

Title: Investigating the challenges faced by SMEs in Namibia

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Abstract: The main objective of the study was to establish the critical factors undermining the operations of SMEs in Namibia. In carrying out this study, we relied upon the use of two incubation centres in Namibia, namely, the Soweto and Dr. Libertina Amadhila incubation centres as laboratory test grounds. Primary data were obtained mainly from the use of questionnaires. However, observations, verbal interviews, including face-to-face interviews were also used in some ways to complement the data that was obtained from the use of questionnaires. Secondary data used were obtained from textbooks, manuals, journals and publications by the Ministry of Trade and Industry, Bank of Namibia and the Namibia Chamber of Commerce and Industry. Major challenges facing SME's implicated by the findings of this study as undermining the smooth operations of SMEs in Namibia cut across finance, training, government regulations, crimes, infrastructures, markets as well as technology. On the some minor challenges hampering the full transition of SME into fully fledged formal business include poor infrastructure and lack of trust from the suppliers. The study concludes that in order for Namibia to realise the full potentials of its SMEs, a lot still needs to be done by the Namibian government, including the private entities.

Key words: SMEs, incubators, challenges, questionnaires, interviews, role, investigating, observations, literature and infrastructures.

1.1 Introduction and Background

Namibia has witnessed a phenomenal growth in the number of business start-ups during the past two decades or so. This is, especially true, when it comes to the operations of small and medium enterprises. Indeed, almost 40,000 SMEs are currently registered in Namibia. SMEs in Namibia do contribute to the national economy of Namibia in various ways: employment creation and generations, adding value to the gross domestic product of the country, helping towards the realization of the government 2030 vision agenda just to mention a few of them. Concomitantly, it has also been observed that a majority of these businesses do crash land during the first twenty four months of their existence and in most cases before fully taking-off. Indeed, available data indicates that approximately 75% of the small-scale businesses belong to this failure group. It is equally pertinent to note that consistently this increased failure rate is substantially greater than the increase in the rate of new business creations. This problem appears to be more prevalent among the small-scale businesses that operate in Namibia in relation to the medium enterprises that operate in its economy.

Accordingly, this paper makes an attempt to isolate and analyse the key factors contributing to business failures in Namibia particularly among the small businesses by using two incubation centres that have been set-up by the government of Namibia as laboratory test grounds. The rest of the paper is structured in the following way. Relevant literatures on SMEs are presented. This is closely followed by the methods of the study. The next section discusses and analyzes the data collated from the respondents of the study. The final part considers the recommendations arising from the study and conclusion.

1.2 Relevant Literature on SMEs

We shall begin our discussion of this section by first examining some of the definitions of SMEs in the literature.

Economic literature that we reviewed distinguishes between “economic” and “statistical” definitions. On the economic side, a firm is referred to as small if it meets the following

three requirements: (1) It is managed by owners, or part owners, in a personalised way and not through the medium of a formalised management structure; (2) it has a relatively small share of their market place; and (3) it is independent in the sense that it is not part of a larger enterprise.

The “statistical” definition, on the other hand, focuses on three key areas: (1) quantifying the size of the small firm sector and its contribution to GDP, employment and exports; (2) comparing the extent to which the small firm sector’s economic contribution has changed over time; and (3) in a cross-country comparison of the small firms’ economic contribution.

Both definitions are open to a number of flaws. For example, it is not true that small firms do always exhibit a personalized structure. It is also possible to have a small firm that makes no contribution to a country’s exports.

In realisation of these weaknesses, NIDO also came up with their own model that relies on qualitative and quantitative indicators for SME definition, which is hereby presented in table 1 below:

Table 1: Application of Qualitative Indicators

| Category | SMEs | Large Companies |
|--|---|--|
| Management | <ul style="list-style-type: none"> • Proprietor entrepreneurship • Functions linked personality | <ul style="list-style-type: none"> • Manager-entrepreneurship • Division of labour by subject matters |
| Personnel | <ul style="list-style-type: none"> • Lack of university graduates • All-round knowledge | <ul style="list-style-type: none"> • Dominance of university graduates • Specialisation |
| Organisation Sales Buyer's relationships Production Research development | <ul style="list-style-type: none"> • Highly personalised contracts • Competitive position not defined and uncertain • Unstable • Labour intensive • Following the market, intuitive approach | <ul style="list-style-type: none"> • Highly formalised communication • Strong competitive position • Based on long-term contracts • Capital intensive, economies of scale • Institutionalised |
| Finance | <ul style="list-style-type: none"> • Role of family funds, self financing | <ul style="list-style-type: none"> • Diversified ownership structure, access to anonymous capital market |

Source: UNIDO

The above framework in table 1 as detailed by UNIDO has also been criticised by a number of scholars. For example, some businesses have the features of both SMEs and large companies.

1.2.1 Definition of Small Businesses in the context of Namibia

The table 2 below summarizes the definition of SMEs in the context of Namibia. It is apparent from the table 2 below that in Namibia the SMEs definition uses the number of employees, annual sales turnover as well as the capital base of a business as the relevant criteria.

Table 2: Definition of small businesses in Namibia

| Criteria | | | |
|---------------------------------|-------------------------|-------------------------------------|------------------------------------|
| Sector | Employment | Turnover Less than N\$000 | Capital Less than N\$000 |
| Manufacturing | Less than 10 persons | 1000 | 500 |
| All other Businesses | Less than 5 persons | 250 | 100 |

Note: To qualify, business must meet the employment criteria and one of the other two.

Source: Namibia: Policy and Programmes, 1997

1.2.2 The Role of SMEs in the economy

SMEs are important to almost all economies in the world, but especially to those in the southern hemisphere. In Namibia, the SMEs provide some form of employment and incomes to 160,000 people, representing approximately one-third of the nation's workforce. In terms of full-time employment, this sector currently employs about 60,000 people. In Namibia, the majority of SMEs are mainly found in the retailing sector selling foodstuffs and household products with no real value addition activities in most cases.

SMEs play significant contribution in the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities, which can generate sustainable source of revenue and enhance the development process. SMEs shore up the expansion of systemic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. Such linkages are very crucial for the attraction of foreign investment. Investing transnational corporations look for sound domestic suppliers for their supply chains (Fida, 2008).

Politicians, academicians and developmental economists are of the view that enhancing small business development and promoting entrepreneurship would be a good strategy to

contribute and promote economic development. From the view point of economic development, small businesses create almost half of new jobs in the economy, and it is assumed that they are good jobs (Edmiston, 2007).

One of the main characteristics of the informal sector of the economy is its flexibility in the production (Sanchez, 2006). Based on ‘small is smart’, successful businesses are those that continuously introduce new and improved varieties of products. Small businesses are more flexible and better able to adapt to market conditions. Therefore, it is important to create an environment conducive in which small businesses can operate, innovate and create needed jobs as a strategy to better economic development (Edmiston, 2004).

At the core of urgent efforts to improve the economic situation of developing countries, a strong focus on macroeconomic stabilization including the promotion of SMEs, the pursuance of massive trade and investment liberalization programme are vital to encourage foreign direct investment (DTI, 2004). In order to achieve this, the country should move toward relaxation of most restrictions on current and capital transfers, introduces tax relief to investors as well as improve access to foreign exchange at near market rates, in order to create a conducive environment, where small businesses could be promoted (DTI, 2002).

In the economy of the United States of America, small businesses are considered as job creators and are what really drive the US economy. Small business with fewer than 500 employees drives the U.S by providing jobs for every half of the nation’s workforce. During 2001-2002, small businesses with less than 20 employees increased employment by 853,074. Small businesses represent 99.7% of the firms, creating more than half of the private non-farm gross domestic product including 60 to 80% of the net new jobs in the economy. In 2004, there are an estimated 23,974,000 businesses in the U.S, of which 5,683,700 were small businesses who employed about 5,666,600 people (Longly, 2006).

From the socio-economic development viewpoint, SMEs provide a variety of benefits (Advani, 1997). SMEs have advantages over large-scale businesses because they can adapt easily to market conditions and they can withstand adverse economic conditions given their flexible nature. They are more labour intensive than larger firms and they have lower capital costs associated with job creation. They play critical roles to ensure market stability, employment and economic growth (Liedholm and Mead, 1987; Schmitz, 1995).

The contribution, which small businesses can make to national economy and wealth creation need to be recognized by the government from the beginning and be considered as part and parcel of the economic development process. Small businesses, which can be defined as small firms with less than 500 employees are integral part of any national economy (Edmiston, 2007).

They employ more than half the workforce in the private sector , generate about $\frac{3}{4}$ of net new jobs each year and produce more than half of the private sector's output. SMEs, defined as businesses with fewer than twenty employees in New Zealand, accounted for 39% of total value added output in 2004, upwards of 2% points from the previous year. SMEs accounts for 96% of all enterprises in New Zealand. The labour-led government recognizes SMEs as one of the drivers of the economic transformation, we envisage in the country (Dalziel, 2006).

From the discussion so far, it is clear that, while no single definition of SMEs is acceptable in the literature as the best way of describing the SMEs. We however, observed that there is a general consensus on the significance of SMEs in the process of economic growth, especially on the part of those countries belonging to the southern hemisphere.

1.3 Methods of the Study

A combination of primary and secondary data were collated from various sources and utilised in the course of our investigation of the title under consideration. In this regard, questionnaires, observations, verbal interviews, including face-to-face interviews were used in the study. Questionnaire constituted the main source of primary data. Secondary data used were obtained from textbooks, manuals, journals and publications by the Ministry of Trade and Industry, Bank of Namibia and the Namibia Chamber of Commerce and Industry. Questionnaires were undertaken to determine the views of SME operators and owners and all the relevant stakeholders in Namibia. Institutions that were interviewed included the City of Windhoek, Ministry of Trade and Industry, Namibia Chamber of Commerce and Industry.

Structured questionnaire type was employed in order to eliminate as much as possible the incidence of biasness. The right to privacy of respondents was taken into consideration in designing the questionnaire. Respondents had the right to choose to disclose their identity or remain anonymous. The data obtained were confidentially treated. The City of Windhoek, Ministry of Trade and Industry, NCCI and SMEs in Windhoek provided the secondary data needed for this study.

The study was conducted during the period running from June to August 2012 in Windhoek. The choice of this location was supported by the high concentration of the activities of SMEs. The study targeted Small Medium Enterprises (SME's) engaged in various economic activities.

A structured and pre-tested questionnaire was completed by well trained interviewers. The questionnaire consisted of two sections, Section A, focused on the socio-demographic information, which included aspects of gender, age, educational attainment, management qualification and their activities. Section B consisted of questions relating to the challenges faced by SME's in Namibia.

Systematic random sampling approach had been adopted, as the population being investigated are unevenly scattered and assumed to be of the same class. Based on the information obtained from the City of Windhoek there are approximately 164 incubation stalls at both the Dr. Libertina Amadhila and Soweto incubation centers. A total sample, which consists of hundred (100) SME operators were used for the study. 100 research questionnaires drawn up for the study were distributed amongst the SME owners/operators.

In total 100 questionnaires were completed and this figure correlates closely with 100 questionnaires initially planned for the study. The data in respect of the study were analysed with the assistance of SPSS software facility.

1.4 Data Analysis

The study was carried out among the operators of two incubation centres. The population in these centres has a variety of backgrounds. However, some general traits were observed. Most of the operators of the two incubation centres were found to be coming from particular geographical areas and ethno-linguistic groups.

With regard to distribution in terms of gender and age, slightly more men than women operators were observed. The table 3 below contains a summary statistics about the gender of those working/operating in the SME sector of Namibia.

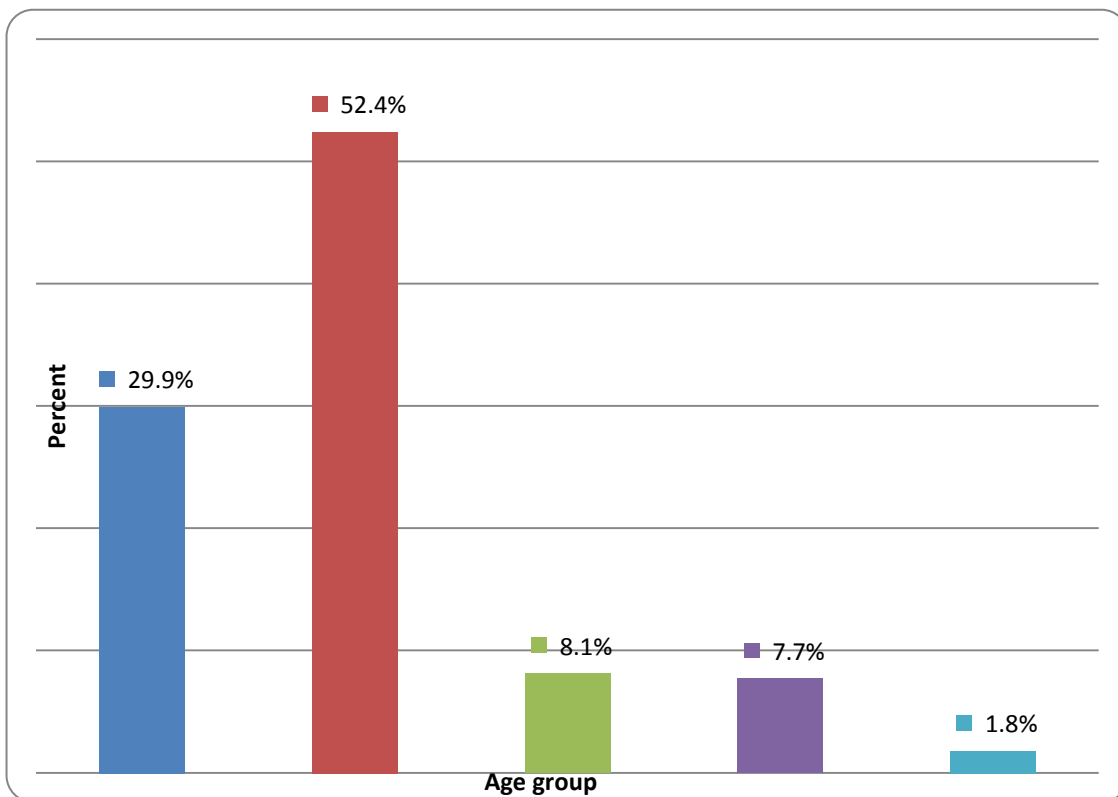
Table 3: Gender Structure (Percentages)

| Sex | Frequency |
|--------------|------------------|
| Male | 57 |
| Female | 43 |
| Total | 100 |

57% of the respondents were male, while only 43% were women. As is the case internationally, there is a gender dimension to SMEs operations in Namibia. The assumption that more women are active in the informal sector than man in developing countries is not true for Namibia. Norval and Namoya (1992) also reinforced this finding.

As can be observed from the figure 1, which is appearing below, 52.4% of the SME operators are estimated to be between the age group 25-34 years old and 29.9% are between the age category 16-24. Similarly, it was also observed from the figure 1 that about 80% of the SME operators are below 35 years old. Thus, the share of young persons was observed to be higher among the SME operators.

Figure 1: Age distribution of informal workers



With respect to race, it seems the majority of those working in informal enterprises are black as most of the informal workers speak Oshiwambo (68%), a black language. 68%

of the SME's operators spoke Oshiwambo as their home language; explained by the demographic proportion representation of the Owambo community (over 50% of the population) and the fact that they are historically an entrepreneurial group. The sector dominated by the black community and none of white community operates in this sector.

Majority of the SME operators (90%) have attained formal education and 10% had managed to attain a tertiary qualification. Only a small percentage of the respondents did not have any schooling experience (See the table 4 below).

Table 4: SME's operator's level of schooling by gender

| Highest school level | Gender | |
|------------------------|--------|--------|
| | Male | Female |
| No schooling | 8% | 0 |
| Grade 1-7 | 31% | 17% |
| Grade 8-10 | 43% | 47% |
| Grade 11-12 | 12% | 30% |
| Tertiary qualification | 4% | 6% |
| Total | 100% | 100% |

To a certain extent these findings contradicts the conclusion from an ILO study of 1993 (in Hansohm 1997), which maintained that the educational and training levels were generally very low among the SME operators.

The high literacy rate amongst the respondents could be explained by several government projects aimed at improving the literacy rate amongst the Namibians. Such programmes include the NAMCOL (education improvement programme), adult education improvement and youth entrepreneurial courses offered by the Ministry of Youth combined with mushrooming institutions of higher learning just to mention a few.

Namibia's small business operators are engaged in a range of activities ranging from subsistence farming, crafts, small scale manufacturing, small-scale mining, small-scale

construction ,informal services (taxi service, hairdressing and domestic work) and informal trade (Cuca shops), informal cross-border trade (Van der Linden, 1993).

From table 5 below, it can be seen that female operators tend to dominate manufacturing sector and traditional beer brewing is the most prominent activity. Other manufacturing activities include bakeries, wood carvers, potters, builders and basket makers. In addition, the Commonwealth report (1994) identified the manufacturing sector as a sector with potential growth for the informal sector in Namibia. Informal manufacturing businesses are also believed to have the potential to generate more jobs than the other sectors given its labour intensity nature and thus might lead to a diversification of Namibia’s small industrial base (Erastus-Sacharia et al. 1999). The male counterparts tend to dominate the wholesale, retail and repair of motor vehicles (55.5%).

Table 5: Distribution of informal economy activities by sector and gender (%)

| | Female (%) | Male (%) |
|--|-------------------|-----------------|
| Agriculture | 11 | 7.8 |
| Fishing | 1.3 | 1.2 |
| Manufacture | 28.3 | 23.4 |
| Construction | 0.2 | 5.6 |
| Wholesale & retail trade; repair of motor vehicles | 39.3 | 55.5 |
| Hotels and restaurants | 16.7 | 3.0 |
| Transport, storage and communication | 0.7 | 1.4 |
| Other business activities | 0.2 | 0.3 |
| Other service activities | 2.3 | 1.8 |
| Total | 100.0 | 100.0 |

Source: The Namibian informal sector survey, 2001

Most people enter the SME sector because of unemployment (68%). See the table 6 below. 12% enters the sector because they want to be independent, 10% had family

members who are entrepreneurs thus role models and the remaining 10% took advantage of the opportunity in the market.

Table 6: Why did you start your own business?

| | |
|---------------------------|-------------|
| Unemployment | 68% |
| Independent (Be own boss) | 12% |
| Family background | 10% |
| Opportunity in the Market | 10% |
| Total | 100% |

In terms of start-up capital, majority (87%) used their own saving to start their businesses, 11% obtained borrowing from their friends and families and 2% of the respondents had the privilege of a bank overdraft in helping to establish their businesses.

None of the respondents had received any assistance from the government during the start-up phase. However, 35% of the operators interviewed responded that they had received assistance from the government after their business had been operating for some years. This assistance included local, regional and international fully funded trade fair participation, 12% had received financial support from the National Youth Council and the Khomas Regional Council, a further 7% of the respondents also indicated that they had received assistance from the government through equipment sponsor.

93% of the respondents stated that access to finance was a severe problem and banks require high security/collateral, financial statements and business plan which they are unable to draft on their own in most cases, unless they have to pay for the service of a consultant which adds another cost. Most of the operators also indicated that there is a lack of financial institution to provide a wide range of financial support.

The level of entrepreneurship training among the responded is very low, 87% lack knowledge on the basic aspects of business such as marketing, costing, financial management and basic accounting. Of the respondents, 63% indicated that they do not have any business plans and 21% indicated that they only have short term business plans.

80% of the respondents indicated that the owners are responsible for the finances of the business and the rest of them do make use of the services of accounting students and family members to assist with financial management aspects of the business.

The low financial literacy rate amongst the owners is a serious challenge for managing the SME's finance's effectively and prevents them from assessing and understanding different financing options and the completion of complicated loan application forms. Additionally, their financial statements are not transparent thus, making them risky borrowers (Ramsden, 2010: 24).

Majority of the responded (72%) had experienced problems with establishing themselves in the market. However, 3 years into their operations the market problems tend to lessened.

Most of the respondents (76%) described the degree of competition in their market place as being high, 13% stated it to be moderate and the rest 11% described it as limited. It is quite important that business remains competitive in the face of competition from its rivals in the industry.

Majority of the respondents indicated that they do not have any form of marketing plan in place. They do rely on the words of mouth strategy and through the City of Windhoek SME promotion division for the marketing of their products. 7% of the respondents

indicated that they leverage on trade fairs and SMEs exhibitions in order to promote their products/services.

In terms of pricing strategies adopted, 42% of the respondents used the cost plus basis to calculate prices, 45% obtain their prices through competitive pricing and 13% uses other methods. Majority of the respondents (61%) do not offer any credit, while the remaining 39% offered credit to their loyal customers, family members and friends.

67% of the respondents solely operated their business by themselves, while 14% employed family members. The remaining 19% have paid employees on their payroll.

Majority of the SME operators indicated that they had encountered several challenges with regards to government regulations. 31% responded that they had problems registering for taxes, business licenses and forming their business. 52% indicated that they were still in the process of registering their business and 17% are not registered and not in the process of registration as it's expensive and time consuming.

In terms of support initiatives available to support the business, majority of the SMEs operators are unaware of any. For TIPEEG is unknown to them.

The respondents were asked to list the challenges facing their businesses and the following challenges featured prominently: Crime and corruption, limited business hours, lack of markets, lack of capital for expansion, lack of government support, social issues (health, family strain and time pressure), electricity breakup and lack of knowledge on the latest technology, and strong competition from established enterprises locally and from South Africa among others.

The following findings and important observations are apparent from the above analyses:

- The sector is slightly dominated by males, especially the black marginalised Namibians mainly Oshiwambo speaking tribe. Majority of the informal workers are between the ages 25-35. Only about 1.8% of the SMEs workers are within the older age (above 50 years old) category. This is not surprising since Namibia is a youthful population.
- Manufacturing, trade, retail and motor vehicle industry are the most preferred activities in the informal sector of Namibia.
- The education level amongst the SME operators had improved drastically since 1993. The high literacy rate has been observed as most of the operators and workers had acquired some form of formal education as well as significant amount of tertiary qualifications.
- Compliance with the legislation tends to be a big challenge for majority of the businesses due to the bureaucracy and cost involved in registering the businesses, obtaining the necessary operating permits and licenses. SMEs have less capacity than larger firms to navigate through complexities of regulations (Stork, 2010).
- Lack of finance for start-ups, including limited access to low cost finance constitutes a major impediment to the operations of SMEs in Namibia.
- There is a general lack of trust from the supplier's side. Most of the businesses do not have any form of credit history, thus they are unable to obtain credit and have to pay cash to obtain goods/services. And this in turn negatively affects the SMEs cash flow.
- Adaptation to technological changes. Majority of the businesses are unable to keep up with technological developments.
- Lack of market research. This often makes the SMEs to under invest in activities and services that could potentially enhance their productivity.
- Unregulated competition: SMEs are easily crowded out of business due to the stiff competition that they get from the already established large scale businesses that currently operates in Namibia.

- Other issues that affects the general operations of the SMEs in Namibia in negative terms relates to management, finance, markets, crime, corruption, government regulations and infrastructures.

1.5 Recommendations

In light of the findings of this study, the following recommendations are put forward:

- There is the need to identify and develop appropriate financing models for SMEs in Namibia. In this regard, the government need to establish friendly business loaning systems and this should include low interest rate charges to ensure continuity of the businesses. The need for a simplified business registration process that can lead to an increase in the number of businesses registered in Namibia cannot be over-emphasized.
- Government and the Private sector will need to come together to address the SMEs needs, especially their financial needs in a more transparent and robust manner. In this regard, the SME bank that will be operational in due course is highly commendable.
- Establishment of various physical infrastructures to provide an enabling environment for production and trading by SME's.
- Management training and capacity building activities should be a continuous process for the SMEs.
- There is a need for an SME information centre to be established specifically to provide information to the SMEs on developments relating to market trends, latest developments and assist in linking SME operators to the service providers at affordable rates.
- Majority of the workers in the informal economy falls in the youth category. Thus, it is crucial that government integrate the informal economy issues into the

overall youth development issues rather than isolating the youth and the informal economy.

- Government can support the SME sector by making sure that a substantial percentage of government procurement is spent on local small enterprises rather than supporting foreign businesses as it has been in the past.
- Government also need to promote employment within the formal sector by ensuring the use of more labour intensive works, promoting the manufacturing sector, regulating the formal sector to level the playing field and restrict competition which in turn calls for the sector to demand highly skilled labours.
- Government participation in the sector is of utmost importance, as it will boost the support for the SMEs. With the right support the informal enterprises could be turned into formal businesses (Nuyoma, 2010).

1.6 Conclusion

Finally, if for nothing else, this study has at least reinforced the significance of SMEs in the growth process of modern economies, especially those belonging to the developing world. Indeed, the various obstacles undermining the operations of SMEs in Namibia, including appropriate recommendations to manage and handle the current SMEs challenges were also highlighted in this study.

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