

**AN EVALUATION OF THE CHALLENGES FACING MSMEs IN THE INFORMAL  
SETTLEMENTS OF NAMIBIA**

A dissertation  
presented to

**The Development Finance Centre (DEFIC)**  
Graduate School of Business  
University of Cape Town

In partial fulfilment  
of the requirements for the Degree of  
Master of Commerce in Development Finance

by

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April, 2018

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## **ABSTRACT**

This study investigated the challenges facing Micro, Small and Medium Enterprises (MSMEs) in the informal settlements of Namibia. A quantitative and descriptive approach was followed with information gathered through questionnaires which were distributed to small businesses within informal settlements in five different regions of the country, within eleven different settlements from six towns. A convenience sampling technique was used, with the population divided into clusters made up of the different regions and settlements. 126 responses were obtained. The majority of the businesses surveyed were found to be in the retail industry, operating from the backyards of the owners or as street vendors. Most of these small businesses were informal, in that they were not registered with the applicable ministry, the local authorities or any other institution. Similar to small enterprises in the formal sector, the lack of access to finance was identified as the main challenge facing MSMEs within the informal settlements of Namibia. This was followed by infrastructure and location. The infrastructure included municipal services such as electricity, water, roads, refuse removal and telecommunications services. Competition ranked as the third greatest challenge affecting these MSMEs. Given these findings, this study provides various recommendations to government and other stakeholders to support and grow these small subsistence enterprises.

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## **LIST OF ABBREVIATIONS**

CSR	Corporate Social Responsibility
DRC	Democratic Republic of Congo
EC	European Commission
EEC	Employment Equity Commission
EU	European Union
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IFC	International Finance Corporation
LA/M	Local Authority/Municipality
MITSMED	Ministry of Industrialisation, Trade and SME Development
MOF	Ministry of Finance
MSMEs	Micro-, Small- and Medium-sized Enterprises
MTI	Ministry of Trade and Industry
NCCI	Namibia Chamber of Commerce and Industries
NEPRU	Namibia Economic Policy Research Unit
NGOs	Non-Governmental Organisations
N\$	Namibian dollar
NPMSMEN	National Policy on Micro, Small and Medium Enterprises in Namibia
NPPSBD	Namibia Policy and Programme on Small Business Development
NSA	Namibia Statistics Agency
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SA	Republic of South Africa
SMEs	Small- and Medium-sized Enterprises
SMMEs	Small, Micro and Medium Enterprises
SPSS	Statistical Package for Social Sciences
SSC	Social Security Commission of Namibia
UK	United Kingdom
US	United States
USD	US dollar

## ACKNOWLEDGEMENT

My unqualified gratitude goes to the Almighty God, for granting me the abilities, courage, strength to endure and persevere with this research that I had to undertake at a very challenging time of my life. I would not have made it this far had it not been by Your grace, my Lord. Thank you, my Lord.

Furthermore, I would like to acknowledge a few individuals and groups who made the enormous contribution towards the completion of this project. These include:

Dr Ailie Charteris, my research supervisor from the UCT GSB, for your patience, commitment, tireless guidance and advice. You brought light and hope to a situation that seemed dark and bleak, that is, the completion of this thesis.

The questionnaire administrators, Mr. Harold Kamburona, Ms. Josephine Shinuna and driver Mr. Prika Mpugwa for your hard work and commitment during the data collection (survey) implementation process.

The owners of the MSMEs within the informal settlements of Usab (Karibib), Hakahana (Omaruru), Five Rand (Okahandja), Block E and Kawukiland (Rehoboth), Twerijandjera and Kanaan (Gobabis) and Otjomuise 8ste Laan, Goreangab Dam, Monte Christo Road & Okahandja Park in Windhoek for your willingness, co-operation and patience during the administration of the questionnaires.

Mr. Victor S. Goaseb of the Ministry of Labour, Industrial Relations & Employment Creation in Namibia, for the supply of the SPSS statistical package and training on its use, which made the data administration and analysis much easier.

My family including my wife Jedidiah Puriza-Tjonga, Tjiunae Valentino Puriza, Uesee Tjonga, Kaimbirahi Tjonga and Anna Tjonga for your immense understanding and encouragement during the course of studying and the completion of this thesis. Special appreciation to my niece, Kaimbirahi Tjonga, for your priceless commitment towards the capturing of fieldwork results into SPSS.

To my former colleague Ms Jacky Muree Kauta, stimulating the faith in me and giving me moral support when everyone turned against me upon registering with the University of Cape Town.

# 1 INTRODUCTION

## 1.1 Background

The important role that micro, small and medium-sized enterprises (MSMEs) play in the development of a country is widely acknowledged, with particular emphasis on their contribution to economic growth, employment and poverty alleviation (Abor & Quartey, 2010; van Rooyen, Stewart & de Wet, 2012; Chimucheka & Mandipaka, 2015). These benefits are considered true both for developed and developing countries (Kongolo, 2010; Shiimi, 2010). In Namibia, for example, MSMEs have been found to contribute up to 20% of total employment and up to 12% of total gross domestic product (GDP). These contribution rates are even higher in developed countries (Nakusera, Kadhikwa & Mushendami, 2008; Ramsden, 2010).

Many MSMEs, however, fail within a two to five-year period following their start-up and as such, have a negligible impact on economic development. In Namibia the failure rate of MSMEs has been estimated at an alarming 75% (Ogbokor & Ngeendepi, 2012). Similar failure rates have been documented in South Africa, where 40% fail within the first year, 60% within the second year and 90% within the first ten years of existence (Ramukumba, 2009; van Sheers, 2010). These results are not, however, unique to Africa as Ahmad and Seet (2009) and Khalique, Isa, Shaari and Ageel (2011) report that between 50% and 60% of SMEs in Malaysia collapse within five years of start-up. In Australia the failure rate is estimated to be slightly lower at 23%, while in the United Kingdom, 30% of SMEs are reported to fail within three-years and up to 50% within the first five years after start-up (Jones, 2014).

Given the substantial unemployment, income inequality and poverty characterising many developing countries, the creation and sustainability of MSMEs has been identified as a key focus area, particularly in Africa (Cant & Wiid, 2013). The high failure rate of these enterprises is thus a major cause for concern. Consequently, considerable research has focused on identifying the principal challenges facing MSMEs so as to be able to tailor policies and programmes to effectively support MSME growth and prevent such failures (Cant *et al.*, 2013). This research identified numerous challenges facing MSMEs in developing countries. Broadly, these factors can be separated into two categories – internal or firm-specific and external or systemic factors (Olawale & Garwe, 2010). The former includes inadequate access to finance, termed the ‘finance gap’ by Stiglitz and Weiss (1981),

insufficient management capabilities, location, high marketing and production costs. The external environment also hampers the success of MSMEs and includes prevailing economic conditions such as high interest rates and inflation as well as competition, labour regulations, crime and corruption (Beck, 2007; Olawale & Garwe 2010).

MSMEs have been studied extensively in an African context, including the challenges facing these firms. MSMEs have been studied extensively in an African context, including the challenges facing these firms. Kongolo (2010), Mafini & Omoruyi (2013), Ramukumba (2014) studied MSMEs in the South African context; Abor and Quartey (2010) studied MSME development in Ghana while Katua (2014) in Kenya; Bouazza *et al.*, (2015) on Algeria; Fjose, Grunfeld & Green (2010) on Sub-Saharan Africa (SSA). While in an Asian context, Saleh & Ndubisi (2006), Khalique *et al.*, (2011), Yoshino & Wignaraja (2015) also studied the subject of challenges facing MSMEs. Several studies have investigated MSMEs in Namibia. April (2005) focused on critical factors that affect the success and failure of MSMEs in the Khomas region (which includes the capital city of Namibia, Windhoek). Using a very small sample of 19 respondents, he found that inadequate business and financial management skills, inappropriate credit control, insufficient marketing and poor location contributed to business failure. Ogbokor and Ngeendepi (2012) investigated the challenges faced by SMEs in Namibia using a sample of 100 firms from two formal settlements in Windhoek. Factors arising from both the internal and external environments of SMEs were identified by the participants. Firm-specific factors included lack of finance, insufficient skills, no marketing plans and the lack of knowledge about information and communications technology (ICT), while external contributing factors included regulations, crime and corruption and insufficient government support.

Stork (2010) also evaluated the challenges faced by MSMEs in Namibia, however rather than surveying a sample of enterprises, he utilised data from the World Bank, World Economic Forum and Global Competitiveness Index. In addition, he also analysed successful and unsuccessful strategies from other countries and used these lessons to make recommendations for Namibia. Although some of this data and analysis can now be considered outdated, he found that the current business conditions did not appear to have a substantial impact on the enterprises, with the cost of capital being the biggest obstacle to business performance and further investment. Shifidi (2012) studied MSME builders in the construction sector in Namibia and classified the challenges faced by these firms into financial and non-financial. The former includes the lack of own money or security, reluctance of banks to grant finance,

delays in contract payments, poor credit rating, lack of financial records, advance payments and supplier credit. Non-financial challenges included the nature of construction activities and the environment, the tendering process, lack of technical and management skills, intensity of competition and lack of support programmes (Shifidi, 2012). This study presents a unique perspective when compared to other studies on MSMEs in Namibia found in the literature. It differs from Amupolo (2013) and Amwele (2013) who investigated MSMEs specific sectors, that is, construction and retail respectively. The study differs from studies of Ipinge (2010), Shoopala (2015), Shilinge (2016), Kambwale *et al.*, (2016) who studied formal businesses within a single constituency, town or region. Furthermore, the approach of surveying MSMEs through questionnaire used in this study is unique from Ramsden (2010) and Jauch (2010) who studied MSMEs using lessons from other countries as their approach.

In recent years, the Namibian government, recognizing the importance of the MSME sector, implemented several programmes to facilitate and support these enterprises, with specific focus on bridging the finance gap and providing skills training. These include the establishment of a dedicated department dealing with and giving information on MSME issues in the Ministry of Industrialization, Trade and SME Development, the establishment of various programmes to create an enabling environment for MSMEs to grow, a policy review, youth empowerment, the introduction of an equipment aid scheme as well as efforts by the government to provide financing for the MSME sector (Dludla, 2014; Bank of Namibia, 2010; Mukubonda, 2015).

Many of these schemes are reasonably recent and thus their effects may not have been fully captured in the previous studies. Moreover, the most recent study of Ogbokor and Ngeendepi's (2012) was on MSMEs in formal settlements; yet MSMEs in informal settlements may face unique challenges that need to be addressed by policy makers. This may include, for example, the lack of water and electricity, poor road infrastructure, proper buildings, as well as similar difficulties such as access to finance and poor management skills. Finally, the survey of Ogbokor and Ngeependi (2012) did not analyse a full array of the challenges that have been identified in the international literature, focusing instead on the primary factors such as finance, marketing and generic business skills of owners.

In light of these limitations in the current literature of the challenges facing MSMEs in Namibia, it was considered necessary to conduct an updated analysis, with specific focus on enterprises from informal settlements and conducting a holistic review of the challenges.

## **1.2 Problem Statement**

Despite the importance of MSMEs in their role of contributing to the country's employment, GDP, exports and economic growth as discussed above, there is a wide recognition in existing literature relating to the challenges and barriers MSMEs are faced with. Although MSMEs are recognised to be that important to the economy of Namibia, their development is largely limited by a number of several factors such access to finance, access to market and access to information. Access to innovation, lack of business skills and knowledge are other limiting factors as pointed in the study of Ipinge (2010). There are also other issues such as business regulations, infrastructure, corruption and management capacity (Ramsden, 2010).

Literature suggests that MSMEs continues to fail despite government efforts such as deregulation, MSME incentives, MSME finance schemes, MSME purchasing assistance, MSME internet sites, premises development and MSMEs training aimed at supporting the development of the small businesses sector (Ministry of Trade & Industry, 1997). Despite these efforts, statistics of the MSME failure rate reported by Ogbokor of 75% of the enterprises within the first 24 months and that reported by Ipinge of 85% of the small business failures in Africa, which also includes Namibia, presents a worrying situation which needs serious interventions.

Additionally, most of these government efforts are directed at formal MSMEs registered with the MITSMED and in most cases neglects the businesses in the informal settlements which are mostly not registered but are equally important and need government support in order to grow. With this in mind, this study brings in a new perspective of addressing MSME challenges from an informal settlement perspective. The informal settlements are intentionally selected as the research area because of the unique challenges faced by the inhabitants of these settlements. The inhabitants of informal settlements mostly live in conditions where there is lack or limited supply of municipal services like road infrastructure, sanitation, water and electricity. In most cases, they do not possess ownership rights to the land on which they dwell. Regardless of all these challenges, there are numerous small businesses in these informal settlements which are as important as those in the formal settlements. It is not just interesting to study how they survive under such unpleasing

conditions but it is also important that these businesses are included in the government support programs.

### **1.3 Research Questions**

- What are the current challenges facing MSMEs in the informal settlements of Namibia?
- How effective are different government policies and programmes aimed at supporting the MSME sector?
- What are the critical areas in need of government intervention and support among MSMEs in the informal settlements?

### **1.4 Research Objectives**

The research objectives pursued in order to answer the research questions include:

- to analyse the barriers inhibiting MSMEs operating in informal settlements in Namibia,
- to ascertain the effectiveness of government policy and programmes aimed at supporting the MSME sector by comparing the results to previous studies, and
- to identify critical areas that the government needs to address to facilitate and support the MSME sector in Namibia, specifically those operating in informal settlements.

### **1.5 Purpose and Significance of the Research**

The significance of MSMEs and their contributions to any economy has been acknowledged worldwide and this is discussed more in the following section of this study. This study, to the best of the author's knowledge, is the first to be carried out within informal settlements in Namibia. It was aimed at studying the challenges facing MSMEs in the informal settlements of Namibia. The findings of this study will contribute to the knowledge base relating to MSMEs within the informal sectors. The researcher will further present a comparison of such challenges with those from other researchers on the formal sector. The findings will be important to policy makers and stakeholders like government, banks, non-governmental organisations (NGOs) and donors in identifying the need to support small businesses within informal settlements. In so doing the researcher hopes that the findings will highlight the importance of small businesses to the development of the country, particularly in terms of economic growth, employment and poverty alleviation. The findings will further present policy makers with focus areas when designing policies relating to small businesses.

The study further provides small business owners within informal settlements with an understanding of the challenges facing their businesses and measures that can be undertaken to improve decision making and resource allocation, which consequently enhances business survival. The research in its fullest context will serve as a point of reference for future studies and further provides a comparison between the findings of formal and informal small businesses and makes regional comparisons.

## **1.6 Layout of Chapters**

This paper is organised into five main chapters, including this introduction. Chapter 2, provides a review of the existing literature, discussing the absence of a globally recognised definition of MSMEs, distinguishing between formal and informal businesses, highlighting the contributions of MSMEs to the economy of a country, and examining the challenges that have been identified before, that MSMEs are facing in Africa and beyond. Chapter 3, covers the research methodology which includes a discussion on the research design, population, the sampling methods, data collection techniques, data analysis methods, research reliability and validity. Chapter 4, presents the findings of the study and contrasts these with previous research findings on the topic. Finally, Chapter 5, presents the conclusions and policy recommendations as well as suggestions for further research on MSMEs.

## **2 LITERATURE REVIEW**

### **2.1 Introduction**

This chapter covers a review of the existing literature regarding MSMEs. It includes a discussion of the definitional uncertainty surrounding these enterprises and the disparity that exists across countries and institutions. Following this is a discussion of the importance and contributions of MSMEs to different economies and the difference between formal and informal businesses. Finally, the challenges facing MSMEs as identified in previous research in Namibia, Africa and beyond are examined.

### **2.2 Definitional uncertainty and application**

The OECD (2004) and Berisha and Pula (2015) state that the definition of small and medium enterprises (SMEs) is important and useful in the following ways: (i) in the preparation of statistics and monitoring of the health of the sector over time, (ii) benchmarking against other economies and between regions within an economy, (iii) in providing arbitrary thresholds for the imposition of tax or other regulations, and (iv) in determining eligibility for particular forms of public support. However, the definition of (SMEs) is a controversial matter all over the world. Internationally the abbreviation SME is widely recognised and used to refer to small businesses/enterprises, although micro, small and medium enterprises (MSMEs) or small, medium and micro enterprises (SMMEs) can be used interchangeably depending on the country or institution.

One of the first attempts to provide a definition for SMEs/MSMEs was that of the Bolton Report of 1971 which suggested that SMEs be defined using a quantitative and qualitative approach. However, a quantitative approach is principally used, with definitions of MSMEs using one or more of the following three defining characteristics: number of employees, turnover and the value of assets in the balance sheet (Berisha & Pula, 2015; Robu, 2013). For example, for the European Union (EU) definition, the number of employees is mandatory, while the enterprise also needs to meet either the financial criteria of annual turnover or annual balance sheet size. The World Bank criteria is identical with the employee number and must be satisfied with either of the financial conditions holding. However, there are some differences in the measurement of these criteria across the EU and World Bank, reflecting not only varying currencies (the EU uses the Euro as the denominator while the World Bank uses the US Dollar (USD)). There is also some divergence with respect to the number of employees (the EU has set a limit of 250 employees while the World Bank has a threshold of

300 employees), as shown in table 2.1. The definition in China, as detailed by Kushnir (2010), shows a substantial disparity with these definitions, where an enterprise is classified as an MSME if it has less than 3000 employees, assets valued between 40 and 400 million Yen and annual sales of between 10 and 300 million Yen.

**Table 2. 1: World Bank and EU MSME Definitions**

Institution	World Bank (i)			European Union (ii)		
	Employees	Total Assets USD	Annual Sales —USD	Employees	Total Assets €	Annual Sales €
<b>Medium</b>	≤ 300	≤ 15 million	≤ 15 million	≤ 250	≤ 43 million	≤ 50 million
<b>Small</b>	≤ 50	≤ 3 million	≤ 3 million	≤ 50	≤ 10 million	≤ 10 million
<b>Micro</b>	≤ 10	≤ 100 000	≤ 100 000	≤ 10	≤ 2 million	≤ 2 million

(Sources: i. World Bank, 2015; ii. European Commission, 2015)

In an African context, differences are evident not only across countries, but also with those of the World Bank and the EU. For example, in South Africa, an MSME is classified based on the number of employees and either annual turnover or total assets (excluding fixed assets), as defined in the National Business Act 102 of 1996 and amended by the National Small Business Amendment Acts (NSBAA, 2003, 2004). The Act further classifies small enterprises into distinct categories of micro, very small, small and medium enterprises (SMMEs) as detailed in table 2.2 below.

**Table 2.2 Definition of SMMEs in South Africa**

	Employees	Annual Turnover (R)	Gross Assets Excluding Fixed Assets (R)
<b>Medium</b>	100 – 200*	4 – 50 million	2 - 18 million*
<b>Small</b>	≤ 50	2 – 25 million	2 - 4.5 million*
<b>Very small</b>	10 – 20*	R200 000 - R500 000*	≤ R500 000*
<b>Micro</b>	≤ 5	≤ R150 000	≤ R150 000

\*depending on the industry.

(Source: Kushnir *et al.*, 2010)

For Ghana, the most recent definition provided in the Regional Project on Enterprise Development Manufacturing Survey uses the number of employees as the only criterion and

distinguishes between the following categories: (i) micro enterprises which have less than 5 employees; (ii) small enterprises which employ between 5 and 29 employees; and (iii) medium enterprises which employ more than 30 but less than 100 employees (Abor & Quartey, 2010; Ackah and Vuvor, 2011). Awoyemi, Olayoriju and Kashim (2015) detail the classification of SMEs in Nigeria from the Small and Medium Enterprises Development Agency of Nigeria which classifies enterprises according to both the number of employees and the value of assets. In particular, a micro enterprise is one which employs less than 10 employees and has assets valued up-to 5 million Naira; a small enterprise is one which employs between 11 and 49 employees and has assets valued between 5 and 49 million Naira; and a medium enterprise as an enterprise is one which employs between 50 and 200 employees and has assets between 50 and 499 million Naira.

Similar to Nigeria, Botswana also makes use of two criteria to classify a small enterprise. They use annual turnover alongside the number of employees, as opposed to the value of assets as in Nigeria. The Ministry of Trade and Industry in Botswana defines a very small enterprise as one that has 5 or less employees, including the owner, and has an annual turnover of less than 90 000 Pula; a small enterprise as one with 6 to 25 employees with a turnover of between 90 000 and 270 000 Pula; and a medium enterprise as one employing 26 to 100 people with an annual turnover of between 270 000 and 900 000 Pula (Hinton, Mokobi & Sprokel, 2006; Kushnir, Mirmulstein & Romalho, 2010).

The official definition used in Namibia was based on the Ministry of Trade and Industry's (MTI) SME policy of 1997. This definition, shown in Table 2.3, is based on three criteria: number of employees, turnover and capital employed (MTI, 1997; Namibia Economic Public Research Unit (NEPRU), 2002). For a firm to qualify as an SME in Namibia it must meet the employee criterion and one other (Ogbokor & Ngeendepi, 2012). As Jauch (2010) acknowledges, the employee criterion is relatively straightforward to assess; however, measuring the capital investment of an enterprise is difficult and subject to inflation.

**Table 2.3: The Old Definition of MSMEs in Namibia**

<b>Sector</b>	<b>Employees</b>	<b>Annual Turnover</b>	<b>Capital Employed</b>
Manufacturing	≤ 10	≤ N\$1 000 000	≤ N\$500 000
All other businesses	≤ 5	≤ N\$250 000	≤ N\$100 000

(Source: NEPRU, 2002:13)

This definition was used for many years with no provision made for timely modifications of the definition as and when local, regional and global dynamics would dictate (MITSMED, 2015). Moreover, as can be seen, this definition groups all MSMEs together and does not attempt to distinguish between small and medium-sized enterprises, as with most international definitions.

The new definition set out in the Namibian government's revised MSME policy of 2015 defines MSMEs based on the number of employees and annual turnover, with the capital utilisation criterion removed. The criteria is shown in Table 2.4. The employment measure is much larger than under the previous classification while the values of annual turnover has also been updated to account for inflation and changing economic conditions. The other notable change from the old definition is the distinction between firms that are categorised, with micro, small and medium-sized enterprises defined. However, no distinction is made between manufacturing firms and other types of business.

**Table 2. 4: Revised Definition of MSMEs in Namibia**

<b>Category</b>	<b>Employees</b>	<b>Annual Turnover</b>
<b>Medium</b>	≤ 100	≤ N\$10 000 000
<b>Small</b>	≤ 30	≤ N\$3 000 000
<b>Micro</b>	≤ 10	≤ N\$ 300 000

(Source: MITSMED, 2015)

The new definition complies more closely with the definitions used internationally and can be modified periodically in order to ensure it is continuously aligned with national economic aspirations. Further modifications must be informed by the monitoring and evaluation system in place and must be officially announced through publication in a government gazette (MITSMED, 2015).

Kurshnir (2010) argues that the definition depends on various factors such as business culture, the size of the country's population, industry, the level of global integration or even as a result of businesses lobbying for particular definitions to support their own goals. Gibson and van der Vaart (2008) propose a uniform measure to apply in developing countries, where an MSME is any firm with annual turnover (in USD) of between 10 and 1000 times the mean

per capita gross national income, at purchasing power parity, of the country where the firm operates. While they acknowledge that this is not a perfect measure, they maintain that it allows for greater consistency in measures across the developing world where funding of MSMEs is of critical importance for development. Despite the value in a universally accepted definition such as that proposed by Gibson *et al.*, (2008) there is little evidence of its use in practice.

The lack of a single accepted criterion has important implications for comparing the results of studies of MSMEs across countries, as firms considered to be MSMEs in one country or by one organisation may be considered too large in another country. For example, in South Africa the definitions, as shown in Table 2.2, categorises much larger firms as SMEs compared to those in Namibia. The N\$ is fixed at 1:1 with the Rand and thus the values shown in the two tables can be compared directly. Effectively, the values imply that small and medium firms in South Africa would not be classified as an MSME in Namibia. Although such a comparison ignores purchasing power, it still reveals the importance of taking care in directly comparing the results of studies across countries. More than this, however, the variation in definitions can lead to distortions in the allocation of SME development schemes (Gibson *et al.*, 2008). This is clearly evidenced in the case of Ghana, as quoted by the Dalberg (2011) report, where all but 127 firms in the country were classified as MSMEs.

## **2.3 Distinction between formal-informal businesses and theories of informalisation**

### **2.3.1 Distinction between formal and informal business**

Distinguishing between formal and informal enterprises is important in the context of MSMEs. According to Smorffit (2010), cited in Amwele (2013), the formal sector is where there is a clear distinction between the individual's livelihood and that of the business. Efforts are made to record transactions, balance the books and owners follow business ethics. In contrast, in the informal sector, enterprises do not keep receipts, conduct book keeping and do not pay taxes. Employees do not usually have an employee contract, they have no leave, social security, or medical aid and are usually family members and friends (Stork, 2010). The ILDP (2014) report on informal and SMME retailers in South Africa refers to informal firms as subsistence enterprises, where the income generated is lower than the poverty line and the enterprises can be considered as "pre-entrepreneurial" including hawkers, vendors and subsistence farmers. In the Namibian context, Esselaar and Stork (2006) provide a clear distinction of the formal and informal MSMEs classification in table 2.5. For the purpose of

this study, the focus is on studying MSMEs in the informal sector of Namibia. Thus, the first two classes of enterprises in the table highlight the key features of MSMEs.

**Table 2. 5: Differences between formal and informal MSMEs**

<b>Informal operator/survivalist</b>	<b>Informal micro or small</b>	<b>Formal micro or small</b>
<ul style="list-style-type: none"> <li>▪ no employees</li> <li>▪ no distinction between business and personal finances</li> <li>▪ does not keep records</li> <li>▪ does not pay taxes</li> <li>▪ is not registered with any authority</li> <li>▪ engages in business to pay for daily activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ less than 10 employees</li> <li>▪ makes no distinction between personal and business finances</li> <li>▪ might keep records</li> <li>▪ might not pay taxes</li> <li>▪ might not be registered with any authority</li> <li>▪ has physical address and contact details</li> </ul>	<ul style="list-style-type: none"> <li>▪ between 10 - 49 employees</li> <li>▪ keeps records</li> <li>▪ has a separate bank account</li> <li>▪ pay taxes</li> <li>▪ registered with all institutions</li> <li>▪ has physical address and contact details</li> </ul>

(Source: Esselaar & Stork, 2006)

From the three definitions of formal and informal MSMEs presented in table 2.5, the informal operator/ survivalist will be used for this study as it best describes the MSMEs in the informal settlements of Namibia.

### **2.3.2 Theories of informalisation**

In the early 1970s, Keith Hart differentiated between the formal and informal sectors on the basis of wage-earning jobs and self-employment respectively. Building on the framework established, the International Labour Organisation (ILO) developed a set of criteria to differentiate between the formal and informal sectors consisting of seven main characteristics. The characteristics of informal sectors include the following: (i) small scale activities, (ii) easy accessibility, (iii) reliance on indigenous resources, (iv) family ownership of enterprises, (v) labour intensive and adapted technology usage, (vi) informally learned skills required to conduct activities, and (vii) unregulated and competitive markets. In contrast, the characteristics of the formal sector are as follows: (i) difficult accessibility, (ii) large scale, (iii) capital intensive, (iv) usage of imported materials and technology, (v) legal corporate entities, (vi) usage of formal skills, and (vii) operating under regulated markets (Chen, 2012). Hart argued that the emergence of the informal sector can be seen in a positive

light as it due a surplus of labour in urban areas arising from urban migration, population growth and greater capital intensity in industry (Aurick et al., 2017). Thus, for the unemployed to survive they need to find opportunities outside of the formal sector. Accordingly, the informal economy was considered by Hart as representing the potential for growth by improving the environment under which activities in the informal sector occur. Following this early work, there has been substantial debate about the informal sector. Four different approaches on the informal economy are discussed below.

#### **2.3.2.1 Dualist approach**

The dualist approach was made famous by the ILO during the 1970s. This approach recognises the informal sector of the economy as comprising of marginalised activities which are independent and not linked to the formal sector but important for the provision of income for the poor and acting as safety nets during critical times. In addition, under this approach, the informal sector is largely viewed as providing bare survival on the margins of the development societies without any potential for growth (Meagher, 1995).

According to Chen (2012), the dualist approach maintains that informal operators are excluded from modern economic opportunities due to imbalances between population and employment growth rates as well the mismatch between people's skill and the structure of modern economic opportunities. Thus, due to low-income, low productivity and survival-based strategies, obstacles to the enterprise growth in the informal sector are perceived to be inherent in the sector (Chabalengula, 2009; Meagher, 1995).

#### **2.3.2.2 The New-Marxist approach**

The New-Marxist approach which is also known as the Structuralist or petty commodity production approach does not make a strict distinction between the formal and informal economy but considers the informal sector to be subordinate to the formal sector, supplying cheap goods and services (ILO, 2002; Chen, 2012). This is achieved through petty cash commodity production and supply by most MSMEs to the informal sector, which is often excluded from access to urban resources.

#### **2.3.2.3 Informalisation approach**

The informalisation approach suggests that the informality be considered as social and historical processes rather than as a sector. Under this approach, the firms of production are informal and are part of the capitalist search for flexibility in the usage of labour. Furthermore, it urges that society's socio-economic features emanating from economic and

political history creates informality. In short, deliberate policies such as retrenchment, decentralisation and cutbacks in social amenities, when seeking reform in crisis, creates informality (Meagher, 1995).

#### **2.3.2.4 Neo-liberal approach**

The neo-liberal approach, also known as the legalist approach, was made popular by Hernando De Soto, and views the informal sector as comprising of micro-enterprises that choose to operate informally so as to avoid the costs, time and effort of formal registration and other unreasonably perceived bureaucratic controls. According to this approach, high taxes, a corrupt state system and too much interference in the free markets results in workers leaving the formal sector with motives of establishing small informal businesses to increase their own wealth. According to Chabalengula (2009) the neo-liberal approach is survival strategy of the urban poor. They engage in informal activities because of their inability to afford the high taxes, competition with the free formal markets caused by the state's discriminatory regulations which does not consider their poverty state.

The four theories discussed above closely relate to the research phenomenon, which is the MSMEs in the informal settlements more specifically the informalisation concept among small businesses. However, this paper adopts the neo-liberal theory as the approach which underpins this study because it best describes the situation of small businesses in the informal settlements of Namibia and the realities they are faced with.

#### **2.4 MSME Contributions to the world economy**

MSMEs are considered critical in all economies because they provide employment, contribute to the GDP of the country, pay taxes to the government and foster innovation. MSMEs also play an instrumental role in facilitating a country's participation in the global market through exports. SMEs contribute to the country's national product by either manufacturing goods of value, or through the provision of services to both consumers and other enterprises as well as providing goods and services to foreign clients and thereby also contributing to the overall export performance (Abor & Quartey, 2010).

MSMEs comprise the majority of enterprises in developed countries and are credited with generating the highest rates of growth in employment, industrial production and exports (OECD, 2004). The Edinburgh Group (2012) documented that MSMEs dominate the world business stage as they constitute more than 95% of enterprises and account for approximately 60% of private sector employment. The OECD (2009) estimated that there are 420 to 510

million MSMEs worldwide, of which 15-19% are formal MSMEs (excluding micro-enterprises) and 80–95% are in low- and middle income countries.

Numerous studies have documented the contribution of MSMEs to individual countries from developed countries such as the European Union, Germany, the UK (Banerjee, 2014; Edinburgh Group, 2012; Shilinge, 2016) to Malaysia, China, South Korea and Thailand (Grimsholm and Poblete, 2010; Khalique *et al.*, 2011; Yoshino & Wignaraja, 2015) as well as Nigeria, Ghana and South Africa. While the percentage contributions of MSMEs to employment and GDP do vary, it has generally been found that in advanced economies MSMEs account for up-to 95% of enterprises, while contributing to about 60-65% employment and over 50-55% of GDP in the non-governmental sector. In comparison, in low income countries MSMEs account for 60% of GDP and over 70% of total employment and in the middle income countries MSMEs accounts for about 70% of GDP and up-to 95% of total employment.

Relating to African economies, authors (Agwu & Emeti, 2014; Ihua, 2009; Katua, 2014) suggests that MSMEs in Nigeria represent about 97% of total enterprises in the country, employ an average of about 50% of the total working class while they contribute to about 50% of the industrial output of the country. As for the Ghanaian economy, several studies (Abour & Quartey, 2010; Ackah & Vuvor, 2011; Adjei, 2012) reported that MSMEs constitute between 90% and 92% of total businesses which contribute about 70% of the country's GDP and about 60% of the labour force. According to the studies of (Abor & Quartey, 2010; Chiloane-Tsoka & Mmako, 2014; Edinburgh Group, 2012; Kongolo, 2010; Ramukumba, 2014) South Africa's 800 000 MSMEs account for 91% of the formal business entities in the country and they contribute between 52%-57% of the country's GDP and 60-61% of the total workforce, representing around 7.8 million jobs. The Edinburgh Group (2012) reported that in Morocco, MSMEs accounts for 93% of all industrial firms representing 38% of total production and about 30% of exports which is lower when compared to Ghana, South Africa and Nigeria although the total enterprise size is similar to that of South Africa and Ghana.

In Namibia, as previously mentioned, Nakusera *et al.*, (2008) and Ramsden (2010) indicated that SMEs accounted for approximately 20% of employment and 12% contribution to GDP even when considering the informal sector. Namibia's unimpressive SME contributions to GDP is similar to that of Burkina Faso and Mali which was reported to be 12.7% and this is

slightly higher than the contribution made by SMEs in countries like the Democratic Republic of Congo (DRC), Zimbabwe and the Congo which is less than 10% of GDP due to their worse business environment (Kongolo, 2010). However, the Namibian MSME contribution figures, have not only changed little since 2003, (Schoneburg-Schultz & Schultz, 2006), suggesting that growth in the MSME sector in Namibia has stagnated, but also pale into insignificance when compared to its African neighbours and both developed and developing countries internationally. It therefore appears that the MSME sector in Namibia needs further attention so as to be able to determine what support and programmes can be implemented to grow the sector and harness its substantial potential as is being done across numerous other countries.

## **2.5 Other forms of MSME contributions to their home economies**

In addition to the contribution of MSMEs to employment creation, GDP and total exports, SMEs also contribute in other forms. In any country, large enterprises cannot survive without the support of MSMEs, particularly in the supply of materials, parts and components, semi-finished goods and the distribution of finished goods (Saani, 2012). Abor and Quartey (2010) state that MSMEs do not just act as suppliers of goods and services with purchasing power in the market but also as consumers through their demand for goods and services which stimulate the activities of suppliers just as their activities are stimulated by the demands of their clients.

MSMEs also play a crucial role in the provision of goods and services to local communities including the supply of daily needs such as food, transport and other necessities (Saani, 2012). Due to the fact that SMEs require little capital, they can be established in less developed areas of a country. By this, SMEs help spread economic activities from urban to rural areas thus helping in the reduction of the flow of migration from rural to over populated urban areas (Saani, 2012; Shilinge, 2016).

Katua (2014) acknowledges that SMEs help alleviate poverty which in turn has a positive effect on the fight against diseases. Thus SMEs are key to the achievement of national economic objectives relating to employment creation and poverty reduction. Ackah and Vuvor (2011) confirm that SMEs are very important vehicles in the fight against poverty because they employ the poor and are sometimes the only source of employment in rural areas.

## 2.6 Internal and external challenges faced by MSMEs

As mentioned in chapter one, the barriers faced by MSMEs are typically categorised into internal and external barriers. Internal barriers are those that arise from within the organisation such as owner/manager characteristics, firm characteristics, and cost and return on investment. External impediments include factors arising from the firm's external environment which includes technological, economic, political, legal, social and cultural barriers that exist within the country. In contrast to internal barriers which predominantly can be resolved within the organisation, external challenges typically need to be addressed by government intervention or by collaborated efforts of MSMEs (Kapurubandara & Lawson, 2006).

The International Finance Corporation (IFC) (2009) found that in developing countries the greatest obstacles to MSMEs are a poor investment climate, especially red tape, high tax rates, competition from the informal sector and inadequate infrastructure. In particular, insufficient and unreliable power supply was the biggest challenge facing these firms in low-income countries while informality is the major hindrance for MSMEs in middle-income countries. Informality among MSMEs refers to those unincorporated enterprises owned by households which supply at least some products and services for the market but which have less than a specified number of employees, and/or are not registered under national legislation referring, for example, to tax or social security obligations, or regulatory acts (OECD, 2017). Studies have also been conducted in many countries, with the results of these affirming some of these generic findings of the IFC (2009) as detailed further below, while other country- and region-specific factors have also been identified.

Saleh and Ndubisi (2006) studied the challenges facing MSMEs in Malaysia and found the principle barriers to be low technological capabilities, limited human capital resources, low levels of technology penetration, low levels of research and development (R&D), a substantial orientation towards domestic markets, high levels of competition, high levels of bureaucracy in government agencies and the internal sourcing of funds. The absence of a comprehensive policy framework towards MSME development in Malaysia was also seen a major hindrance. In a more recent study of the same country, Khalique *et al.*, (2011) found that MSMEs in Malaysia are faced with challenges such as economic downturns, barriers from global sourcing, low productivity, lack of financing, lack of managerial capabilities, difficulty in assessing management, technology and heavy regulatory burden. In addition to this, the difficulty in accessing credit and formal business and social networks were identified

as challenges to MSME development. Khalique *et al.*, (2011) further identified the lack of knowledge regarding marketing techniques, branding, customer loyalty and the absence of good contacts with local and international enterprises as barriers to MSME development in Malaysia.

Yoshino and Wignaraja (2015) found that the complicated nature of procedures is a major challenge facing SMEs not only in Malaysia but across Asia; with 34% of MSMEs in China, 56% in India, 42% in the Republic of Korea and 36% in Malaysia highlighting this difficulty. The lack of knowledge from marketing to technology to expanding internationally was also evident across these countries. In the case of Azerbaijan, the IFC (2009) identified common problems facing MSMEs in the categories of business registration, licensing and permits, business regulations, access to finance and foreign trade legislation and procedures.

Accessing finance is a major stumbling block for MSMEs the world over. Yoshino and Wignaraja (2015), for example, found that the lack of collateral was a barrier to MSME growth for 34% of MSMEs in China, 76% in the Republic of Korea, 36% in Malaysia and over 56% of SMEs in India. Saleh and Ndubisi (2006) also identified finance and access to finance as a major challenge that impedes SME development in Malaysia. The latter arises in obtaining funds from institutions and the government due to the high interest rates.

In South Africa, insufficient management capabilities such as knowledge, skills and competencies have been found to be a major barrier to MSME growth and development (Olawale and Garwe, 2010), as well as marketing skills and limited financial and human resources (Van Scheers, 2010; Pandya, 2012). Mafini and Omoruyi (2013), focusing exclusively on the challenges facing MSMEs in the logistics sector in South Africa, acknowledged that finance, and skills shortages, high costs associated with ICT and rapid technological developments faced by MSMEs in implementing logistics strategies were major concerns. Ramukumba (2014) also found that in the Western Cape MSMEs face financial constraints and cash flow uncertainties. Many businesses lack collateral, as well as financial records including audited financial statements, which are key requirements for loan applications from commercial banks. Additionally, Ramukumba (2014) found that high transaction costs, bureaucratic processes of application and the lack of awareness about the procedures involved in gaining finance to be constraints to finance applications.

The study of Fjose, Grunfeld and Green (2010) identified ten main obstacles that limit MSME growth in SSA, with many of these unique to countries in this region while many

others also mirror international findings. The former include access to electricity, corruption, political instability, crime, theft and disorder, while the latter include access to finance, tax rates, tax administration, transportation and trade.

The findings of Katua (2014) for Nigeria concur with the challenges documented by Fjose *et al.*, (2010) as he found political instability, law and order, financial constraints, and energy crises to be major problems facing MSMEs in this country. Taxation, labour issues, lack of coordination and irregular information exchange mechanisms among institutions were also identified as challenges. The findings of Bouazza, Ardjouman and Abada (2015) for Algeria support those of Fjose *et al.*, (2010) for SSA countries, where corruption was identified as the major challenge facing smaller firms - informal payments to public officials are needed to get things done. Similarly to international evidence, access to external financing was a major challenge to the growth of MSMEs in Algeria, which Bouazza *et al.*, (2015) link to the high failure rate of MSMEs in that country.

Ramsden (2010) identified five major barriers to MSME development in Namibia. The first of these is business regulation, which relates to how easy it is to open and close a business and obtain all the necessary operating permits and licences. The second is infrastructure which incorporates the unpredictability and logistics associated with getting produce to the market as well as the supply of electricity. Corruption was also identified as a major challenge. Fourthly, the universal challenge facing MSMEs of access to finance was documented and this was observed across the full range of financial services not just credit, and finally, management capacity including having the skills across wide range of specialized disciplines. Land ownership is a key factor in banks providing loans as it serves as a form of security from the borrower as a risk mitigation tool. In poor countries accessing funds is extremely difficult as the intended borrower has no assets to provide as security. The borrower, in most instances, has no full ownership right over land and buildings where the business operates from, in order for the lender to enforce their rights in the event of default by the borrower (Ramsden, 2010).

Stork (2010) indicated that overcoming asymmetric information is a challenge that MSMEs need to address so as to access more finance. Someone without a bank account approaching a bank for a loan is likely to be rejected due to the fact that he/she needs to provide collateral. This is because the bank has no transaction history for this person or informal business and hence does not know anything about the applicant's creditworthiness. The absence of

transactional history means that the ability to repay the loan cannot be established by banks, making it difficult and risky for banks to serve such a person unless the loan is fully collateralised. Access to and cost of capital remains the biggest obstacles to business performance and further investment. As such, family and friends are the main source of business loans in the informal and or micro business sector in Namibia (Stork, 2010).

Ogbokor and Ngeendepi (2012), in a more recent study of MSMEs in Namibia, identified that compliance tends to be a challenge for the majority of the MSMEs due to the bureaucracy and cost involved in registering a business, obtaining the necessary licenses and permits. This is consistent with the business regulation concept documented by Ramsden (2010). Moreover, similarly to other studies, Ogbokor and Ngeendepi (2012) also found that adapting to technological changes was a major difficulty for the majority of businesses resulting in many MSMEs not being able to cope with technological developments. Ogbokor and Ngeendepi (2012) also found that challenges facing MSMEs in Namibia included stiff competition, management, access to finance, access to markets, crime, corruption and infrastructure; such findings are consistent with the findings of other African countries. Amwele (2013) found resources and finance, external environment, competition, corruption as main factors that adversely affect MSMEs performance within Windhoek. Amupolo (2013) found that technical capacity, mentoring and training to be the key shortcomings by MSMEs within the construction sector. Kambwale et al (2015) found lack of management skills, lack of financial support, and lack of training to be the major causes of MSMEs failure within Windhoek. Shoopala (2015) found access to finance as the greatest challenge to MSMEs in the John A. Pandeni constituency in Windhoek. Shilinge (2016) revealed that stringent government policies relating to MSMEs, lack of subsidies, competition, inadequate finance, lack of equipment, limited enterprise spaces, lack of business managerial skills as factors that stagnates MSMEs growth within Katutura central.

## **2.7 Summary**

This chapter discussed the lack of a universal definition for MSMEs showcasing several definitions from selected economies and institutions. Thereafter, the importance of MSMEs to the different economies, particularly in the form of the contribution to GDP and employment, was presented. However, it was noted that Namibia along with some other African countries lag behind the rest of the world on this front. The chapter further provided a discussion of the challenges facing MSMEs both globally and in Namibia as found in the

existing literature. Chapter three provides the methodological approach followed by this study in examining the obstacles faced by MSMEs in the informal settlements of Namibia.

### 3 RESEARCH METHODOLOGY

#### 3.1 Introduction

Saunders, Lewis and Thornhill (2003:481) and Ehlers (2000:126) define methodology as the theory of how research should be undertaken, including for example, theoretical and practical assumptions upon which the research is based and the implications of these for the method adopted. The methodology gives the reader sufficient information to make an estimate of the reliability and validity of the methods applied (Saunders *et al.*, 2003:421).

This study involved the collection of primary data using a questionnaire answered by MSME owners/managers so as to obtain the necessary information to identify the challenges faced by MSMEs in the informal settlements of Namibia. The research design, population, sampling, data analysis and data collection are explained in this chapter.

#### 3.2 Research design

The research design followed was quantitative and descriptive in nature which was executed in the form of a survey. It is descriptive in nature because it since it seeks to describe and explain the challenges MSMEs in the informal settlements are faced with. According to Cooper and Schlinder (2011) quantitative research is characterised by the collection of data which can be analysed numerically using statistics, tables and or graphs. In this study the data collected was collected using closed-ended questionnaires which were reduced to numerical data by usage of SPSS tool. This makes the study approach quantitative in nature. This provided benefits of results being analysed using a statistical method, data collected and analysed is verifiable and can be compared between different locations while limitations to this is includes the inability to probe respondents and the quality of the original data collection instrument.

Nonetheless, to deal with this challenge, an extensive search of the existing literature on the challenges facing MSMEs was undertaken so as to provide a framework for the development of the survey questionnaire, while this evidence was also utilised to compare against the results of this research.

#### 3.3 Population

Informal settlements are areas where dwellers occupy the land without the consent of local councils or municipalities and are thus frequently cut-off from basic services and city infrastructure. Often these settlements are situated in environmentally and geographically dangerous areas where houses take the form of informal structures (United Nations Habitat,

2015). Informal settlements were selected to be surveyed as there is no other study that has focused exclusively on enterprises operating from within the informal settlements of Namibia. Thus, the study makes an important contribution in so far as determining whether the challenges faced by firms in these settlements differ from those operating in formal settlements through a comparison of the findings of this study with existing findings, as documented in the second research objective in chapter 1.

A population can be defined as the full set of cases from which a sample is taken (Saunders *et al.*, 2003:485). It does not necessarily refer to people, but the total quantity of ‘things’ which are the subject of the research. The population for this study thus comprised of all MSMEs within informal settlements of Namibia. Importantly, the definition of MSMEs used in Namibia, as outlined in Section 2.2, is used for the purposes of defining the population.

### **3.4 Sampling and Methods**

According to Saunders *et al.*, (2003:489), a sample is a “sub-group of a population”; while Latham (2007) further defines it as a taste of the population. A sample is typically essential due to budget and time constraints and the general impracticality of surveying the entire population (except where the population may be small) (Saunders *et al.*, 2003:151). The sample should be as representative as possible of the population in the sense that each sampled unit will represent the known characteristics of the population. There are various forms that sampling can take to achieve the objective of representing the population. For this research, cluster sampling was used.

Cluster sampling is where the population is divided into units or groups which are relatively natural (such as geographic areas), called clusters, with data then collected from a sample of these clusters (Saunders *et al.*, 2003:167; Latham, 2007; Saiffudin, 2009). If data is collected from all units in the cluster this is referred to as one-stage cluster design; however, a two-stage design is commonly used in which a sub-sample of the units in each cluster is selected (Barreiro and Abandoz, 2001; Saiffudin, 2009). The major advantage of this two-stage approach is the reduction in time and costs associated with the implementation of the survey. The two-stage approach was chosen for the purposes of this analysis (Saunders *et al.*, 2003:167; Latham, 2007). Latham (2007) recommends this method when no comprehensive list exists for the population and this is true for MSMEs in informal settlements in Namibia as the current statistics do not provide this information.

To select both the clusters and the units within each cluster, convenience sampling rather than random or systematic sampling was used. Convenience sampling is a type of non-probability or non-random sampling technique where cases are sampled haphazardly in the sense that they meet the practical criteria of easy accessibility, geographic proximity, availability at the given time, or the willingness to participate in the research (Etikan, Musa & Alkassin, 2016). These features of the convenience sampling technique provided a good fit for the purposes of this research. Although it has some limitations (such as the sample potentially being biased), the fact that the MSMEs in the various regions are likely to be reasonably homogenous suggests that the sample provided a reasonably accurate reflection of the population (Etikan *et al.*, 2016).

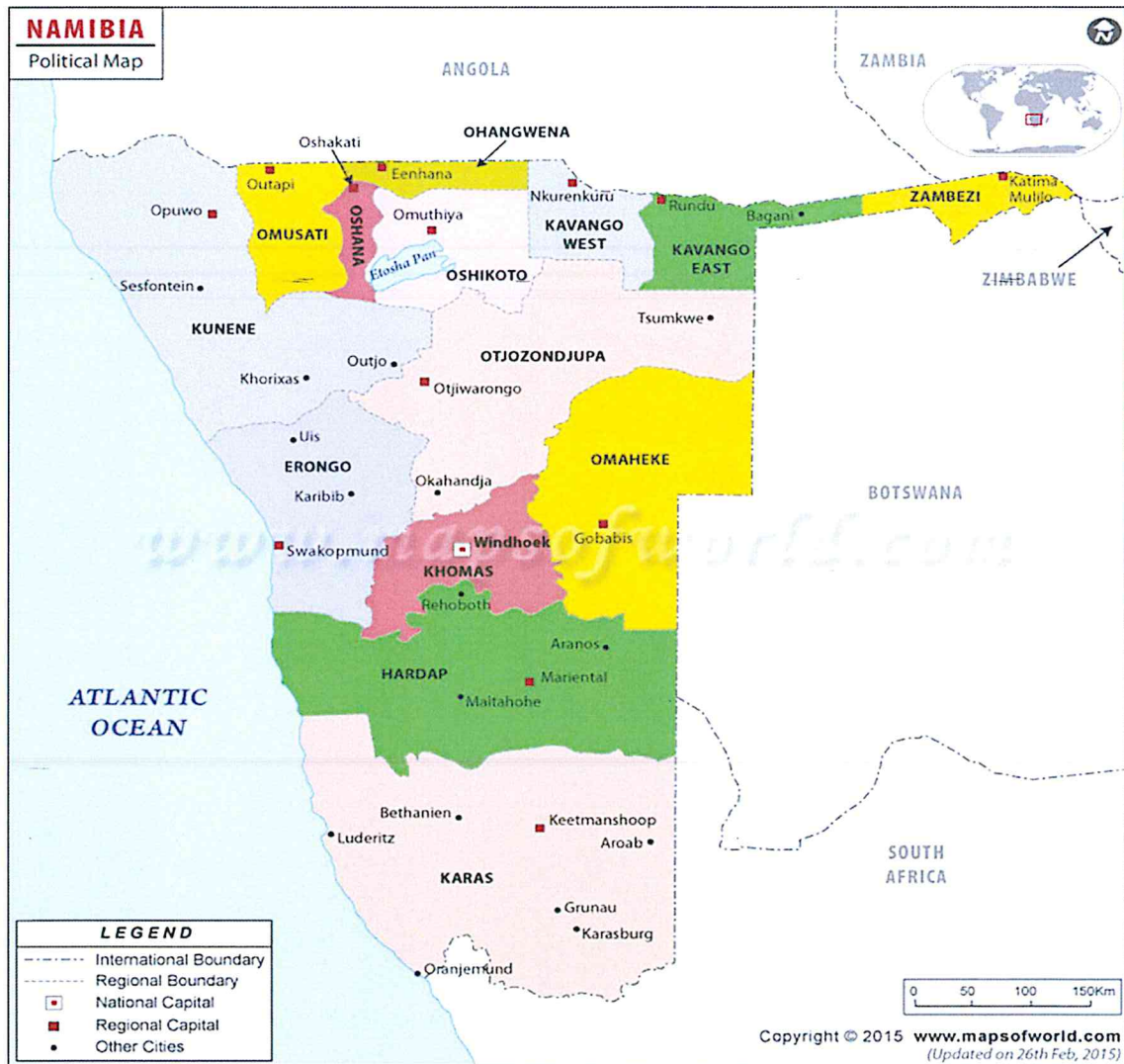
The clusters selected in the first stage of the analysis included the informal settlements of seven regions of Namibia namely: Khomas, Erongo, Kavango East, Kavango West, Otjozondjupa, Kunene and Oshana. These were selected based on the ease of accessing the regions while travelling for the purposes of work. The selection of seven areas meant that 50% of the regions of Namibia were going to be surveyed, as shown in figure 3.1. To select the enterprises in each region, the researcher went to the 'business centre' or streets in each informal settlement and requested business owners or managers who were accessible and willing to participate in the survey. The targeted sample size was 140 respondents - 20 from each cluster.

However, due to time constraints vis-à-vis the research process, the study could not be implemented as initially planned. Consequently, the study area was limited to the five central regions. A total number of 126 businesses were surveyed from 11 different settlements in six different towns from Erongo, Hardap, Khomas, Omaheke and Otjozondjupa regions.

### **3.5 Data collection**

As mentioned previously, the main data collection instrument used in this study was a written questionnaire. MSMEs owners and/or managers in the identified clusters were approached and requested to answer the questions. The administrator of the questionnaire documented the answers to each of the questions provided by the respondent. The researcher, along with the help of an administrator performed this task in four of the identified clusters (Khomas, Otjozondjupa, Hardap and Erongo region) while the trained administrator implemented the survey in the last region of Omaheke.

Figure 3.1 Political Map of Namibia



(Source: Maps of the World, 2016)

The questionnaire that was used for survey is included as appendix A. The structure of the questionnaire comprised of closed-ended questions so as to eliminate respondent's biasness and allowed the respondents to answer from a set of predetermined answers. This form of questionnaire is quicker and easier because it provides alternative answers from which the respondent must select and requires minimal documenting of the answers by the administrator of the questionnaire (Saunders *et al.*, 2003:282; Saniscallo & Auriat, 2005). Some of the questions offered simple alternatives such as 'Yes' or 'No', while others required the respondent to choose from several answer categories, using a frequency scale, an importance scale, or an agreement scale.

The questionnaire was designed by the researcher taking into consideration the evidence presented in the literature review regarding the challenges facing MSMEs in other countries

and in previous studies of the small enterprises in the formal sector of Namibia. The questionnaire thus aimed to understand challenges that are both internal or firm-specific and external or systemic factors, as defined in chapter 1. In particular, the former category includes obstacles surrounding access to finance, insufficient management and entrepreneurial skills, location and marketing while the latter includes competition, regulation, infrastructure, crime and corruption.

Section A of the questionnaire contained demographic information such as the form of business, the amount of capital required to start the business, number of employees, enterprise age, reason for establishing the enterprise and the owner's gender. Section B reviewed the need for finance and aspects surrounding this such as applications for funding, whether the enterprises have bank accounts and the main barriers in obtaining finance. Section C reviewed the management of the enterprise and entrepreneurial skills while Section D contained questions relating to business registration with regulatory institutions including the Ministry of Industrialisation, Trade and SME Development (MITSMED), Ministry of Finance (MOF), Social Security Commission (SSC), Employment Equity Commission (EEC) and the Local Authority/Municipality (LA/M). Section E reviews the location of the operation and the obstacles related to the enterprise's location such as the availability of land, and the existence of services including water, electricity, refuse removal, roads and telecommunications within the settlement. Section F examined the marketing activities of the MSMEs, with section G assessing ICT and the usage thereof by small businesses within the settlements. Section H reviewed crime and corruption, including the level of crime, whether and how it affects the business and thereafter section I assessed the competition, including the level of competition and whether it effects the enterprises. The final section aimed to establish the greatest obstacle facing the MSMEs from among the challenges reviewed in the preceding section.

During the execution of fieldwork, the researcher and/or the questionnaire administrator approached the MSME owners within the identified settlements, introduced the purpose of the study and further explained that participation is voluntary and that responses would be treated with the highest level of confidentiality before seeking consent from the business owners to partake in the study. The questionnaire took between 15 and 20 minutes to complete depending on the level of understanding of the respondent.

### **3.6 Data analysis methods**

After the data was collected, responses from the fieldwork were verified, coded, and summarised before the data was entered into a computer programme for analysing. For this purpose, the Statistical Package for Social Sciences (SPSS) was used due to its versatility, especially considering the nature of the data collected, as documented by Onugu (2005). That is, SPSS has the capabilities to analyse data within seconds and generate a range of results to facilitate the interpretation of the questionnaire findings such as frequencies, percentages, pie charts, cumulative frequencies and other descriptive statistics.

### **3.7 Research reliability and validity**

In order to enhance the reliability and validity of the analysis, a pilot study preceded the actual survey implementation. Simon (2001) defines a pilot study as a small-scale version or trial run in preparation for the major study or often referred to as trying-out or pre-testing the research instrument. The advantage of a pilot test was to point out in advance where the research could have failed and highlighting practical problems with the procedure. This would ensure that any misleading, inappropriate or redundant questions were avoided or dealt with (Simon, 2001; Saunders *et al.*, 2003:485). This also enabled the administrator to be trained in the administration of the survey.

For this purpose, the questionnaire was implemented within a small group of MSMEs in three of the informal settlements. In particular, the pilot study was conducted on fourteen small businesses, seven of which were from Kunene (4) and Kavango East (3) regions and surveyed by the questionnaire administrators while the principal researcher assisted by a questionnaire administrator, piloted the study with seven entrepreneurs in the Khomas region. The challenges raised from the regional pilot study included the refusal of respondents to give information to other persons other than the principal researcher, language barriers and the reluctance of participants to share financial information including profits and capital requirements.

To respond to the first problem encountered, a notable change to the study implementation was carried out. That is, as explained previously, the survey was not implemented in the Kunene and Kavango regions as planned so as to ensure that the principal researcher was available to the respondents if required. Thus, the researcher did not send the questionnaire administrator out into a different settlement but moved together at all times interviewing in one street or settlement before moving to another. Every time the respondents needed

identification the administrator would call the principal researcher for identification before proceeding with the questionnaire. Regarding the issue of profits and the start-up capital required, the administrator or researcher explained that the entrepreneur was not obligated to give the actual amount but the range or alternatively they could choose not to answer that question. In addressing the language issue, one of the administrators hired was able to speak the most common dialect (Oshiwambo) spoken amongst the respondents, or otherwise, if preferred by the respondents, the questions were asked in the local lingua franca (Afrikaans) which the principal researcher and the administrator were fluent in. In some households, school-going children assisted in translating to their parents and the researcher/administrator.

### **3.8 Limitations**

#### **a) Access to statistical data**

One of the greatest limitations faced in this study related to the difficulty in accessing and collecting statistics on small businesses in Namibia, especially those in the informal settlements as the majority of these businesses were not registered with LA/M or MITSMED. As a result no institution had records on the number of small businesses within the informal settlements.

#### **b) Time and resources**

The initial plan was to carry out the study in seven different regions. But, due to time and cost limitations in relation to the intensity of the spread of the different regions, only five centrally located regions, representing eleven different settlements in six different towns were surveyed. The far northern regions and southern regions were excluded from this study, as time and cost could not allow the researcher to travel to those areas.

#### **c) Resistance to respond to the questionnaires**

Despite the assurance given by the researcher through the reading of the informed consent that the research was for academic purposes and information would be treated confidentially, some of the small business owners approached resisted responding to the questionnaire in fear that the information in one way or another would end up with the tax authorities, local authority or municipality as most of the small businesses were not properly registered with these authorities. In some instances they were reluctant to share the information because they feared that their business idea would be stolen. Additionally, the respondents were unwilling

or rather uncomfortable to share financial information like how much capital they started their business with or what their annual profits were. Thus, this limited the number of respondents involved in this study despite the efforts and approaches of the researcher in explaining the benefits of the research to the small business community within the informal settlements of Namibia.

### **3.9 Summary**

This chapter presented the research methodology consisting of the research design, the population, the sampling methods, the data collection methods, data analysis methods, research reliability and validity. In the next chapter, the results from the field work are presented in tabular or figure format and analysed or discussed in comparison to the findings of other studies from existing literature.

## 4 ANALYSIS AND DISCUSSIONS

### 4.1 Introduction

This chapter provides an analysis and discussion of the results from the fieldwork in order to understand the challenges facing MSMEs in the informal sector of Namibia. The work is presented in tables and figures and thereafter examined in comparison with the findings of other studies from the literature. Firstly, the characteristics of the MSMEs are reviewed including the form of enterprise and the nature of the business. This is followed by a review of the financial aspects of the business such as whether the firm has a bank account and their experiences in accessing funding. Thereafter, the management of the enterprise and business registration are examined. The challenges MSMEs face with regards to location and infrastructure are then analysed followed by a review of the marketing and ICT practices of the enterprises. Finally, the effect of crime and corruption and competition on the businesses will be examined.

### 4.2 Analysis and Discussion of Results

#### 4.2.1 Business Characteristics

##### 4.2.1.1 Form of business

As it can be observed in Table 4.1 below, within the informal settlements of Namibia, approximately 85% of the business owners indicated that they classify their enterprise as a one-man business, when compared to only 15% classified as partnerships. None of the businesses in the informal settlements are either a private or public company or any other form of business enterprise.

**Table 4.1 Form of business<sup>1</sup>**

<b>Form of Ownership</b>	<b>Frequency</b>	<b>Percentage</b>
One-man business	107	84.9
Partnership	19	15.1
Total	126	100.0

Table 4.2 below shows that the settlements results portray the same picture as discussed for the whole sample. The Usab settlement (with 100%) had the highest number of one-man businesses while the settlement with the highest number of partnerships was Block E and

<sup>1</sup> Percentage in Figure 4.1 represents all respondents

Kawukiland settlements with approximately 27%. In 5 Rand, Otjomuise and Monte Christo, one-in-five of the enterprises were partnerships.

**Table 4.2 Form of business cross-tabulation-settlements<sup>2</sup>**

Settlement	Form of business		Total
	One-Man business	Partnership	
Usab-Karibib-Erongo	100.0%		100.0%
Hakahana-Omaruru-Erongo	83.3%	16.7%	100.0%
5 Rand-Okahandja-Otjozondjupa	80.0%	20.0%	100.0%
Block E/Kawuki-Rehoboth	72.7%	27.3%	100.0%
Twerijandjera-Gobabis-Omaheke	92.9%	7.1%	100.0%
Goreangab-Windhoek-Khomas	86.7%	13.3%	100.0%
Otjomuise -Windhoek-Khomas	80.0%	20.0%	100.0%
Okahandja Park- Windhoek-Khomas	86.7%	13.3%	100.0%
Monte Christo- Windhoek-Khomas	80.0%	20.0%	100.0%
Total	84.9%	15.1%	100.0%

These findings are consistent with those of Shilinge (2016) who found that 100% of the small businesses within central Katutura were owned by single owners and Shoopala (2015) who found that 68% of the businesses are sole-traders within the John A. Pandeni constituency in the Khomas region of Namibia. Thus, the result substantiates the previous findings in the literature on small businesses in the formal settlements of Namibia that the common form of business within the informal settlements is also sole traders.

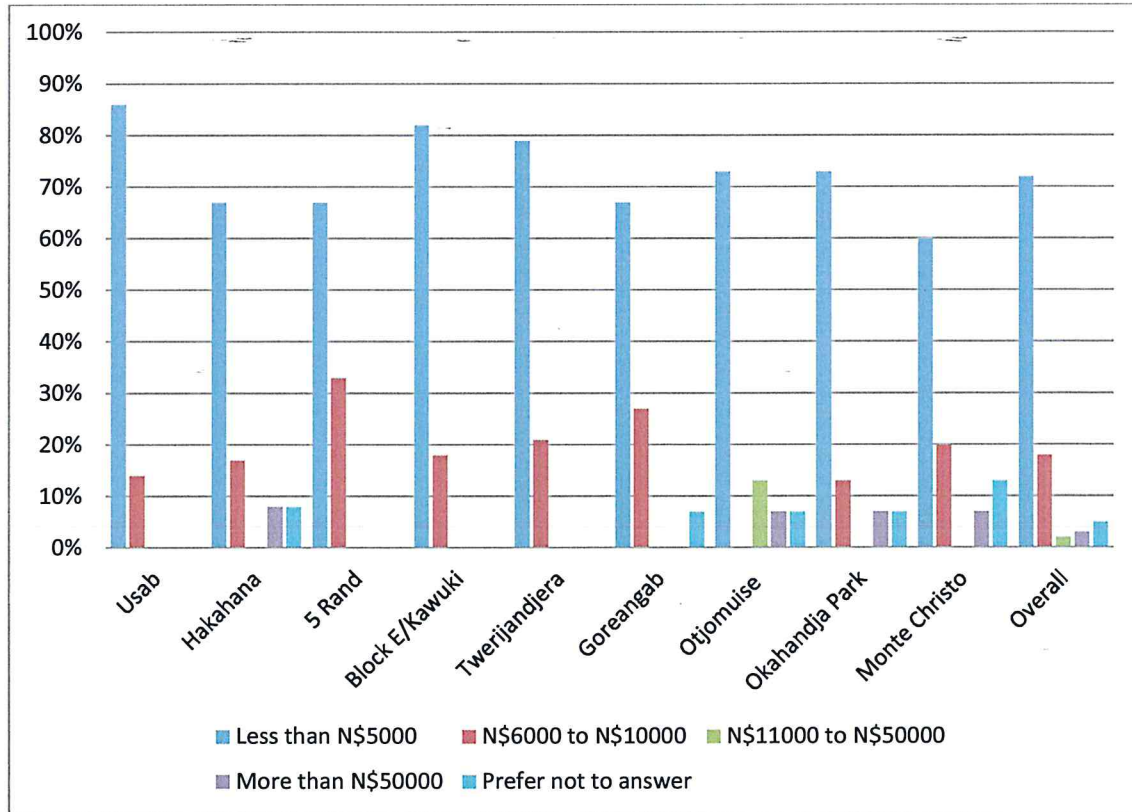
#### **4.2.1.2 Start-up capital**

As shown in Figure 4.1 below, the majority of the respondents (72%) indicated that they started their business with an amount of less than N\$5 000, with 18% using more than N\$5 000 but less than N\$10 000. Thus 90% of the enterprises were started with a capital contribution of less than N\$10 000, with only 5% of the respondents stating that they started their business with an amount N\$10 000 or more (5% of the respondent preferred not to answer the question). Figure 4.1 further indicates that most settlements displayed similar trends to the mean in terms of capital required for start-up although Usab (86%) had a greater

<sup>2</sup> These percentages in Table 4.2 represents settlement results while total is for all respondents

number of entrepreneurs starting their businesses with very little capital whereas in Otjomuise 13% of the entrepreneurs started their businesses with more than N\$11 000 but less than N\$50 000 and another 7% started with more than N\$50 000.

**Figure 4.1 Start-up capital<sup>3</sup>**



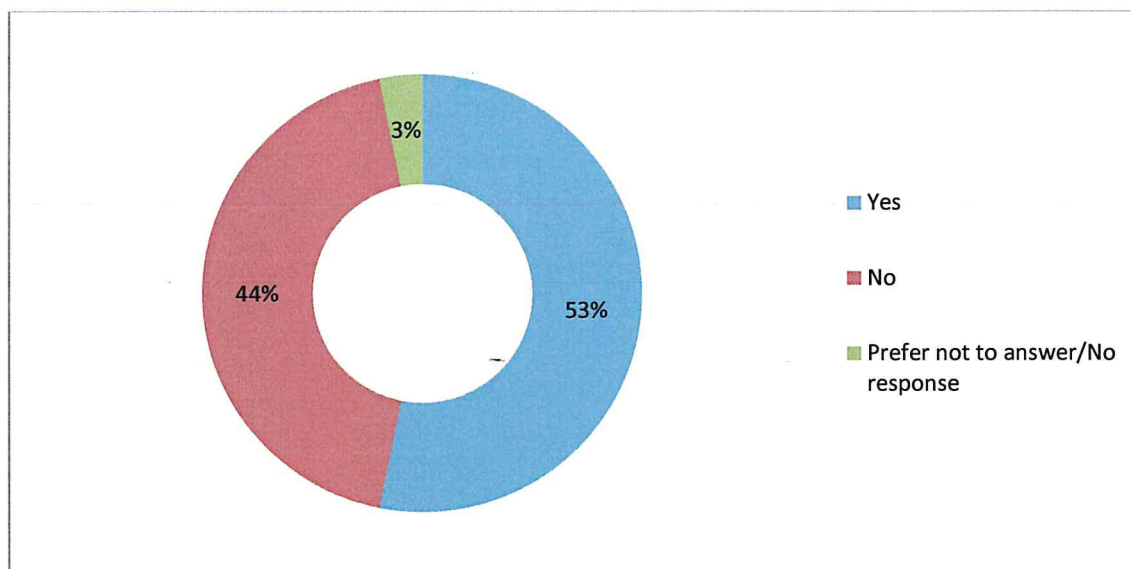
In response to the question of whether the small businesses found it difficult or easy to obtain the start-up capital, Figure 4.2 shows that the majority of owners within informal settlements (53%) indicated that obtaining finance was a major challenge for them, while a significant portion (44%) did not feel it was a major challenge for them to obtain finance. These results are surprising when compared to the findings discussed later in this chapter that access to finance was the greatest obstacle for the MSMEs surveyed in this study. This difference, however, could be attributable to the fact that the majority of these enterprises were started with an amount of less than N\$ 5 000. Table 4.3 shows that the results from the settlements of Usab (71%), Twerijandjera (79%), Okahandja Park (60%) and Monte Christo (53%) are in agreement with the overall results which suggest that obtaining finance was a challenge. On the contrary, the results for Hakahana (58%), 5 Rand (73%), Block E/Kawuki (64%) and

<sup>3</sup> The percentages in Figure 4.1 represents settlements results while overall is for all respondents

Otjomuise (53%) felt that obtaining start-up finance was not a challenge for the firms located in these regions.

Ipinge (2010) found that 89% of MSMEs in the Khomas region were started with less N\$ 25 000 when compared to only 6% who started their business with capital of above N\$25 000. Comparing the results of this study to that of enterprises in the formal sector it is evident that the start-up capital for those in the informal sectors of Namibia is much lower than those in the formal sector. This makes sense given that these entrepreneurs are survivalists, with access to limited funds, which also prohibit their ability to participate and trade in the formal sector.

**Figure 4.2 Ease/difficulty in obtaining capital<sup>4</sup>**



**Table 4.3 Ease/ difficulty in obtaining start-up capital across the settlements<sup>5</sup>**

Name of Settlement	Obtaining start-up capital		
	Yes	No	Prefer not to answer
Usab-Karibib	71.4%	28.6%	
Hakahana-Omaruru	33.3%	58.3%	8.3%
5 Rand-Okahandja	26.7%	73.3%	
Block E/Kawuki-Rehoboth	36.4%	63.6%	

<sup>4</sup> The percentages in Figure 4.2 represents all respondents

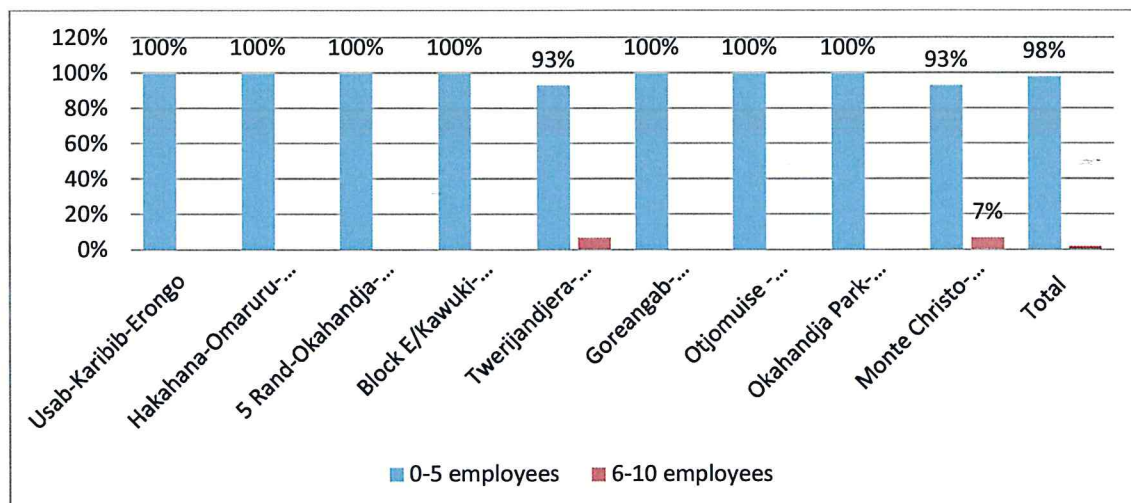
<sup>5</sup> The percentages in Figure 4.3 represents settlement results while overall is for all respondents

Twerijandjera-Gobabis	78.6%	21.4%	
Goreangab-Windhoek	66.7%	33.3%	
Otjomuise -Windhoek	46.7%	53.3%	
Okahandja Park-Windhoek	60.0%	26.7%	13.3%
Monte Christo-Windhoek	53.3%	40.0%	6.7%
<b>Total</b>	<b>53.2%</b>	<b>43.7%</b>	<b>3.2%</b>

#### 4.2.1.3 The number of employees

The results in Figure 4.3 demonstrate that overall and in all settlements, the vast majority of MSMEs employed fewer than 5 employees. The results further show that in informal settlements all small businesses employ less than 10 employees. The results substantiate the findings of previous studies on formal settlements which found that MSMEs in Namibia have relatively small staff complements. For example, Shoopala (2015) found that in the John A Pandeni constituency 76% of MSMEs employed less than 6 employees while Ipinge (2010) and Amwele (2013) documented that 80% and 75% of the small businesses surveyed in different regions of Namibia employed less than 10 people. Thus, enterprises in the informal settlements, similarly to those in the formal sector are not making a massive contribution to employment as has been identified in other countries as detailed in chapter 2.

**Figure 4.3 Number of employees-settlement<sup>6</sup>**



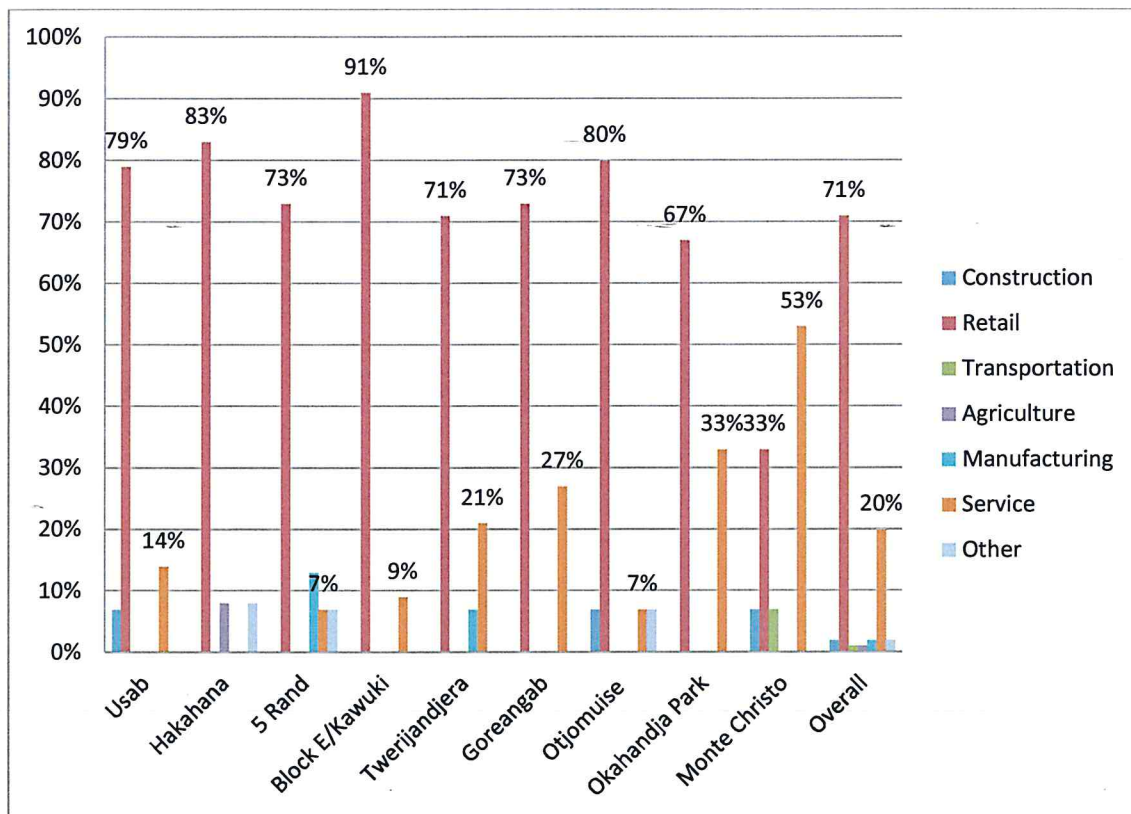
<sup>6</sup> The percentages in figure 4.3 represents settlement results while total is for overall results

#### **4.2.1.4 The Nature of the business**

When questioned on the nature of the business, it was found that more than two-thirds of the small businesses overall and in all settlements, except Monte Christo, were retailers, with the remaining principally involved in services, as shown in Figure 4.4. These results concur with those of Ipinge (2010) and Ogbokor and Ngeendepi's (2012) findings that the majority of small businesses in Namibia, 75% and 90% respectively in their studies of the Khomas region and Windhoek respectively, were retailers. Thus within both formal and informal settlements in Namibia, small businesses are dominated by retailers.

In Monte Christo, more than 50% of the businesses were service providers because Monte-Christo, unlike the other settlements, is one of the busy streets in Katutura, Windhoek but is not a settlement per se. The findings on the place of operation studied in section 4.2.5.1 of this chapter further justifies that most of the small businesses in Monte Christo do not operate from the owner's home as in the other settlements but as street vendors or they illegally occupy land or stands next to the road wishing to be picked up by prospective customers to offer services like gardening, painting, welding etc.

**Figure 4.4 Nature of businesses<sup>7</sup>**

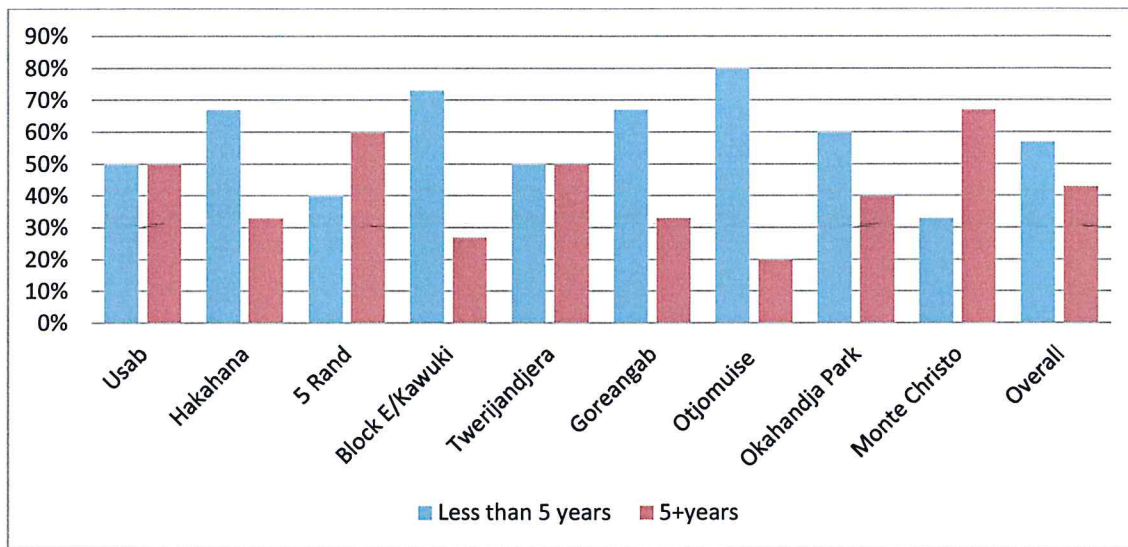


#### 4.2.1.5 The age of the enterprise

The majority of the small businesses surveyed (57%) were less than five years old with the remaining 43% more than 5 years old, as shown in the final columns of Figure 4.5. Within Usab and Twerijandjera the divide between the number of businesses aged 5 years or more equalled those who were less than 5 years. The results for 5 Rand (60%) and Monte-Christo (67%) showed that more businesses had been in existence for longer while the opposite was true in the remaining five settlements. Previous studies found that only 17% in John A Pandeni (Shoopala, 2015), 24% in Katutura central (Shilinge, 2016); 24% among the small businesses in construction (Amupolo, 2013) and 36% of small businesses in the Khomas region (April, 2005) were older than 5 years. The greater number of MSMEs that have been in existence for more than five years in the informal settlements presents an interesting result. It may suggest that the attrition rate of these businesses is lower than those in the formal sector because they have lower overhead costs and are less indebted and therefore able to survive.

<sup>7</sup> The percentages in Figure 4.4 represents settlements results while overall is for all respondents

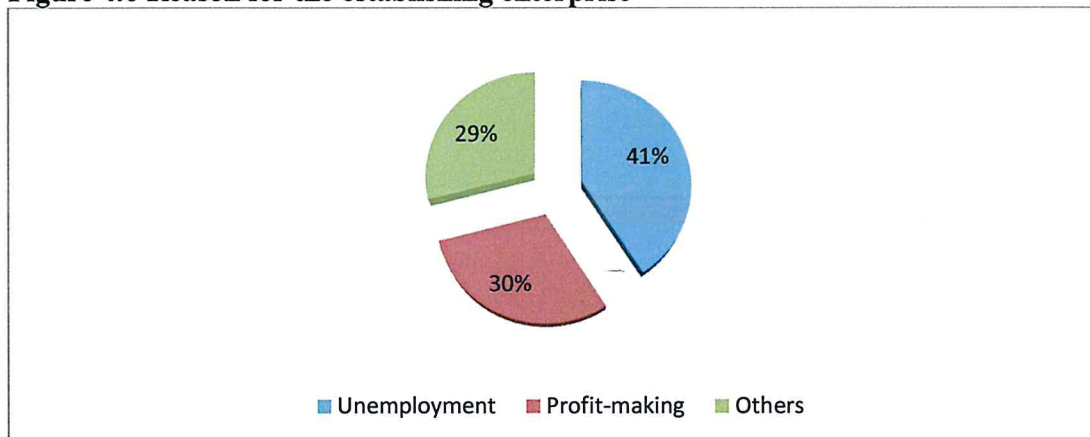
**Figure 4.5 Enterprise age<sup>8</sup>**



#### 4.2.1.6 The reason for establishing the enterprise

As shown in Figure 4.6 below, this study found that the major drivers for the establishment of the small businesses within the settlements were unemployment (41%) and profit making (30%) while the other drivers including showcasing skills, inheriting the business, motivated by parents etc. only accounted for only 29%.

**Figure 4.6 Reason for the establishing enterprise<sup>9</sup>**



Unemployment was also found to be a major reason for the establishment of small businesses in the study of Ogbokor and Ngeendepi (2012), who observed that 68% of the respondents of their survey started their business because of unemployment, 12% wanted to be independent and 12% because of family background. Schöneburg-Schultz & Schultz (2006) also found

<sup>8</sup> The percentage in Figure 4.5 represents settlement results while overall is for all respondents

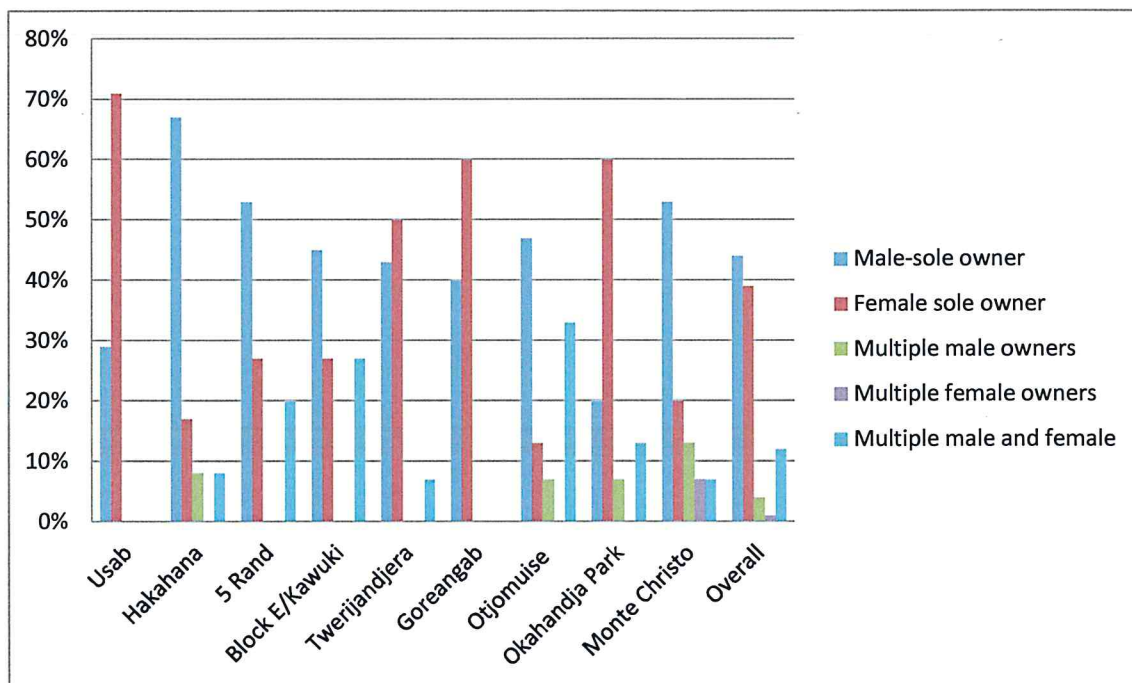
<sup>9</sup> The percentage in Figure 4.6 represents all respondents

that one in four small businesses in Namibia were founded due to unemployment. The results of this study thus prove that unemployment is a major driver in the establishment of small busiessnes within the formal and informal settlements.

#### 4.2.1.7 Owner’s gender

The study found that on average, the divide between male- and female-owned enterprises was quite similar, 44% to 39% individually and 4% to 1% in partnerships, with the remaining 12% being partnerships between male and female owners. However, Figure 4.7 shows that across the settlements the results were quite diverse. In Usab, Okahandja Park, Goreangab Dam and Twerijandjera 71%, 60%, 60% and 50% of the small businesses were female owned respectively, while on the contrary, in Hakahana, Monte Christo, Otjomuise, 5 Rand and Kawuki/Block E were male-dominated with 75%, 66%, 54%, 53% and 43% of the MSMEs respectively.

**Figure 4.7 Owners gender within settlements<sup>10</sup>**



April (2005), Ogbokor and Ngeendepi (2012), Amupolo (2013) and Shoopala (2015) who found that 57%, 82%, 58% and 60% of the small businesses in the formal sector were male-owned. On the contrary Ipinge (2010) and Shilinge (2016) found that 66% and 60% of the

<sup>10</sup> The percentage in Figure 4.7 represents settlement results while overall is for all respondents

businesses respectively, were female-owned. Although the above findings suggest that more businesses are owned by male owners, this cannot be generalised in all settlements.

#### **4.2.2 Finance**

In this section, the responses to the various questions regarding finance and the related challenges facing the MSMEs are reviewed.

##### **4.2.2.1 Annual profits**

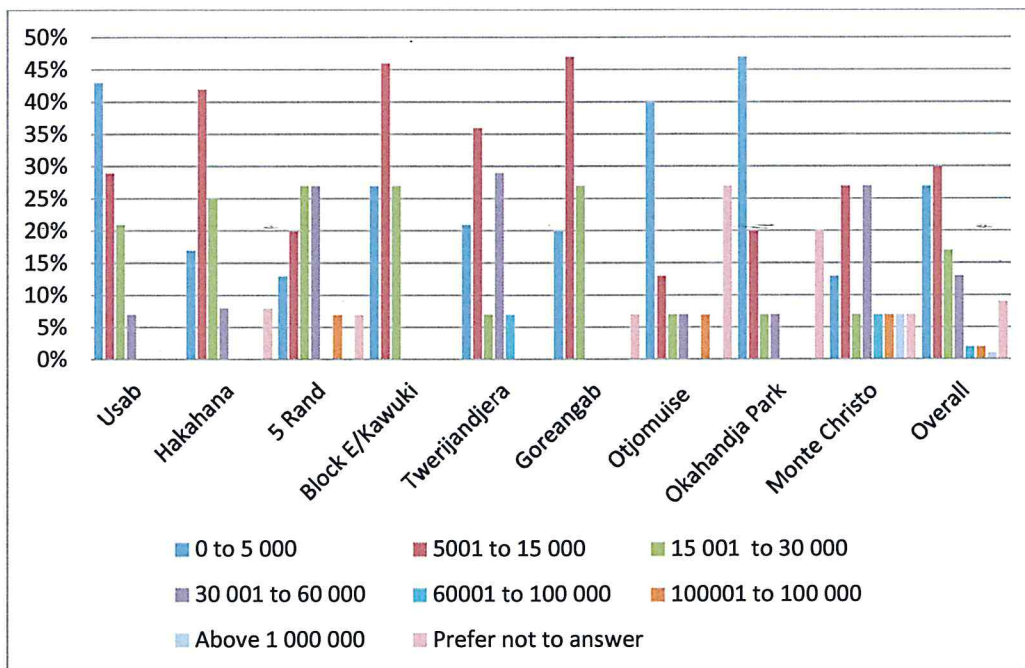
Figure 4.8 shows that approximately three-quarters of the enterprises had annual profits of less than N\$30 000, while only a quarter of the enterprises had annual profits exceeding this threshold. However, upon further analysis it was evident that the most common profit range was N\$5 001- N\$15 000 (30%), followed by N\$0 - N\$ 5 000 (27%) and then N\$15 000 – N\$30 000 (17%). Similarly in all settlements except Monte Christo, more than 60% of the enterprises had profits of N\$30 000 or less. In Monte Christo the number of enterprises which had profits of over N\$ 30 000 (47%), equalled those which had profits of more than N\$ 30 000 while a further 6% preferred not reveal their profits.

This finding substantiates the previous observations of Shoopala (2015) that for businesses within the formal settlements of John A. Pandeni constituency in Windhoek the majority of the small businesses had monthly profits of between N\$400 to N\$600 a month (N\$4 800 – N\$7 200 per annum). This would suggest that the MSMEs in informal settlements do not appear to earn substantially less than their counterparts in the formal settlements.

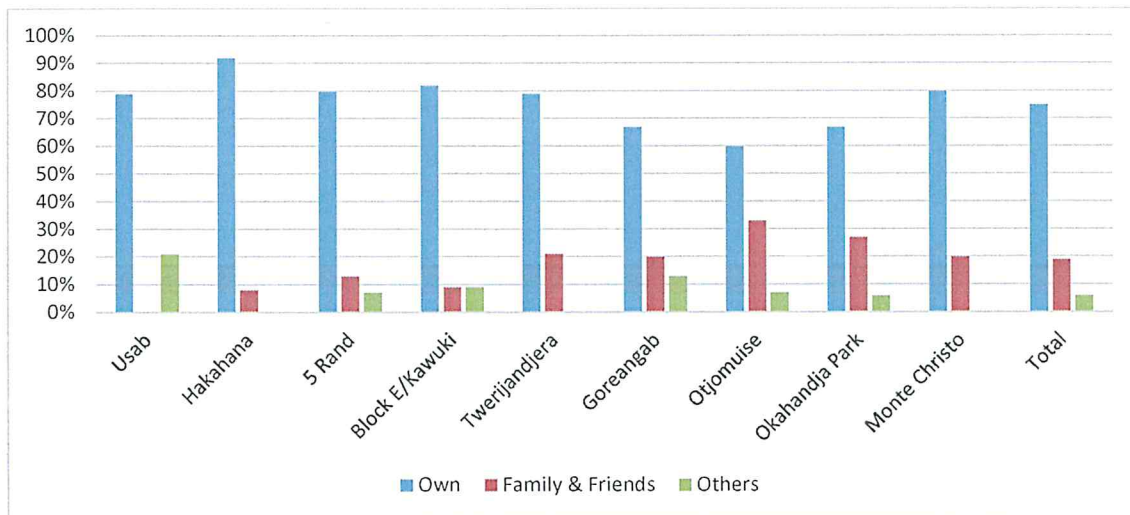
##### **4.2.2.2 Sources of finance**

The research further sought to find out the major sources of finance among small businesses in informal settlements. The results depicted in Figure 4.9 indicate that the majority of the respondents (75%) relied on their own money, with only 19% relying on family and friends and 6% depending on other sources of finance including banks, government etc. external sources of finance from financial institutions. In particular, 60% and 93% of the small businesses in the Khomas region and the John A Pandeni constituency respectively relied on their own savings, family and friends as the dominant source of funds for their businesses (Ipinge, 2010; Shoopala, 2015).

**Figure 4.8 Annual profits<sup>11</sup>**



**Figure 4.9 Sources of finance<sup>12</sup>**



This conclusion regarding the source of finance for MSME’s in the informal settlements of Namibia is consistent with the finding on whether the enterprise applied for loan over the last 12 months. As shown in Figure 4.10, 98% of the respondents had not applied for a loan in the previous year. Together, these two findings therefore point to the fact that small businesses in

<sup>11</sup> The percentage in Figure 4.8 represents settlement results while overall is for all respondents

<sup>12</sup> The percentages in Figure 4.9 represents the settlement results while overall is for all respondents

informal settlements do not apply for external financing and instead rely on their own finances, friends and family.

**Figure 4.10 Loan application to a financial institution<sup>13</sup>**

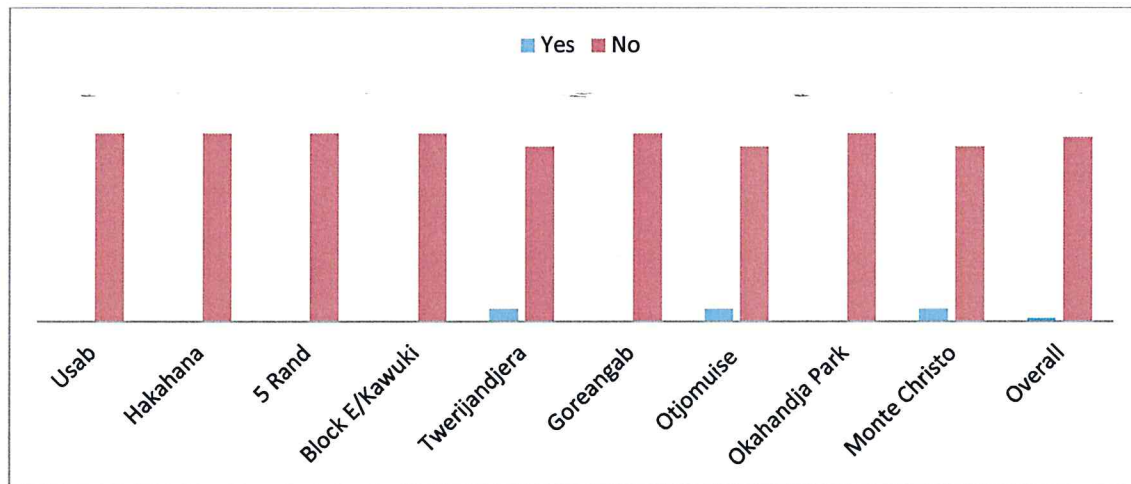
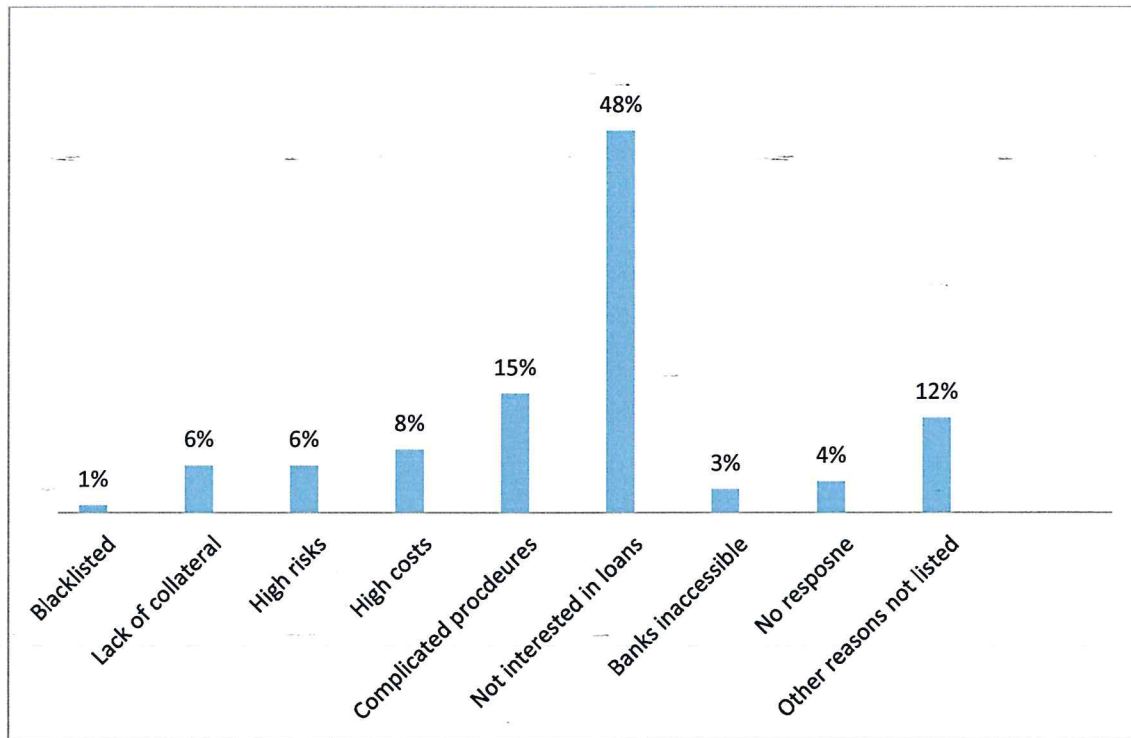


Figure 4.11 shows that when questioned as to why the enterprises did not apply for a loan at a financial institution, 48% of the respondents indicated that they are not interested in a loan, 15% revealed that the complicated application procedures prevent them from applying while 37% pointed to other reasons such as the risk, costs and the inaccessibility of banks.

<sup>13</sup> The percentages in Figure 4.10 presents the settlement results while overall is for all respondents

**Figure 4.11 Reason for not applying for loans<sup>14</sup>**

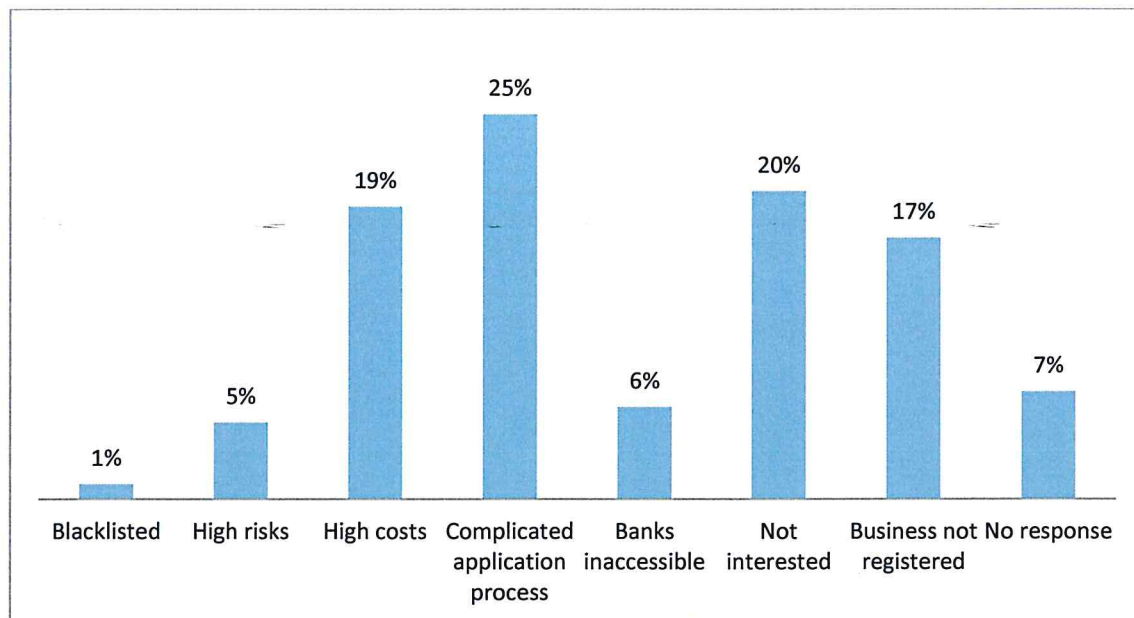


#### **4.2.2.3 Bank account**

On whether the MSMEs had bank accounts, more than three-quarters of the respondents overall indicated that they did not have bank accounts for their businesses while across all settlements more than two-thirds of the respondents did not have bank accounts for their businesses. The results presented in Figure 4.12 below shows that the main reason for enterprises not having a bank account was due to the complicated application procedures, owners not interested in having separate bank accounts for their businesses, high banking costs and the fact that the business is not registered which is a requirement for most banks.

<sup>14</sup> Percentages in Figure 4.11 represents overall results from all respondents

**Figure 4.12 Reason for not having a bank account<sup>15</sup>**



### **4.2.3 Management and Entrepreneurial Skills**

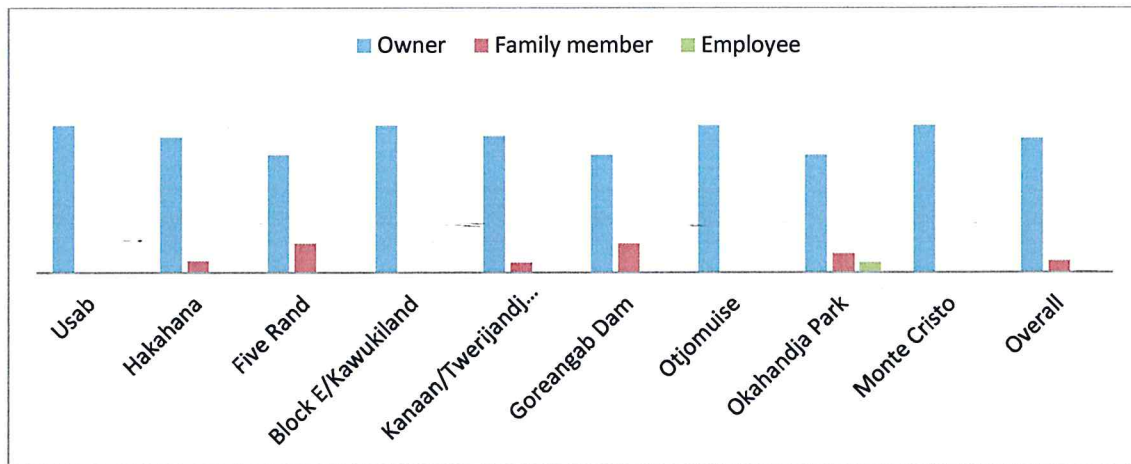
#### **4.2.3.1 Management of the enterprise**

Figure 4.13 shows that overall 99% of the respondents indicated that the enterprise is managed by the owner or a family member, while only 1% indicated that they hired a manager who is not a family member. The majority of MSMEs, however, are owner-managed (91%). The results do not vary substantially across the settlements. Previous studies including Ogbokor and Ngeendepi (2012) found approximately two-thirds of small businesses in Windhoek are operated by owners themselves, 14% employed family members and 19% other employees. This suggests that the same trends are visible in both the formal and informal sectors that the entrepreneurs manages the enterprise.

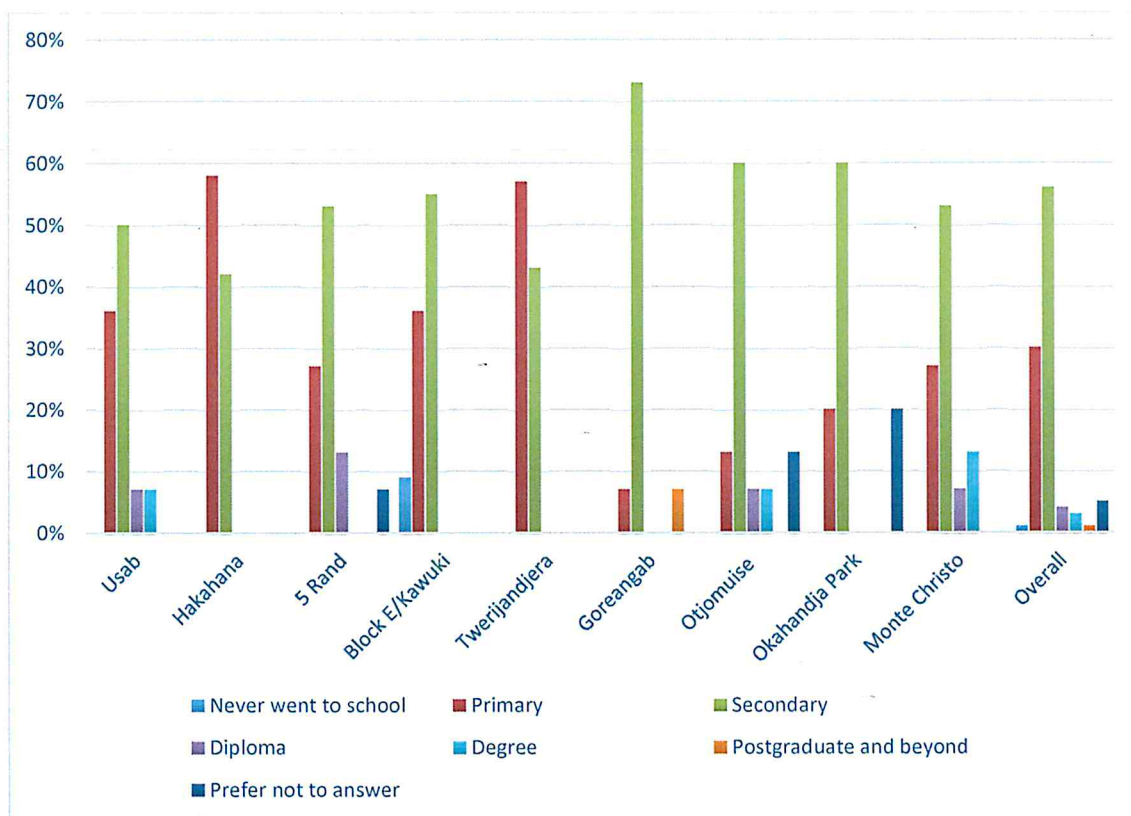
On the question of the education level of the manager, Figure 4.14 shows that only 8% of the firms were managed by managers with a tertiary qualification with more than half (56%) with secondary education and a further 30% with only primary education. The settlement results depict a similar picture except that in Hakahana (58%) and Twerijandjera (57%) where the majority of the enterprises were found to be managed by individuals who possess only a primary school education qualification.

<sup>15</sup> Percentages in Figure 4.12 represents overall results from all respondents

**Figure 4.13 Manager of the enterprise<sup>16</sup>**



**Figure 4.14 Owners education level<sup>17</sup>**



Another interesting observation from the settlements results is that among the settlements in the capital of Windhoek, which are Goreangab, Otjomuise and Okahandja Park, most managers had a secondary education when compared to the rest of the settlements. The only

<sup>16</sup> Percentage in Figure 4.13 represents settlements results while overall is for all respondents

<sup>17</sup> Percentages in Figure 4.14 represents settlements results while overall is for all respondents

exception was the settlement of Monte Christo of which the results are consistent with the mean and all other settlements.

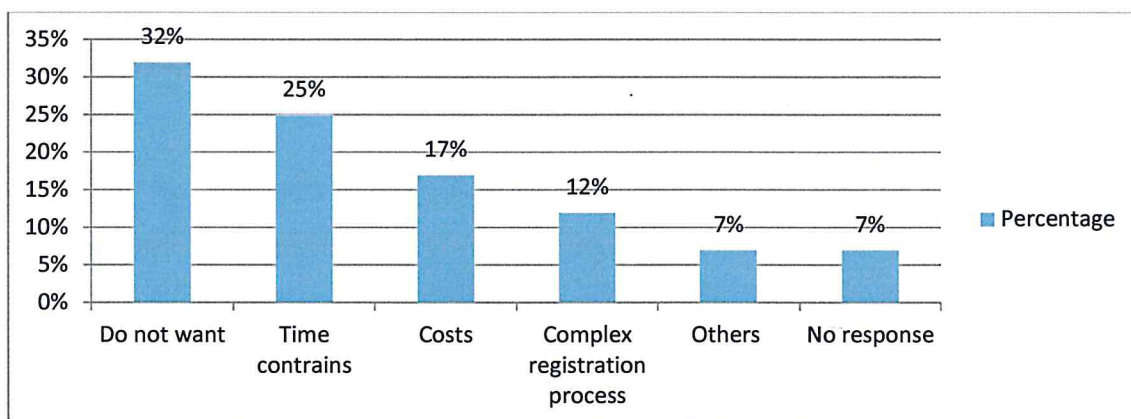
This finding mirrors that of Ogbokor and Ngeendepi (2012) and Kambwale et al. (2016) who previously found that the majority of the business managers had a secondary education qualification, while they contrast with those of Shilinge (2016) who found that majority of the business managers only had a primary education. What is interesting, however, is that the managers of these firms, the majority of whom are the entrepreneur, do not differ markedly in terms of their level of education to those entrepreneurs who have established firms in the formal sectors of Namibia.

#### 4.2.3.2 Satisfaction with the management and entrepreneurial capabilities

It is important to note that the question of whether the respondent was satisfied with the management and entrepreneurial capabilities of the manager, was a challenge as the majority of the respondents had to comment on their own skills. It is therefore important to bear in mind that there might be possible bias in these responses. Nonetheless, it is unclear from the overall results whether respondents were satisfied with management capabilities or not as 47% were dissatisfied and 47% were satisfied while 6% could not provide an answer. With respect to entrepreneurial skills, 53% of the respondents indicated that they were not satisfied, 44% were satisfied and 3% preferred not to answer.

#### 4.2.4 Reasons for not registering the MSMEs

Figure 4. 15 Reason for registering with institution<sup>18</sup>



From the majority of businesses which were not registered with any institution they were asked to indicate their main reason for not registering. As presented in Figure 4.15, 32%

<sup>18</sup> Percentages in Figure 4.15 represents all respondents

indicated that they did not want to register without providing much details, 25% attributed their inability to register to time constrains, 17% indicated that cost of registering is their main obstacle to registration while 12% indicated that their obstacle for registering is the complex registration processes.

#### **4.2.5 Location and Infrastructure**

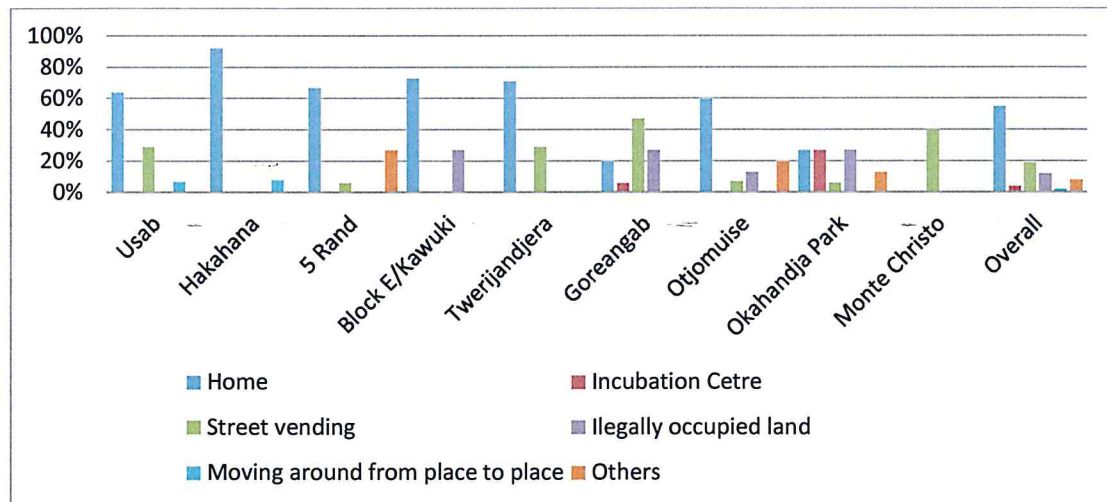
##### **4.2.5.1 Business location**

Respondents were asked to indicate the place of operation of their business. The results, presented in Figure 4.16 below, show that 55% of the MSMEs in the informal settlements of Namibia operated from their homes, 19% operated as street vendors erecting informal structures, 12% stated that they operated from a place which they have occupied illegally, 4% from incubation centres, 2% moves around from place to place, while the remaining 8% selected the 'other' category.

Results from the settlements suggest that more than 60% of the respondents within Usab, Hakahana, 5 Rand, Block E, Twerijandjera and Otjomuise operated from their homes. In Monte Christo (40%) and Goreangab Dam (47%) there were more street vendors when compared to those who operated from their homes. The same proportion of respondents from Okahandja Park indicated to have been operating from three major places, namely homes (27%), incubation centre (27%) and illegally occupied land (27%). Okahandja Park and Goreangab Dam are the only settlements among those surveyed which contain an incubation centre, with evidence suggesting that it is used more in the former than the latter.

Previously, Ipinge (2010:40) found that 60% of the businesses within the formal settlements of the Khomas region operated from within government or municipal stalls. This is different within the informal settlements because these facilities were not found within majority of the informal settlements surveyed.

**Figure 4. 16 Place/location** <sup>19</sup>



The study revealed that the lack of municipal services was the most common problem relating to location among businesses in informal settlements as stated by 38% of the respondents, followed by illegal land occupation (21%) and the absence of a police department (16%). A settlement to settlement comparison reveals that lack of municipal services was common in Usab (78%), Hakahana (58%), 5 Rand (40%), Otjomuise (27%) and Okahandja Park (27%). Illegal land occupation was most common among enterprises within Goreangab Dam and Kawukiland while land inadequacy was the most common challenge regarding location amongst businesses operating along the Monte Christo Road (40%) and Otjomuise (27%). Unavailability of a police department was the foremost challenge among businesses within Twerijandjera. This could be a serious problem within Twerijandjera considering that the crime level was ranked as high (as discussed later in this chapter).

#### **4.2.5.2 Extent of land, water, electricity, refuse removal, roads, and telecommunication services within the settlements**

In order to understand the conditions within the informal settlements under which the small businesses operate, respondents were asked to indicate to what extent land, water, electricity, refuse removal services, roads and telecommunications services existed with their settlement.

As for land existence, overall a slight majority of 51% of the respondents indicated that land exists to a certain extent with their settlements. From these respondents, about 23% of the respondents indicated that land exists to large extent while 28% indicated that land exists to a

<sup>19</sup> The percentages used in Figure 4.16 represents settlements, while overall is the represents respondents of all settlements

very large extent. The results, however, varied quite markedly across the settlements. Within Usab, Monte Christo Road and Otjomuise the majority of the respondents indicated that land exists to a little extent while within Block E/Kawukiland, Twerijandjera, Goreangab Dam, and Okahandja Park land exists to a large extent. Within Hakahana and 5 Rand land exists to a very large extent. Although the results suggest that land exists adequately within informal settlements, it is still a huge challenge for the majority of small businesses operating in informal settlements.

Regarding existence of water within informal settlements, 41% indicated that water does not exist at all, with 16% indicating that water exists to a little extent within their settlement while 18% indicated that water exists moderately. Within the majority of settlements, respondents indicated that water services did not exist at all except in Goreangab and Monte Christo Road settlements where the majority of respondents indicated that water exists to a moderate extent. Regarding electricity, the study found that overall in all settlements more than two-thirds of the respondents indicated that electricity did not exist at all within the settlements. Within Usab location all the respondents indicated that electricity services did not exist at all within their settlement. This suggests that electricity supply is a major concern within all informal settlements which could hamper the operations of small businesses. For example, retailers selling goods to customers requires electricity for storage of their goods in refrigerators while service providers like welders or hair salons also require electricity for their machinery to function.

With respect to refuse removal services, 42% of MSMES indicated that there refuse was not removed by the local municipality at all, 24% stated that these services were received to a little extent whereas for 18% refuse removal services were received to a moderate extent. Within the settlements, the majority representing approximately 50% of the respondents in Usab, 42% in Hakahana, 53% in 5 Rand, 78% in Twerijandjera/Kanaan, 40% in Goreangab and 27 % in Monte Christo settlements indicated that refuse removal services did not exist at all within their settlement. In Otjomuise the majority, representing approximately 40% of the respondents indicated that refuse removal services existed to a moderate extent in their settlement, while in Okahandja Park the majority, which is approximately 47% of the respondents indicated that refuse removal services existed to a little extent. This suggests that within the majority of informal settlements, refuse removal services existed to a little extent or did not exist at all which might create an un-conducive environment for these businesses to operate in.

When it comes to roads in informal settlements, 49% of the respondents indicated that roads existed to a little extent within their settlements, 22% indicated that roads existed to a moderate extent while 11% indicated that roads did not exist at all. 64% of respondents in Usab, 42% in Hakahana, 53% in 5 Rand, 60% in Twerijandjera/Kanaan, 53% in Okahandja Park and 40% in Monte Christo indicated that roads existed to a little extent. This suggests that roads prove to be a challenge within informal settlements which could make it difficult for the majority of the MSMEs to transport their goods to their place of business.

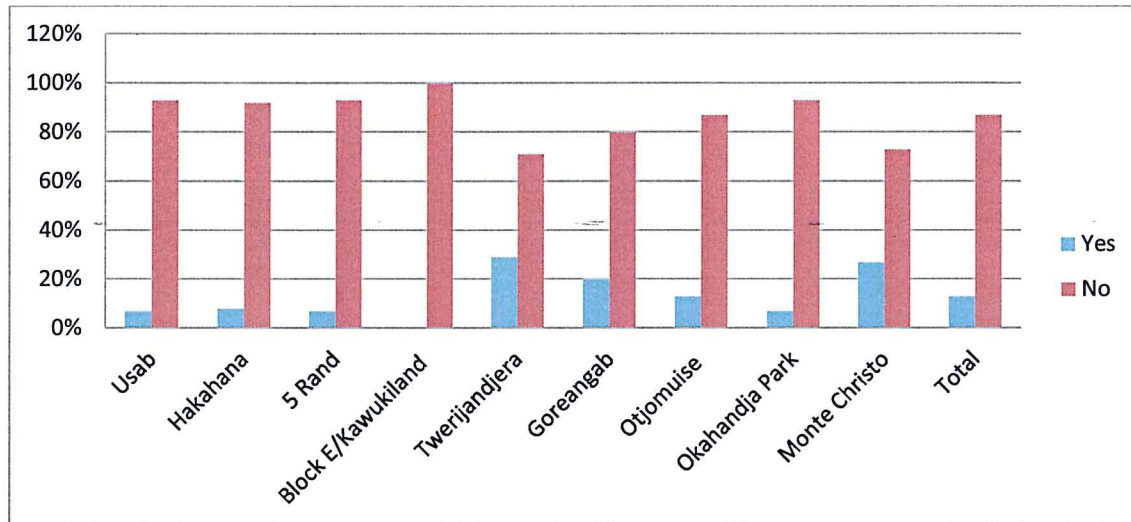
On the question of whether telecommunications services existed within the settlement, the majority of the respondents within all informal settlements, except Otjomuise and Block E/Kawukiland indicated that telecommunications services did not exist at all within their settlement. On the contrary, in Otjomuise and Block E/Kawukiland telecommunications services existed to a large extent within their settlements. With the benefits that telecommunications services have brought to trade in general, the unavailability of telecommunications services in several of the settlements puts the small businesses operating in these locations at a disadvantage. For example, retailers, in the absence of such services, might not have the benefit of making a call to a supplier in order to request information regarding prices or receive a quote or an invoice through a fax.

#### **4.2.6 Marketing**

Another important issue studied was whether small businesses in informal settlements market their products or not. The respondents were asked whether their enterprise had a marketing plan or strategy for the last 12 months. The results in Figure 4.17 reveal that the majority, approximately 87%, did not have marketing strategies for their enterprise while only 13% had a marketing strategy. Although there was some variation across the settlements, in all cases, at least 70% of the respondents indicated that their enterprise was neither engaged in any type of promotional activities nor did they have a marketing plan.

In comparing whether these findings of MSMEs in the informal settlements of Namibia were consistent with those of previous studies of MSMEs in the formal sectors of the country, Ipinge (2012), found that 53% of the firms in the Khomas region did not market their products while Ogbokor and Ngeendepi (2012) found that 93% of the small businesses within the formal sector of Windhoek did not market their products. This suggests that the majority of small businesses in Namibia's formal and informal sectors do not market their products.

**Figure 4. 17 Marketing plans/strategy<sup>20</sup>**



When asked about the major reason for not having a marketing strategy, the three main reasons given were: (i) lack of knowledge and strategy (34%), (ii) financial constraints (21%) and (iii) that marketing plans are for large organisations (11%).

Further to this, it was found that none of the businesses within the informal settlements indicated that they use electronic or computer-based points of sale. The major reasons for not using an electronic point of sale was lack of electricity (33%), few transactions (24%) and financial constraints (19%). On a settlement level, the lack of electricity was the main reason within Hakahana (50%), Usab (57%), Block E (55%) and Okahandja Park. Fewer transactions were the main reason within Twerijandjera/Kanaan (36%), Goreangab Dam (47%) and Otjomuise Ext. 8 (33%). Lack of knowledge and capacity was the main reason within 5 Rand (33%) while financial constraints (33%) was the major reason given among MSMEs along Monte Christo road.

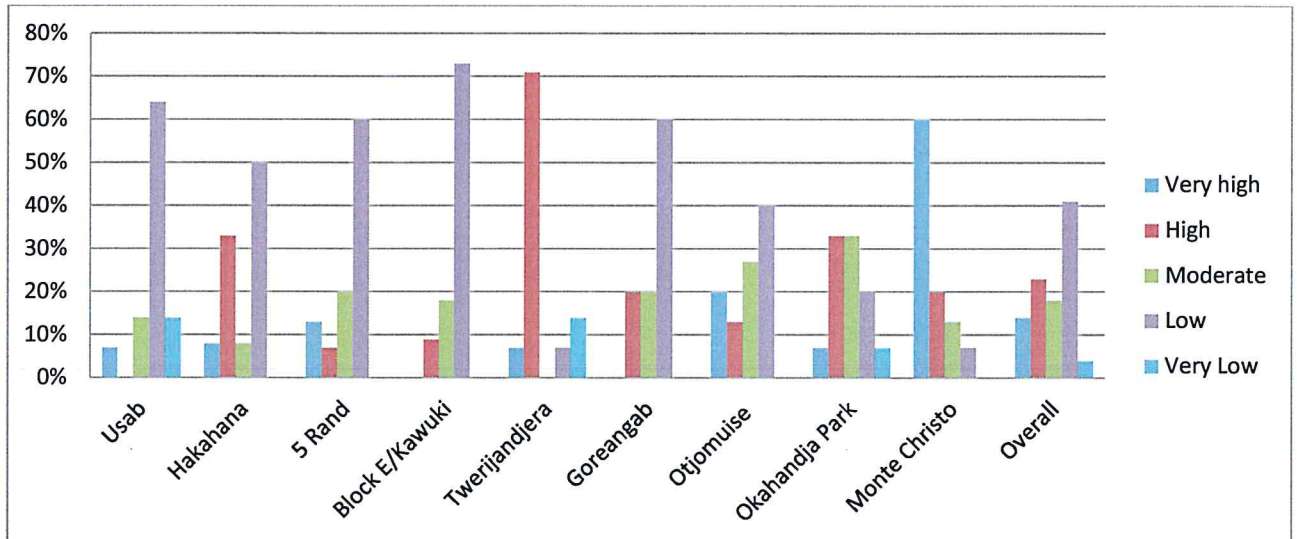
#### **4.2.7 Crime and corruption**

In studying crime and corruption, the owners/managers of the small businesses surveyed in the informal settlements of Namibia were asked to rate the level of crime within their settlements. As shown in Figure 4.18, 41% of the respondents ranked the crime level as low, 23% as high and 18% as moderate. Across the settlements, the majority of the respondents ranked crime as low. In particular, within Usab (64%), Hakahana (50%), 5 Rand (60%),

<sup>20</sup> The percentage in Figure 4.17 represents results of each settlements, with the total representing all respondents

Block E/Kawuki 73%, Otjomuise (40%) and Goreangab Dam (60%), the crime level was ranked low. In contrast, in Kanaan/Twerijandjera (72%) and Monte Christo (60%) crime was ranked high while in Okahandja Park the majority (60%) of respondents ranked the crime level between moderate and high. The high crime perception in Twerijandjera is consistent with the fact that the absence of a police department was identified as a major challenge with respect to location for those entrepreneurs in this settlement.

**Figure 4. 18 Level of crime<sup>21</sup>**



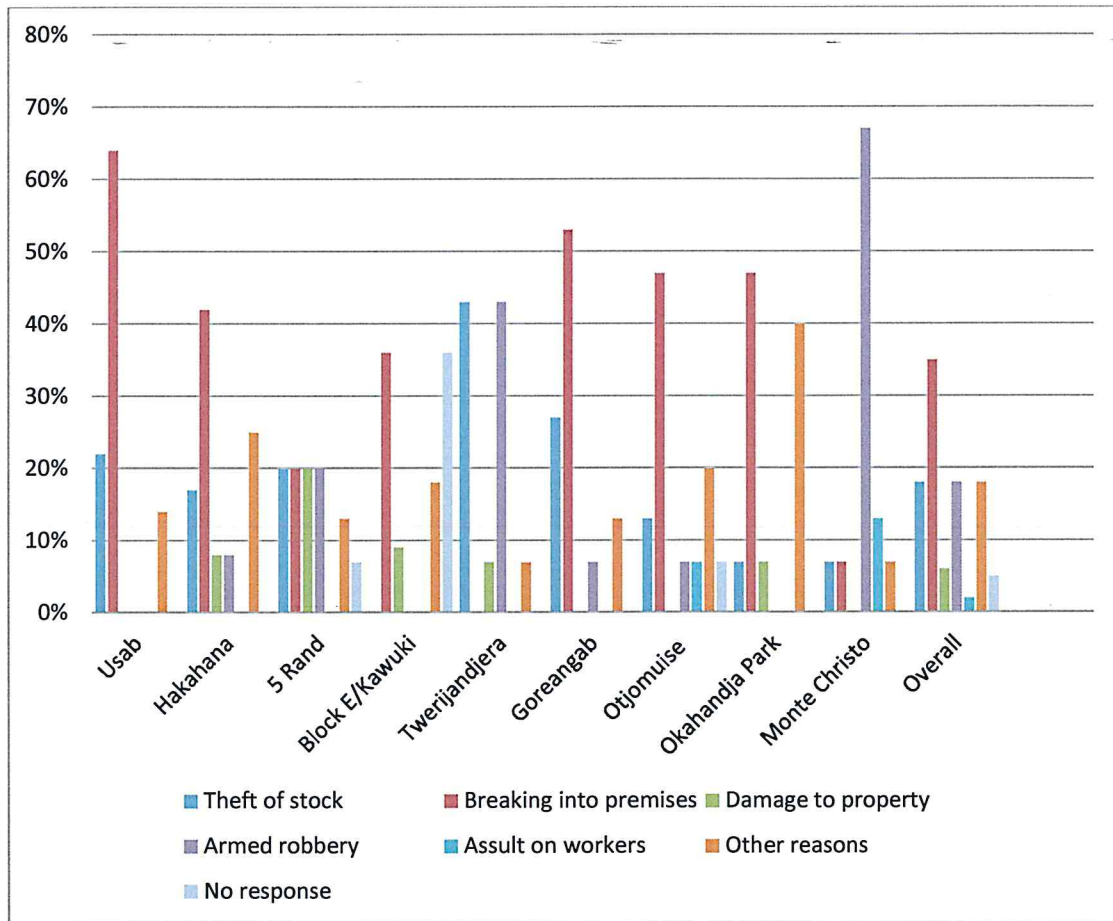
When respondents were asked to indicate the most common crime affecting their business, the overall results indicate breaking into premises (35%), armed robberies (18%) and theft of stock (18%) as the leading problems as shown in Figure 4.19. This figure further reveals that within the settlements breaking into premises were indicated to be the common crime in Usab (65%), Block E/Kawukiland (36%), Goreangab Dam (53%), Otjomuise Ext. 8 (47%) and Okahandja Park (47%) while robberies were the common crime in Monte Christo (67%). In Twerijandjera/Kanaan the common crimes were robberies and theft of stock while in 5 Rand theft of stock (20%), breaking into premises (20%), damage to property (20%) and robberies (20%) were the common crimes affecting businesses.

The last aspect related to crime that was investigated was corruption. In seeking to ascertain whether the businesses within informal settlements were affected by corrupt practices,

<sup>21</sup> The percentage in Figure 4.18 reflects level of crime within settlement while overall results is for all respondents

respondents were asked to indicate whether their enterprise was affected by corrupt practice over the last 12 months. All respondents indicated that corruption did not affect their business.

**Figure 4. 19 Common crime with settlement<sup>22</sup>**

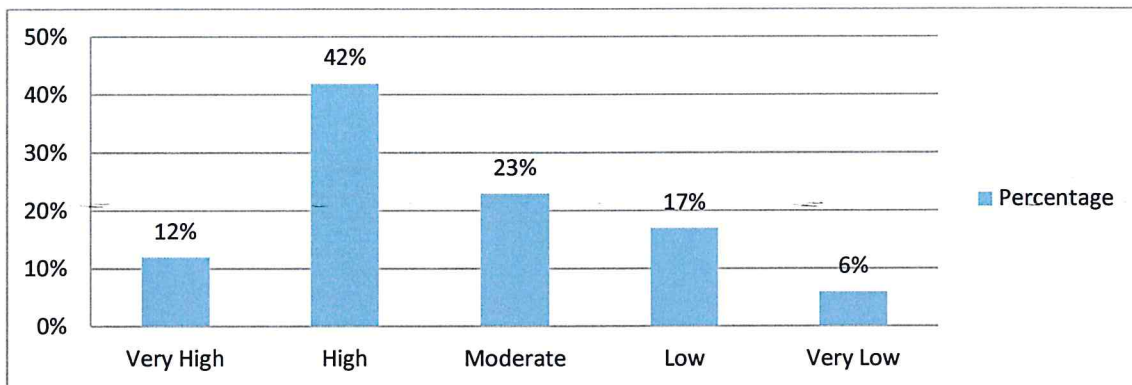


#### 4.2.8 Competition

The final aspect investigated in the study was competition. The results in Figure 4.20 suggest that competition among small enterprises within informal settlements is considered moderate to high by most respondents (65%), with 17% considering competition to be low and 12% at the other end of the scale at very high. These results agree with the previous study by Ogbokor and Ngeendepi (2012) who found that 76% described competition as high and 13% as moderate. Shilinge (2016) found that 88% of the central Katutura small business owners felt that competition is a threat to their enterprise which confirms that competition is a great challenge among businesses in both formal and informal settlements.

<sup>22</sup> The percentage in Fig 4.19 shows common crime within settlements while overall is for all respondents

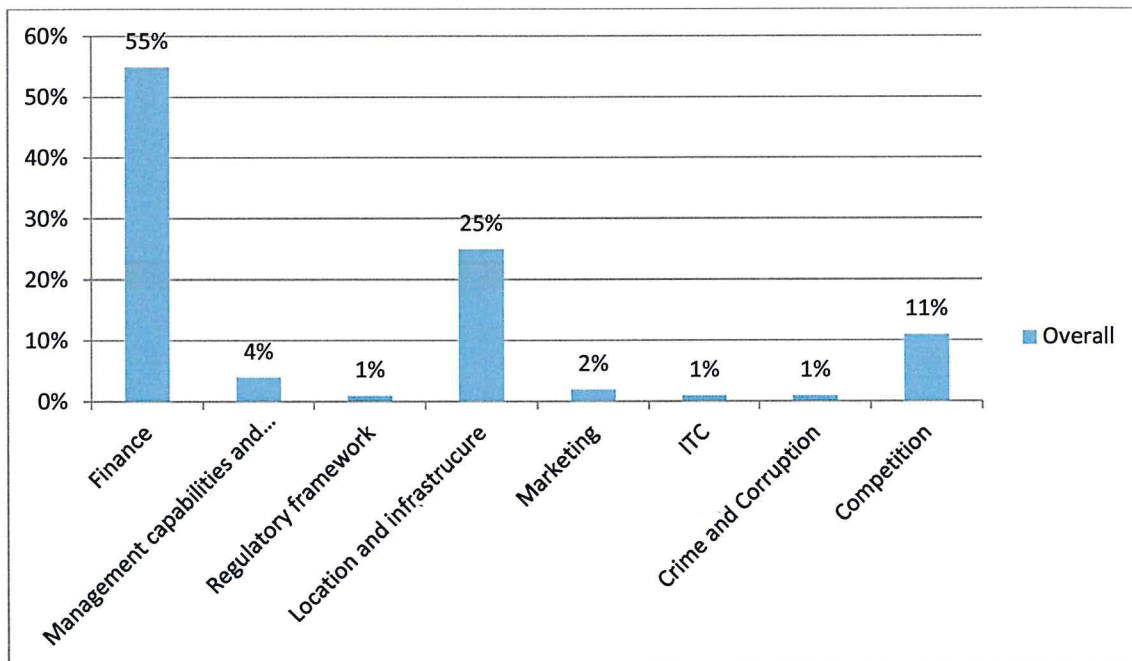
**Figure 4. 20 Level of competition<sup>23</sup>**



#### 4.2.9 Greatest obstacle

As shown in Figure 4.26, this study found that the main obstacles to MSMEs growth within informal settlements are finance (55%) infrastructure and location (25%) and competition (11%). Figure 4.27 shows that within the settlements finance was the main obstacle to MSMEs growth except among the small businesses operating along Monte Christo Road where 47% indicated that competition is the greatest obstacle that hinders their growth.

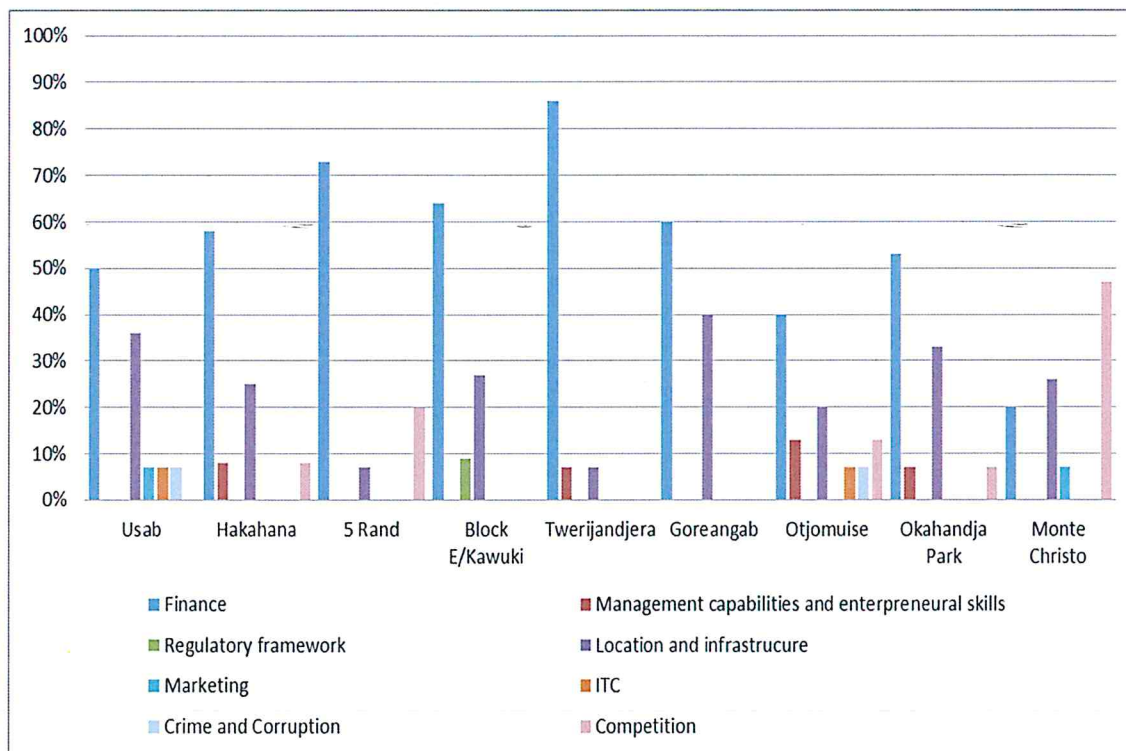
**Figure 4. 21 Greatest obstacle overall<sup>24</sup>**



<sup>23</sup> Percentage in Fig 4.20 represents level of competition from all settlements

<sup>24</sup> Percentage in Fig 4.21 shows represents greatest obstacle overall

**Figure 4. 22 Greatest obstacle within settlements<sup>25</sup>**



The finding of finance as the major obstacle affecting MSMEs in Namibia is consistent with Schöneburg-Schultz & Schultz (2006), Ramsden (2010), Stork (2010), Ogbokor and Ngeendepi (2012) as well as Shoopala (2015). Outside of Namibia, this finding is consistent with several studies on African states including Fjose, Grunfeld & Green (2010) on Sub-Saharan Africa, Mafini & Omoruyi (2013) on South Africa, Katua (2014) on Nigeria, Ramukumba (2014) on Western Cape in South Africa and Bouazza et al. (2015) on Algeria. The finding also agrees with the Asian findings of Saleh & Ndubisi (2006) on Malaysia, Khalique et al. (2011) on Asian states and Yoshino & Wignaraja (2015) on Malaysia. Thus, there is satisfactory agreement in the studies on MSMEs in Namibia and all over the world that lack of finance is a major impediment to the performance and development of MSMEs, both in the formal and informal sector.

Additionally, the findings of this research appear are well substantiated by the findings of Ramsden (2010), Ogbokor & Ngeendepi (2012) and Amwele (2013) who all documented that after finance, infrastructure and competition are major obstacles to MSME development in Namibia, although these studies were done on small businesses in formal settlements. However, on the contrary, this study did not find crime and corruption to be major challenges

<sup>25</sup> The percentage in 4.22 depicts greatest obstacle within the settlements

affecting MSMEs in the informal settlements, as found to the case on Nigeria and Algeria. The major reason which could be attributed to the deviation is that in these countries, unlike Namibia, there is political instability and problems with law and order which could impact on the level of corruption.

#### **4.3 Analysis of Government MSMEs Policies**

In ascertaining the effectiveness of government policy and programmes aimed at supporting the MSME sector in Namibia, an assessment of the Namibia Policy & Programme on Small Business Development (NPPSBD) and its revised version, the National Policy on Micro, Small and Medium Enterprises in Namibia (NPMSMEN) of 2016 was performed in light of the findings in the literature and the findings of this study (MITSMED, 1997; 2016).

It is imperative to note that the main purpose of the policies was to overcome the main constraints to the development of the MSME sector and further help the small businesses exploit market opportunities. In the NPPSB of 1997, the government vowed to address issues affecting MSMEs including finance, marketing, technology transfer, purchasing, sites and premises, training and institutional support while in the NPMSMEN of 2016 access to finance, access to land, access to utilities and their cost, lack of entrepreneurial skills, crime, access to technology and R&D, access to markets, lack of accurate information on MSMEs, cumbersome administration processes, lack of a structured and regulated business development services market were the main concerns which government sought to address.

A comparative analysis of the issues raised in the two policies above points out that government has been ineffective in addressing finance, technology advancements, sites and premises because two decades since the first policy these issues remain concerns for government. The studies of (Ogbokor & Ngeendepi, 2012; Shilinge, 2016) found that technology and competition remained challenges among small businesses while, as stated earlier, several studies including Schöneburg-Schultz and Schultz (2006); Ipinge (2010); Ramsden (2010); Stork (2010); Ogbokor & Ngeendepi (2012); Amupolo (2013); Amwele (2013); Kambwale et al. (2015); Shilinge (2016) and Shoopala (2016) on MSMEs in Namibia consistently found finance to be a major challenge among small businesses albeit these studies were performed at different periods of time. Additionally to the issues that remained unresolved, crime, skills shortages and administrative processes have become additional priorities putting heavier burden on government in supporting the MSME sector. These challenges identified in the NPMSMEN of 2016 is further supported by findings that of

several authors which found that crime (Ogbokor & Ngeendepi, 2012), cumbersome registration process and regulatory framework (Ogbokor and Ngeendepi, 2012; Amwele, 2013; Shilinge, 2016), lack of skills (Kambwale et al., 2015), and infrastructure (Ogbokor & Ngeendepi, 2012; Shilinge, 2016) remain major concerns for small businesses in Namibia.

Nonetheless, one major government intervention to address the issue of the lack of finance was the launch of the SME Bank in 2012. The bank was launched as a joint venture between the Namibian government and private investors from Zimbabwe. Its core mandate was to provide affordable financing to small businesses as spelled-out in the bank's mission to provide superior, well-designed, targeted products and services to small, medium, micro and informal enterprises that would enable them to start, grow, compete and prosper in a global setting (SME Bank Portal, 2017). After just five years in operation, the Bank of Namibia approached the courts to close down the SME Bank, citing that the bank was no longer able to service its mandate of helping and supporting emerging enterprises and small and medium businesses (New Era, 2017).

Investigations into the causes of the bank's inability to finance its operations revealed that its failure was attributed to a dubious investment of approximately N\$200 million with South African financial institutions which the governor of the Bank of Namibia suggested could not be traced (Shinovene, 2017). Inevitably, the bank was finally closed down during September 2017 further exacerbating the problem of lack of finance for MSMEs in Namibia. Following the closure of the SME Bank, the minister of finance in Namibia indicated that a need still exists for funding small businesses and that a different set-up be established to ensure the beneficiaries are able to get money to start their businesses (Shinovene, 2017).

Despite government interventions to support the growth and development of the sector, the evidence from this study and numerous studies of the formal sector reveals that government efforts have largely been ineffective in dealing with the challenges faced by MSMEs. The government has thus, failed to transform MSMEs into engines of growth which support the economy through job creation, poverty reduction and increased contribution to the GDP.

## **5 CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter documents the conclusions of the study based on the findings presented in Chapter 4 and further provides specific recommendations relating to the research findings and results of this study which was carried out among MSMEs in the informal settlements of Namibia.

### **5.2 Conclusions**

This study discussed in great detail the importance of MSMEs in their quest to enhance the economic development of the country especially in economic growth, employment creation and poverty alleviation. Notwithstanding the significant role played by MSMEs in the economic development of Namibia, MSMEs are faced with numerous challenges which hamper their growth. With this in mind, this study sought to investigate the challenges facing MSMEs within the informal settlements in Namibia. In order to achieve this, the researcher came up with three research objectives aimed at (i) analysis of the barriers inhibiting MSMEs operations in the informal settlements of Namibia, (ii) ascertaining the effectiveness of government policies and programmes aimed at supporting the MSME sector by comparing results to previous studies, and (iii) the recommendation of possible government interventions on the areas of concern facing MSMEs in the informal settlements of Namibia.

The main findings of this study suggested that MSMEs in the informal settlements of Namibia are dominated by sole traders, who are principally retail outlets, even though government mostly encourages manufacturing activities. These home based retailers were mostly established by the unemployed who were seeking to make a living. The majority of enterprises operate informally since they are not registered with the MITSMED, MOF, SSC, EEC or LA/M.

In analysing the challenges facing MSMEs in the informal settlements of Namibia, the study found finance to be the greatest obstacle for MSMEs within Namibia. Infrastructure and location which included the exclusion from municipal services such as electricity, water, roads, refuse removal and telecommunications services was the second greatest obstacle facing MSMEs in the informal settlements. Next, competition ranked as the third greatest challenge amongst MSMEs in the informal settlements of Namibia with the majority of the respondents ranking competition as moderate to high.

Another main challenge affecting MSMEs in the informal settlements was the lack of or inability to use latest technologies like electronic point of sale or telecommunications due to lack of electricity. Lastly, marketing was also found to be a great obstacle to growth among MSMEs as the majority of MSMEs did not market their products at all due to lack of capacity and knowledge on marketing techniques and processes as well as financial constraints.

### **5.3 Recommendations**

In light of the above findings there are a number of suggestions that this study makes in order to enhance MSME growth within the informal settlements of Namibia. In dealing with the challenges affecting MSMEs in the informal settlements of Namibia, the following recommendations are proposed:

#### **5.3.1 MSME registration campaigns with incentives by government**

As previously stated, this study found that the majority of small businesses in the informal settlements of Namibia are not registered with the MITSMED, MOF, EEC, SSC and LA/M. Although registration means the MSME has a disadvantage of becoming liable to pay taxes, there are also benefits of registering businesses with these institutions. For example, the LA/M only avails “stalls” at incubation centres to registered businesses. Likewise, banks ask for registration documents along with other requirements when approached for a loan or to open an account.

Consequently, it is suggested that the MITSMED should introduce an intense information campaign and support mechanisms reaching deep into the settlements to help small businesses register with the ministry. These MSME registration campaigns can sensitise small business owners on the benefits of registration and further provide incentives for small businesses that avail themselves. Social media and radio can be effective tools to inform small business owners of such campaigns because they reach a wider range of persons including those in informal settlements.

#### **5.3.2 Capacity building through education and training**

The analysis of MSMEs in the informal sector in Namibia identified the need for skills and capacity development in the key functional areas of finance, marketing, information technology, production and managerial skills. The government should liaise with major stakeholders like the Namibia Chamber of Commerce & Industries and non-governmental agencies for regular training programmes/seminars where potential and operating MSME owners would be educated on managing their businesses especially in the problem areas of

finance, management, marketing and information technology. This would allow small business operators within the informal settlements to be equipped with the knowledge on how to plan, organise, direct and control their resources more effectively and efficiently. These training and educational programs could also be incorporated into the curriculum of the national adult literacy programs as advanced courses.

### **5.3.3 Formation of MSME networking groups within informal settlements**

This study suggests that MSME owners within informal settlements form networking groups where the business owners share experiences, challenges and recipes for success. Since MSMEs within the settlements mostly face similar challenges, these groups would allow the entrepreneurs to help one another in tackling their challenges and devising solutions that assist the networking of group member businesses.

Members of the network group could, on a voluntary basis, contribute an affordable amount to be determined by the group every month. This would help in closing-up the financial resources gap as the contribution would be given to the members on a rotational basis as assistance to fund their businesses' needs in an idea similar to a Stokvel.

### **5.3.4 Improvement of infrastructure**

The development of infrastructure and facilities including the supply of electricity, water, roads, telecommunications connections, and sewerage systems is imperative to the development of MSMEs within informal settlements. This could be in the form of more incubation centres offering infrastructural and support services that would help small businesses survive and grow. These incubation centres would offer physical offices, warehouses or shop space with water, electricity, shelters and restrooms which would be made available to MSMEs at affordable rates. Additionally, at all incubation centres, special provision should be made for professional individuals, institutions or offices offering training, coaching, mentorship and financial services to the MSMEs. The government, public institutions, private institutions and the LAMs, should partner in their efforts of provision of essential services and infrastructure to MSMEs within the informal settlements of Namibia.

### **5.3.5 Mentoring, advisory and support programs**

It is evident from this study that small business owners within informal settlements lack key information essential to the development of their businesses. They do not know the importance of acquiring finance, registering their businesses, marketing their products, using electronic points of sale and separating their own funds from that of the business. Apart from

the training recommended above, the government, through the small businesses directorate of the MITSMED, should have a small businesses mentoring and support programme which engages with the MSMEs in the settlements, identifying their needs and providing expert advice on how they can solve their problems. For example, mentors can advise business owners on the registration process, help them prepare proposals for funding, basic bookkeeping and marketing techniques. Additionally, the mentoring and advisory programs will advise the government on the real issues faced by small businesses and how they can be addressed.

### **5.3.6 Market analysis and understanding**

As for competition, the study found that competition is the third highest obstacle affecting businesses within the informal settlements. Even though many indicated that they have their regular customers, competition is still seen as an obstacle. Small business owners are encouraged to do a market analysis of their customer needs as well as what their competitors offer. This will assist them to diversify and differentiate in their product offerings or improve on their product range in order to be different and have a say in their pricing rather than being forced to try and beat the competitors pricing.

An analysis of the suppliers' pricing is another key ingredient to manage competition. The small businesses should consistently be analysing the supplier special prices, terms and conditions of sale in order to take advantage of reduced prices. This will help the small businesses remain abreast in a competitive environment and increase their likelihood of success.

## **5.4 Areas for further research**

Due to time and financial constraints, this study was limited to only five different regions spread over nine different informal settlements from six different towns within the country. It is of utmost significance to carry out such a study in other informal settlements all over the country for more accurate generalisation or comparison of findings. The Namibian MSME sector is faced with a challenge of out-dated statistics on the actual size and number of small businesses with the country, regions, towns etc. because the existing statistics of 12% contribution to GDP and 20% to employment dates back to studies done almost two decades ago. Additionally within Namibia, there are no existing records of MSMEs' contribution to exports. Thus, the above presents good areas for further research relating to small businesses within Namibia.

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## APPENDIX A: SURVEY QUESTIONNAIRE



FULL COLOUR THINKING

### INFORMED CONSENT FORM

#### **Introduction to the research**

The challenges facing micro-, small- and medium-sized enterprises (MSMEs) in the informal settlements of Namibia.

This research forms part of a Master of Commerce degree in Development Finance at the Graduate School of Business at the University of Cape Town. The aim of the research is to understand the challenges facing micro, small and medium-sized enterprises (MSMEs) in the informal settlements of Namibia. In particular, I want to understand the difficulties surrounding access to finance, management and entrepreneurial skills, marketing, business registration, location, infrastructure and information and communications technology. Moreover, I want to identify which of these broad categories represent the greatest impediment to the growth of the firms. Together this information will enable me to provide policy recommendations to the government and private business so as to support and develop this sector which is so critical to the development and growth of Namibia.

This research has been approved by the University of Cape Town Commerce Faculty Ethics in Research Committee.

#### **Participation**

The questionnaire involves a series of close-ended questions which should take approximately 15-20 minutes to complete. You do not have to fill in your name. All answers are strictly confidential and will be used for the purposes of this research only. Data will be analysed collectively, at no time will individual responses be highlighted. The researcher will keep all information collected fully confidential by safely securing the completed questionnaires in a locked cupboard. There are no known risks or dangers to you associated with this study and you are able to withdraw from participating at any time with no penalty. Your participation will be highly appreciated, thank you.

**Contact details**

Should you have any questions regarding the research, please feel free to contact the researcher or supervisor:

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\*\*\*\*\*  
\*\*\*\*\*

I acknowledge that I am participating in this study of my own free will. I understand that I may refuse to participate or stop participating at any time without penalty. If I wish, I will be given a copy of this consent form.

**Participant Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

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## RESEARCH QUESTIONNAIRE

Region: \_\_\_\_\_ Questionnaire code: \_\_\_\_\_

Town: \_\_\_\_\_ Name of settlement: \_\_\_\_\_

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Please circle the appropriate box corresponding to your selection unless otherwise stated.

**Important Note:** This questionnaire should only be answered voluntarily by owners of the enterprise.

### SECTION A: DEMOGRAPHIC INFORMATION

#### Q1. What form of ownership best describes your enterprise?

a. One-man business	1
b. Partnership	2
c. Private/public company	3
d. Other (please state):	4

#### Q2. Approximately how much capital (in N\$) was required to start the enterprise?

a. Less than N\$ 5 000	1
b. N\$ 6 000 to N\$ 10 000	2
c. N\$ 11 000 to N\$ 50 000	3
d. More than N\$ 50 000	4
e. Prefer not to answer	5

#### Q3. Was obtaining the start-up capital a major obstacle to your enterprise?

a. Yes	1
b. No	2
c. Prefer not to answer	3

#### Q4. How many employees does your enterprise have?

a. 0 – 5	1
b. 6 – 10	2
c. 11 – 15	3
d. More than 15	4

#### Q5. Please indicate the nature of your business.

a. Construction	1
b. Retail	2
c. Transportation	3
d. Agriculture	4
e. Manufacturing	5
f. Service	6
g. Other (please state):	7

#### Q6. How many years has your enterprise been in existence?

a. Less than a year	1
b. 1 – 2 years	2
c. 3 – 4 years	3
d. 4 – 5 years	4
e. More than 5 years	5

**Q7. What was the reason for establishing the business?**

a. Risk-taking	1
b. Profit-making	2
c. To showcase my skills	3
d. Unemployment	4
e. Inherited the business	5
f. I had ample money to start the business with	6
g. Motivated by parents or friends	7
h. Other (please state):	8
i. Prefer not to answer	9

**Q8. What is your role within the enterprise?**

a. Owner only	1
b. Owner and Manager	2
c. All in one	3

**Q9. What is (are) the owner's gender?**

a. Male sole owner	1
b. Female sole owners	2
c. Multiple male owners	3
d. Multiple female owners	4
e. Multiple male and female	5

**SECTION B: FINANCE****Q10. What was your total profit for the last 12 months?**

a. 0 - N\$ 5 000	1
b. N\$5 000 to N\$15 000	2
c. N\$ 15 001 to N\$ 30 000	3
d. N\$ 30 001 to N\$ 60 000	4
e. N\$ 60 001 to N\$ 100 000	5
f. N\$ 100 001 to N\$ 1 000 000	6
g. Above N\$ 1 000 000	7
h. Prefer not to answer	8

**Q11. What was your main source of finance for establishing this business?**

a. Own savings	1
b. Family Assistance	2
c. Borrowed from Friends	3
d. Loans from Financial Institutions	4
e. Inherited	5
f. Previous employer	6
g. Prefer not to answer	7

**Q12. Have you applied for a loan at a financial institution during the last 12 months?**

a. Yes [Go to Q12.1]	1
b. No [Go to Q12.8]	2

**Q12.1 At which institutions did you apply for financial assistance?**

a. Commercial bank	1
b. Development bank	2
c. Government-grants	3
d. Other businesses	4
e. Micro-lenders (cash loans)	5
f. Other (please state):	6

**Q12.2 What type of product did you apply for?**

a. Bank loan	1
b. Bank overdraft	2
c. Trade credit	3
d. Other (please state):	4

**Q12.3 What was the amount applied for?**

a. Less than N\$ 5 000	1
b. N\$ 5 000 to N\$ 10 000	2
c. N\$ 10 000 to N\$ 50 000	3
d. N\$ 50 000 to N\$ 100 000	4
e. More than N\$ 100 000	5

**Q12.4 What was the outcome of your latest application/s? State your answer in terms of the latest or latest two applications made, as appropriate. (Circle one choice only).**

a. 1 <sup>st</sup> application rejected , no 2 <sup>nd</sup> application made	1
b. 1 <sup>st</sup> application rejected, 2 <sup>nd</sup> application rejected	2
c. 1 <sup>st</sup> application rejected, 2 <sup>nd</sup> application approved	3
d. 1 <sup>st</sup> application approved, no 2 <sup>nd</sup> application made	4
e. 1 <sup>st</sup> application approved, 2 <sup>nd</sup> application approved	5
f. 1 <sup>st</sup> application approved, 2 <sup>nd</sup> application rejected	6

**Q12.5.a If your loan was approved, did your enterprise have any difficulty in repaying the loan?**

a. Yes (Go to Q13.5b)	1
b. No (Go to Q13.6)	2

**Q12.5.b What were the problems your enterprise encountered in repaying the loan?**

a. Banks are not accessible	1
b. Business not profitable enough to cover loan repayment	2
c. Repayment period was too long	3
d. Repayment amount including interest and charges was higher than expected	4
e. Other (please state):	5
f. Prefer not to answer	6

**Q12.6 What was the intended usage of funds?**

a. Investment in buildings	1
b. Investment in equipment	2
c. Purchase of a motor vehicle	3
d. Paying creditors	4

e. Salaries and wages	5
f. Purchase of raw materials/ stock	6
g. Other (please state):	7

**Q12.7 If your loan application was rejected, circle the reasons provided by the lender for your rejection. Leave this question blank if your loan application was granted.**

a. Blacklisted	1
b. Lack of collateral (security)	2
c. Lack of banking transaction history and financial statements	3
d. Inability to provide business plan	4
e. Other (please state):	5

**Q12.8 If you have never applied for financial assistance, circle the reasons for not doing so from the list below. Leave this question blank if you have applied for financial assistance.**

a. Blacklisted	1
b. Lack of collateral	2
c. High risk	3
d. Costs including interest and charges	4
e. Complicated application procedures	5
f. Banks are inaccessible	6
g. Not interested	7
h. Other;	8

**Q12.9a Does your enterprise have a bank account?**

a. Yes (Go to 12.9c)	1
b. No. (Go to 12.b)	2

**Q12.9b What is your reason for not having a bank account?**

a. Blacklisted	1
b. Lack of collateral	2
c. High risk	3
d. Costs	4
e. Complicated application procedures	5
f. Banks are inaccessible	6
g. Time	7
h. Business is not registered	8

**Q12.9c What type of account do you have with the bank?**

a. Current/ cheque account	1
b. Short-term savings	2
c. Leasing and hire purchase	3
d. Mortgage bond	4
e. Other (please state):	5

**Q13. What is the main finance barrier to your institution?**

a. Interest rates and bank charges are high (affordability)	1
b. Lack collateral (security)	2
c. I/We have no future projects (business plan)	3
d. Complex application process (requirements)	4
e. Banks are far away (inaccessible)	5
f. Credit without paying	6
g. Other (please state):	7

**SECTION C: MANAGEMENT AND ENTREPRENEURIAL SKILLS**

**Q14. Who manages the enterprise?**

a. Owner	1
b. Family member	2
c. Employee	3

**Q15. What is the education level of the manager?**

a. Primary education	1
b. Secondary education	2
c. Diploma	3
d. Degree	4
e. Postgraduate diploma and beyond	5
f. Prefer not to answer	6

**Q16.a Are you satisfied with the management capabilities of your management team?**

a. Yes (Go to Q.17.a)	1
b. No (Go to Q.16.b)	2
c. Prefer not to answer	3

**Q16.b Which aspects of management are challenges to your business? (Circle all appropriate options).**

a. Planning	1
b. Organising	2
c. Leading/ directing	3
d. Controlling	4

**Q16.c Indicate the extent to which management capabilities are a challenge to your business.**

a. Not a challenge	1
b. Somewhat of a challenge	2
c. Neutral	3
d. Moderate challenge	4
e. Extreme challenge	5

**Q17.a Are you satisfied with the entrepreneurial abilities/skills of the owner/manager?**

a. Yes	1
b. No	2

**Q17.b What aspects of entrepreneurial abilities are a challenge to your enterprise? Circle all appropriate options.**

a. Risk-taking	1
b. Seizing an opportunity	2
c. Innovation	3
d. Efficiency	4
e. Financial Management	5

**Q17.c Indicate the extent to which entrepreneurial abilities are a challenge to your business?**

a. Not a challenge	1
b. Somewhat of a challenge	2
c. Neutral	3
d. Moderate challenge	4
e. Extreme challenge	5

#### **SECTION D: BUSINESS REGISTRATION & LEGAL FRAMEWORK**

**Q18.a Indicate whether your institution is registered with the institutions listed below, by circling 1-Registered 2-Not Registered. [If you circle not registered at any question for institutions below, circle appropriate reason under Q18.b]**

a. Ministry of Industrialisation, Trade & SME Development (MITSMED)-(A)	1	2
b. Ministry of Finance (MOF) (B)	1	2
c. Social Security Commission (SSC)-(C)	1	2
d. Employment Equity Commission (EEC)-(D)	1	2
e. Local municipality (E)	1	2

**Q18.b What are the main reasons for not registering with these institutions? Circle your main reason below for not registering at the institutions.**

<b>Reason</b>	
a. Complicated registration procedures and requirements	1
b. Registration costs	2
c. Accessibility to the institutions	3
d. Time constraints	4
e. Ignorance, including I/We do not know that we need to register	5
f. Liability to pay monthly/annual fee once registered	6

#### **SECTION E: LOCATION AND INFRASTRUCTURE**

**Q20.a What is the place/location where your business operates from?**

a. Home	1
b. Incubation centre/ formal structure	2
c. Informal market/ street vending	3
d. Illegally occupied land	4
e. Move around from place to place	5
f. Other (please state):	6

**Q20.b What is/are the greatest obstacle/s with regards to place/location that your enterprise is faced with?**

a. Illegal occupation of land	1
b. Small/inadequate land	2
c. Un-conducive environment	3
d. Lack of municipal services i.e. electricity, water and infrastructure	4
e. Unavailability of police department	5
f. Prefer not to answer	6

**Q21.a Indicate the extent of the following municipal services within your settlement. {1-Do not exist at all, 2-Exists to a little extent, 3-Exists to a moderate extent, 4-Exists to a large extent, 5-Exists to a very large extent}.**

a. Land	1	2	3	4	5
b. Water	1	2	3	4	5
c. Electricity	1	2	3	4	5
d. Refuse Removal	1	2	3	4	5
e. Roads	1	2	3	4	5
f. Telecommunications	1	2	3	4	5

**Q21b. Indicate the level of priority of the following municipal services to your enterprise. {1-Not a priority; 2-Low Priority; 3-Medium Priority; 4-High Priority; 5-Essential}**

a. Land	1	2	3	4	5
b. Water	1	2	3	4	5
c. Electricity	1	2	3	4	5
d. Roads	1	2	3	4	5
e. Refuse Removal	1	2	3	4	5
f. Telecommunications	1	2	3	4	5

**Q22.a Indicate the extent of the following institutional services within your settlement. {1-Do not exist at all, 2-Exists to a little extent, 3-Exists to a moderate extent, 4-Exists to a large extent, 5-Exists to a very large extent}**

a. Banks	1	2	3	4	5
b. Education	1	2	3	4	5
c. Health services	1	2	3	4	5
d. Law enforcement	1	2	3	4	5
e. Emergency services	1	2	3	4	5

**Q22.b Indicate the level of priority of these institutional services to your business. {1-Not a priority; 2-Low Priority; 3-Medium Priority; 4-High Priority; 5-Essential}.**

a. Banks	1	2	3	4	5
b. Education	1	2	3	4	5
c. Health services	1	2	3	4	5
d. Law enforcement	1	2	3	4	5
e. Emergency services	1	2	3	4	5

**SECTION F: MARKETING**

**Q23.a Did your enterprise have a marketing plan or promotional campaign of your business/products/services during the last 12 months?**

a. Yes [Go to Q.23.c]	1
b. No [Go to Q.23.b]	2

**Q23.b What are your reasons for not having a marketing plan for your business during the last 12 months? Circle all appropriate options.**

a. Financial constraints	1
b. I/we do not have the knowledge and capabilities to prepare marketing plans	2
c. I/we see no need (benefits) to a marketing plan	3
d. Marketing plans are for big organisations	4
e. Other (please state):	5

**Q23.c How do you market your products? Circle all appropriate options.**

a. Radio	1
b. Television	2
c. Newspapers	3
d. On-line (electronically)	4
e. Posters and Fliers	5
f. In-store promotions (sales, discounts, incentives)	6
g. Face-to-Face (in-the-street)	7
h. Other (please state):	8

**SECTION G: INFORMATION TECHNOLOGY AND COMMUNICATION**

**Q24.a Does your organisation use electronic points of sale (computer-based cash register)?**

a. Yes [Go to Q.24c]	1
b. No [Go to Q.24b]	2

**Q24.b What is/ are the major reasons why your business does not use electronic points of sale? Circle all appropriate options.**

a. I/We do not have computers	1
b. Our business is still small/ transactions are few	2
c. Financial constraints	3
d. We lack knowledge on electronic equipment	4
e. Others (please state):	5

**Q24.c Does your organisation prepare financial statements or any reports electronically?**

a. Yes [Go to Q.24e]	1
b. No [Go to Q.24d]	2

**Q24.d What is/are the major reasons why your business not to generate financial statements or reports electronically? Circle all appropriate options.**

a. I/We do not have a computer	1
b. I/We have a computer but do not have programs to generate statements or reports	2
c. We do not know how to generate financial statements electronically	3
d. I/We do not need or use financial reports or statements	5
e. The manual systems work perfectly	6
f. I/We do not have electricity	7

**Q24.e Does your enterprise buy or sell goods online (electronically)?**

a. Yes [Go to Q.25.a]	1
b. No [Go to Q.24.f]	2

**Q24.f What is/are the major reasons why your enterprise does not sell or buy goods online? Circle all appropriate options.**

a. I/We do not have computers	1
b. I/We do not have the knowledge or capacity	2
c. I do not trust online purchasing or selling	3
d. I am comfortable with the traditional store-based purchasing or selling	4
e. Expensive	5
f. Other (please state):	6

## **SECTION H: CRIME AND CORRUPTION**

**Q25.a How do you rate the level of crime in your settlement?**

a. Very high	1
b. High	2
c. Moderate	3
d. Low	4
e. Very low	5

**Q25.b What is the most common crime that affects businesses in your settlement?**

a. Theft of stock	1
b. Breaking into premises	2
c. Damage to property	3
d. Armed robbery	4
e. Assault on workers	5
f. Other (please state):	6

**Q25.c How often is your business affected by criminal activities?**

a. Never	1
b. Rarely	2
c. Sometimes	3
d. Often	4
e. Always	5

**Q26.a Was your enterprise affected by corrupt practices over the last 12 months?**

a. Yes [Go to Q26.b]	1
b. No [Go to Q27.a]	2

**Q26.b In what type of business activity was your business affected by corrupt activities?**

**Circle all appropriate options.**

a. Bank loan application process	1
b. Government tendering process	2
c. Government grants approval process	3
d. Business registration process	4
e. Municipal allocation of business plots/trading cubicles	5
f. Policing and law enforcement in dealing with reported cases relating to business	6
g. Prefer not to answer	7

**Q26.c How often is your business affected by corruption practices?**

a. Never	1
b. Rarely	2
c. Sometimes	3
d. Often	4
e. Always	5

**SECTION I: COMPETITION**

**Q27.a How do you rate the level of competition among MSMEs in your settlement area?**

a. Very high	1
b. High	2
c. Moderate	3
d. Low	4
e. Very low	5

**Q27.b How far is your main competitor from your business?**

a. Less than 100 m away	1
b. 100m - 1 km away	2
c. 1 km - 5 km away	3
d. 5 km - 10 km away	4
e. More than 11 km away	5

**Q27.c How do you define your main competitors?**

a. Direct competition (same products, same revenue goals)	1
b. Indirect competition (same products with different revenue goals)	2
c. Replacement Competitors (sell substitute products, same customer time and money)	3
d. Cannot classify	4

**Q27.d How much is competition a challenge to your enterprise?**

a. Not a challenge	1
b. Somewhat of a challenge	2
c. Neutral	3
d. Moderate challenge	4
e. Extreme challenge	4

**SECTION J: THE MAIN BARRIERS AND CHALLENGES TO MSMEs**

**Q28. Indicate the extent to which each of the issues below represents a barrier to your organisation. {1-Not a barrier; 2-Somewhat of a barrier; 3-Neutral; 4-Moderate barrier; 5-Extreme barrier}**

a. Finance	1	2	3	4	5
b. Management capabilities and entrepreneurial skills	1	2	3	4	5
c. Regulatory framework	1	2	3	4	5
d. Location and infrastructure	1	2	3	4	5
e. Marketing	1	2	3	4	5
f. Information technology and communication	1	2	3	4	5
g. Crime and corruption	1	2	3	4	5
h. Competition	1	2	3	4	5

**Q29. In your opinion which barrier is the main obstacle to MSME growth in your settlement?**

a. Finance	1
b. Management capabilities and entrepreneurial skills	2
c. Regulatory framework	3
d. Location and infrastructure	4
e. Marketing	5
f. Information technology and communication	6
g. Crime and corruption	8
h. Competition	9

**Thank you for your time**