16.0
Micro Business	53	53.0
Survivalist Business	31	31.0
Total	100	100.0

CROSSTABULATIONS BY SECTOR

Table 1 Educational Level by Sector

	Tourism		Construction		Trade and Retail		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
None	1	3.3	2	6.7	0	.0	3	3.0
Grade 1-4	3	10.0	0	.0	1	2.5	4	4.0
Grade 5-9	9	30.0	18	60.0	10	25.0	37	37.0
Grade 10-12	16	53.3	6	20.0	27	67.5	49	49.0
Voc/Dipl/Univ	1	3.3	4	13.3	2	5.0	7	7.0
Total	30	100.0	30	100.0	40	100.0	100	100.0

Table 2 Years in Business by Sector

	Tourism		Construction		Trade and Retail		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
1 year	10	33.3	4	13.3	6	15.0	20	20.0
2-4 years	7	23.3	6	20.0	13	32.5	26	26.0
5-9 years	10	33.3	8	26.7	14	35.0	32	32.0
10-19 years	2	6.7	7	23.3	5	12.5	14	14.0
20 years and more	1	3.3	5	16.7	2	5.0	8	8.0
Total	30	100.0	30	100.0	40	100.0	100	100.0

Table 3 Mean Assets by Sector(Count All)

	Tourism		Construction		Trade and Retail	
	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	30	30647	30	6393	40	64400
Machinery/Equipment	30	2905	30	25488	40	28303
Furniture	30	4623	30	1833	40	3949
Vehicles	30	1800	30	10377	40	27850
Total Assets	30	39975	30	44092	40	124501

Unit in N\$

Table 4 Mean Assets by Sector (Count Owners only)

	Tourism		Construction		Trade and Retail	
	Count	Mean	Count	Mean	Count	Mean
Buildings/Structures	16	57463	14	13700	26	99077
Machinery/Equipment	19	4587	30	25488	38	29792
Furniture	16	8669	13	4231	37	4269
Vehicles	4	13500	14	22236	25	44560
Total Assets	23	52142	30	44092	40	124501

Unit in N\$

Table 5 Mean Monthly Sales and Income by Sector

	Tourism		Construction		Trade and Retail	
	Count	Mean	Count	Mean	Count	Mean
Monthly Sales	30	1938	30	7855	40	22265
Monthly Net Income	30	938	30	3187	39	4521

Unit in N\$

Table 6 Mean Livestock Units by Sector

	Tourism		Construction		Trade and Retail	
	Count	Mean	Count	Mean	Count	Mean
Cattle	12	9	5	12	17	33
Goats	20	13	15	55	26	120
Sheep	2	6	6	65	14	81
Donkeys	4	9	7	4	13	3
Horses	3	2	1	2	3	2
Poultry	16	12	7	7	14	29
Others	0	.	1	3	2	7

Table 7 Mean Number of Courses by Sector

	Tourism	Construction	Trade and Retail
Count	30	30	40
Mean	1	1	1

Table 8 Mean Annual Own Savings by Sector

	Tourism	Construction	Trade and Retail
Count	25	25	31
Mean	3413	12378	10755

Table 9 Successful Loan Application by Sector

	Tourism		Construction		Trade and Retail		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Yes	2	50.0	6	50.0	20	90.9	28	73.7
No	2	50.0	6	50.0	2	9.1	10	26.3
Total	4	100.0	12	100.0	22	100.0	38	100.0

Table 10 Type of Business by Sector

	Tourism		Construction		Trade and Retail		Total	
	Count	Col %	Count	Col %	Count	Col %	Count	Col %
Small business	2	6.7	6	20.0	8	20.0	16	16.0
Micro Business	12	40.0	18	60.0	23	57.5	53	53.0
Survivalist Business	16	53.3	6	20.0	9	22.5	31	31.0
Total	30	100.0	30	100.0	40	100.0	100	100.0



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