The Value of the SMEs Sector to Economic Growth in Namibia: A Cross Sectional Analysis on Contributions, Challenges and Prospects

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Abstract: Small and Medium enterprises (SMEs) play an important economic role in almost every country. Despite the significant role they play, SMEs are faced with the threat of failure and high mortality rate. Given this high failure rate, it becomes vital to research the factors required to enable the SMEs to survive and grow. This study, the value of SMEs sector to economic growth in Namibia, sought to bring to light the challenges faced by SMEs, assess the contribution of SMEs to job creation/employment and economic growth, underscore how SMEs cope with external pressures as well as to explain their prospects towards the Namibian economy. The study employed a cross-sectional, descriptive research design approach whereby primary data was collected at a specific point in time, the sampling frame was the 357 SMEs in Katutura (Soweto market, Single quarters and Amadhila IC areas) from which a sample of 100 SMEs was taken. A sum of 20 policy makers and academicians were also contacted to make 120 the number of respondents. Stratified random sampling was used to sample the respondents. Secondary data was collected from statistical agencies to help shed light on SMEs and job creation. Descriptive statistics was used in in data analysis, while formulated hypotheses were tested using chi-square test. The study found out that the challenges facing SMEs include lack of finance, unavailability of managerial experience, high cost of services when running SMEs and lack of innovation. Since the SMEs sector in Namibia contributes towards employment/job creation, poverty alleviation and Gross Domestic Product (GDP) the research findings will enable all the stakeholders involved in the SMEs sector to figure out and develop creative policies to counteract them.

1.1 Introduction

Globally, Small and Medium Enterprises are considered as engines of economic growth as well as of promoting equitable development. SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries (UNIDO, 1999). They are often described as efficient and prolific job creators, the seeds of big businesses. Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. SMEs have an inclination to employ more labour-intensive production processes than large enterprises. Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty. SMEs can become a major contributor to private sector employment (Kuza, 2012).

In Namibia, the SME sector in comparison with other African countries is small. Nevertheless the Namibian government estimates that this sector has a great potential for the socio-economic development of the country in terms of economic growth or poverty alleviation. The contribution of the SME sector to the Gross Domestic Product (GDP) in 2003 was about 11% and the share of the labour force employed in this sector was about 20% in the same period. The NLFS 2013, showed that the unemployment is a challenge, as the unemployment rate was 29%, with 41% of the youth unemployed. According to Ogbokor et al. (2012), SMEs provide employment and income to 160,000 people, which represents approximately one-third of the nation's workforce and that the majority of SMEs in Namibia are mainly found in the retailing sector, selling foodstuffs and household products with no real value addition activities. Researchers concede that small to medium enterprises in Namibia still face some serious challenges of which the biggest are access to finance, access to market and market information, access to innovation, and lack of business skills and knowledge.

The SME sector can also be divided into manufacturing and service providing businesses. Comparing these two groups, the manufacturing SMEs have less average income, less average workers employed and contribute to a lesser extent to the GDP. The latter is caused by the fact that the total number of manufacturing businesses is fewer than the number of service providing SMEs. Regarding rural and urban businesses, the urban ones have considerable higher average income per capita: it is about three times higher than that of rural workers. Lack of finance is often seen as one of the main problems for SMEs.

1.2 Statement of the problem

There is no doubt that most African countries depend on their Micro, Small and Medium Enterprise (MSMEs)in driving their economies forward. However, most of these SMEs receive lukewarm support from their governments. Nevertheless, a few competitive SMEs are thriving and contributing to economic growth, employment creation, and local development in combating poverty. Namibia has a high rate of unemployment and yet SMEs are viewed as engines of economic growth, then what is the cause of this poor performance of SMEs in employment creation? What is the value of this sector to the economy? This study aims at identifying the major challenges affecting growth and formulating certain beneficial remedies with the aim of rectifying the situation.

1.3 Rationale of the study

A few studies have previously been conducted to study challenges facing small and medium enterprises in Namibia and all of them used the business manager/owner to obtain data. Triangulation with multiple informants (business/owners, policy makers and academics) was used to obtain data so as, not only to have more valid and reliable findings, but also to increase confidence in research data and provide a clearer understanding of the situation at hand. It was also found necessary to try and analyse the data from statistical agencies like the National Statistical Agency to determine how employment within SMEs has grown over a number of years and also determine from the trend the future prospects of the sector.The literature on SME's in Namibia is unclear or unexplored on how SMEs respond to external pressures or competition from foreign investors like the Chinese investors.

This study was an attempt to fill the gaps left by the literature and also to shed light currently on the SME sector in Namibia.It is in this regard that a study titled the value of SME sector to Namibia's economic growth: a cross sectional analysis on contributions, challenges and prospects was undertaken as an attempt to address the above mentioned issues. This aims at recommending solutions which if implemented will see SMEs contributing more on employment creation, more sales and profits, a greater share of GDP, poverty reduction and finally a higher economic growth leading to the achievement of vision 2030.

2   Literature review

According to Remenyi et al. (2001), the purpose of literature review is to establish the area of study, a theoretical framework for the subject and to identify studies, models and cases supporting the research topic. This Chapter is a literature review that considers previous researches to provide the necessary background to identify the contribution of SMEs to economic growth and to give a set of challenges that face SMEs in their quest for growth and development. This review of the literature has found out that variables that contribute to the success of SMEs are not unanimously agreed upon by researchers. While some analysts suggest that the dynamics of the success of businesses remain a black box,, firms are seen as a black box on what concerns to development, however the measures taken by them, entrepreneurial strategies, and entrepreneurship actions, have influence in the development theatre (Deakins&Freel, 1998; Dockel&Ligthelm, 2005; Ligthelm, 2010), others have argued that the success of enterprises is a function of both external and internal factors (Penrose, 1959; McCline et al., 2000; Guzman &santos, 2001; Markman& Baron, 2003).

Many theories have been proposed to explain what contributes to the success of SMEs. However, although the literature covers a wide variety of such theories, this chapter should not be regarded as a comprehensive review, but as focusing on the two crucial themes that emerge repeatedly throughout the reviewed literature. These themes are the conceptualization of two determinants of success: internal factors and those external to the firm. The former refers to the characteristics of the owner or entrepreneur and the business; whilst the latter deals with factors beyond the control of the entrepreneur. This division between the internal firm and the external environment is a dominant approach when considering the performance of a firm. This view is often modified in the case of small businesses where the individuals are considered to be important. These issues will be explored in this review.

Therefore, this chapter firstly begins with the definition of SMEs, theories of SMEs as well as a description of their importance and contribution in modern economies. Secondly, the chapter proceeds with the identification of the challenges facing SMEs. Finally, the chapter sums up the main findings of the review of literature and shows how these findings are then related to the aims of this study.

2.1 Definition of SMEs

It is easier to describe than define SME (Beaver and Ross 2002). There is no universal definition of SMEs that is accepted widely (Mutula and Brakel 2006, p. 403). The geographic placement of SMEs, as well as country specific legislation, influences the numerous SME definitions (Smit and Watkins 2012).

The most commonly used criteria when arriving at such a definition would include the number of employees, the turnover and the capital employed. As for the Namibian context, the following definition of a small business has accordingly been adopted. Manufacturing – Less than 10 persons, turnover N$ 1000,000 and capital employed N$50,000.All other businesses-Less than 5 persons, turnover N$25,000 and capital employed N$100,000.

Beaver (2002), argues that banks tend to adopt a risk adverse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analysing the likelihood of loan repayment. Credit constraints can occur when banks increase collaterals for loans. As a result, low interest borrowers (including SMEs) may be removed from the list of potential customers and banks may skip these customers (Stiglitz & Weiss, 1981). Gangata&Matavire (2013) in their study on challenges facing MSEs in accessing finance from financial institutions, found out that very few SMEs succeed in accessing funding from financial institutions, the main reason being failure to meet lending requirements, chief among them being provision of collateral security.

2.3.3 Cost of credit

The amount of money the entrepreneurs pay in process of borrowing money from financial institutions constitutes the cost of credit. The main indicators of cost are processing fees, negotiation fees, interest rates, personal insurance, legal fees and travelling expenses that the entrepreneurs meet in the process of acquiring credit. Hallberg (2002) singled out high risks associated in lending SMEs and fixed costs associated in acquiring sound information about the borrower by financial institutions as the major driving force to the high cost of credit. High transaction costs do therefore not only increase the cost of borrowing, but can also restrict access to external finance for some borrower groups (Gachupin et al, 2014). It is important that financing be as efficient as possible (Stutely, 2003). According to Stutely, the borrower should be able to put the cost of all financing on the same basis, comparing them and come up with the one that gives the lowest cost financing option.

2.4 The Namibian experience on SME financing

Namibian SMEs contribute close to 12 per cent to GDP and employ 20 per cent of the total workforce (NEPRU, 2003). The existence of a financing gap in the economy was confirmed through research by the Parliamentary Standing Committee uneconomic, Natural Resources and Public Administration (2009); the World Bank (2007), Knutsen (2003) as well as the Namibia Chamber of Commerce and Industry (2010). More than 40 per cent of Micro, Small and Medium Enterprises (MSMEs) in the country identify access to finance as the most serious obstacle to growth. Access to, and the cost of credit, both feature prominently as challenges faced by the sector. The twin challenges of the cost of borrowing and access to finance have to be considered when devising SME financing strategies.

2.5 Critical success factors for SMEs

Critical success factors are those factors which empirical research has deemed to be of critical importance to the success of all enterprises. Unlike entrepreneurial characteristics, which cannot be used as determining factors in deciding whether someone is entrepreneurial or not, the critical success factors are a lot more likely to be determinants in the success of an enterprise (BoN2010). These critical success factors are important in designing interventions. Awareness must be taken of these critical success factors, for both start-up and growth phases of the enterprise lifecycle. The critical success factors are listed in order of the sequence in which they might occur in each phase of the lifecycle. They need to be addressed as part of the provision of Business Development Services (BDS). They are provided for background information, and to endorse once again the importance of finance in both phases of the lifecycle. A literature review of the critical success factors for start-up and growth phases of SMEs yields ten (10) critical success factors for start-ups and twelve (12) criteria for growth phase SMEs. These results are summarized below in Table 2.4 and Table 2.5. In Table 2.4, item 9 specifically lists the need for capital and a capital source during the start-up phase.

Table 2.4 Summary of start-up critical success factors

Number	Phase	Description
1	Start-up	Opportunity awareness
2	Start-up	Market research
3	Start-up	Differentiating factors
4	Start-up	Business model
5	Start-up	Strategy
6	Start-up	Feasibility study
7	Start-up	Business plan

8	Start-up	Location
9	Start-up	Amount and source of seed capital
10	Start-up	Decision making ability

Source: Smorfitt (2009:40)

The differences between the critical success factors for start-ups and those for growing firms, is noticeable. These differences will have an impact on the interventions planned and executed by governments for both growing and start-up SMEs. It is clear that they require different solutions. The only common factor to both is the entrepreneur. The finance need is referred to in Item 5 in Table 2.5. The finance need is seen as being a skill which allows the entrepreneur to know how much capital is required,and where best to source it.

Table 2.5 Summary of growth critical success factors

Number	Phase	Description
1	Growth	Possess general management skills / experience
2	Growth	Possess strategic management skills
3	Growth	Possess technical skills
4	Growth	Possess organisational structure
5	Growth	Possess financial management skills
6	Growth	Possess leadership skills
7	Growth	Possess communication skills
8	Growth	Possess inventory management skills
9	Growth	Possess marketing skills
10	Growth	Possess contingency management skills
11	Growth	Controls and systems
12	Growth	Growth oriented

Source: Smorfitt(2009:40)

The need for capital in business start-up and growth is once again endorsed. This highlights the fact that the phase in the lifecycle the enterprise is located in is the fourth of the key issues for governments to take into account in designing their interventions, being predominantly required during start-up and growth.

2.5.2.1 Market uncertainty

Market uncertainty is the uncertainty facing a firm associated with an inability to influence price within a market by changing the quantity of output it produces. When it comes to a small firm, this uncertainty stems from several factors. First it may be a reflection of the small firm's lack of market power. The absence of market power for smaller firms, implies that they are inevitably price takers in the classic tradition. There is considerable empirical support for the view that large firms are more profitable than small ones. If the market share is the key to profitability then, since it has been shown that profitability and market share are positively associated, and since size of firm and market share are also associated, it follows that large firms are more practical than small ones. This implies that higher profits will risk the threat of entry into markets, they also provide the basis for repelling threats through the erection of product differentiation-type barriers.Baumol(1967) argues that large firms have the option of competing with small firms, but that small firms cannot easily choose to compete with large. Secondly, it has to be recognized that many small firms operate in conditions of classic perfect competition, particularly in the area of personal services.

2.5.2.2 Customer uncertainty

SMEs face the uncertainty of limited customer and product base. According to Storey (1982), many smaller firms have no more than a handful of key customers, and a number have only a single customer. Davies and Kelly (1972) show that more than one-third of all small manufacturers sell more 25 per cent of their output to one customer. Here in case any difficulties happen to befall the larger company which acts as a key customer may lead to the demise of the smaller company. Another thing is that many SMEs produce only a single product or service, so that again narrows the nature of product/service base and will cause a greater uncertainty than where a diversified range is produced. For instance, assume a small firm acts as a subcontractor to a large firm,

here the small firm exercises no price control and even if it has, all other elements of the production process and management controls well set, the large firm customer not only sets the price and quantities at which the commodity is to be supplied, but also determines the nature of the inputs, the production method used and even quality control checks. This shows how the small firm can become totally dependent upon a single customer and are likely to achieve lower margins because of their weak bargaining power in which the purchaser is aware of all the costs. If sufficient retained earnings become less and incase of the large customer decides to look elsewhere, then the small firm has no choice but to close down.

2.5.2.3 SMEs in employment creation

SMEs are important drivers of innovation and competition. The SME sector has remained very innovative and adaptable in order to survive the recent economic downturn and recession. Empirical studies show that new firms play a significant role in employment generation (e.g. Garikai 2011, Baptista et al, 2005; Stel&Suddle, 2005), innovation (e.g. Fritsch & Mueller, 2005), economic growth and reduction of unemployment (Garikai, 2011). There is a high correlation between the degree of poverty, hunger, unemployment, economic well-being /standard of living of the citizens of countries and the degree of vibrancy of the respective country's SMEs.

SMEs are important to almost all economies in the world, but especially to developing countries like Namibia with major income discrepancies between the rich and the poor, and with a headache of unemployment (villager 2012). On what we may call the "static" front, SMEs contribute to output by participating in the mainstream economy and to the creation of some "decent" jobs especially to the few that runs the SMEs. All that information, coupled together will make SMEs the biggest employer and can close the inequality between the rich and the poor (villager 2012). On the other hand SMEs are a nursery for the larger firms of the future - more and more large firms started as SMEs before there grew large.

In a country like Namibia with large informal or micro enterprise sectors, SMEs should constitute the middle of the size range, a fact that explains much of their strategic importance. In terms of organisational structure, SMEs are, on average, considerably more complicated, involving largely the self-employed and people employed in other larger companies.

There are also some hidden and apparent obstacles in the path of growth of SMEs in Namibia. The most important are; law and order situation; financial constraints; energy crisis; taxation problems; labour issues; lack of coordination and regular information exchange mechanism among institutions, etc. What it requires is to pursue the precise policy and regulatory reforms to turn SMEs into an effectual instrument for the enhancement of economic growth and employment.

2.5.2.3 SMEs and their contribution to economic growth

Entrepreneurial activity by owners/managers of SMEs impacts economic growth via introduction of innovative products and processes (Acs&Audretsch 2003), productivity gains due to increased competition and knowledge spill over effects (Acs&Varga 2005). Regulations on the labour market have to be brought more in line with the needs of flexible and dynamic enterprises. SMEs require flexible labour markets to enhance their adaptability and boost their competitiveness.They also face a number of problems. Many of these problems are compounded by insufficient initial capital and lack of access to financial sources; shortages in managerial/business skills and technical know-how; lack of access to technical assistance and market information; time pressures; and a dynamic and uncertain business environment.

The private sector is the engine for sustainable economic growth. The role of the public sector is to create an enabling environment in which entrepreneurs can explore opportunities and thus increase productivity, contribute to economic growth and create jobs. Stern (2002) identifies two pillars which form the foundation of any sustainable economic development strategy: Building an investment climate that facilitates investment and growth; and empowering poor people to participate in that growth.

The SME sector in Namibia is diverse with structures to be able to support the sustainability of the SMEs, as they widely differ between segments. At present the sector fails to fulfill its potential economic role adequately. Its contribution to GDP is less than 5% as a result of serious constraints to the growth of SMEs (MTI, 1997).Growth in terms of turnover distinguished successful SMEs owned and managed by multiple business entrepreneurs and those owned and managed by single business entrepreneurs.

Small and medium enterprises are considered as the backbone of economic growth in all countries. They contribute in providing job opportunities, act as supplier of goods and services to large organizations. SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology (Rahman, 2001).

A theoretical framework is a symbolic representation of a set of concepts, which is created to depict relationships. It represents the connection of the issues sought in the study through the rhythmical symbol. The

framework depicts process by linking the concepts with arrows, which link to each other. This study uses theoretical foundations meant to understand the contribution of SMEs and the economic growth.
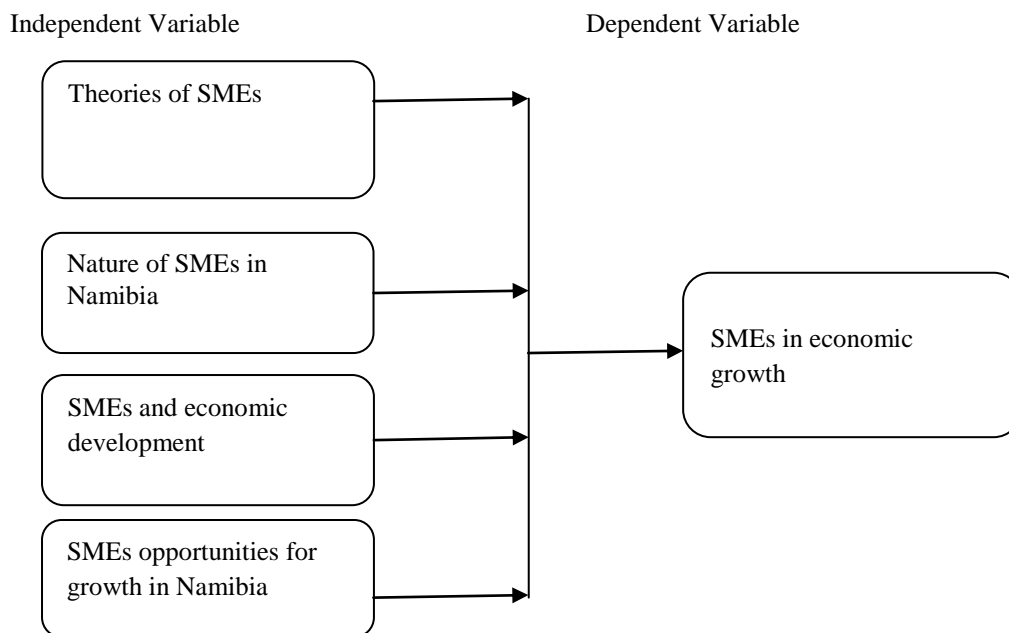
Independent Variable   Dependent Variable

Fig 2.3SMEs and Economic Growth

Source: Iguna(2017)

2.5.2.4 SMEs and National Development

Majority of SMEs rely on outdated technology, labour intensive and traditional management practices. This in many cases led to inefficient, lack of information and inadequate in-house expertise (Hashim&Wafa, 2002). Increased uncertainty in the SMEs' environment has led to increased levels of critical success factors for advanced manufacturing technologies applications (Raymond 2005). According to Mosey (2005), SMEs can compete with their larger rivals by developing new to market products using novel and often simpler technologies.

2.5.2.5Challenges faced by SMEs

From the literature, in both developed and developing countries, SMEs face common problems in respect of their survival or in taking competitive advantage. According to the available resources more than 50% of SMEs collapse within first five years of operation (Reiss, 2006; Ahmad and Seet, 2009). The SMEs should mainly focus in overcoming the challenges, which include, among others, recession, barrier from global sourcing, low productivity, lack of managerial capabilities, and lack of financing, difficulty in accessing management, technology and heavy regulatory burden (Muhammad et al,2010).Teoh and Chong (2008) argued that the major obstacles to entrepreneurship development are lack of access to credit, lack of access to formal business and social networks. In most African countries, the sector is characterised by dilapidated infrastructure, low adoption of advanced technology, poor market access, low credit access, and continued harassment from government institutions that should in the first place protect and nurture it. In Namibia there is no reliable figure published concerning the rate of failure of SMEs. However the following can be listed as the challenges faced by SMEs in Namibia.

2.5.2.6 Lack of Access to Finance

Many small and medium enterprises do not have access to finance and credit especially from financial institutions such as commercial banks. This is because of the lending conditions given to them such as collateral for the loan. These enterprises may not be able to provide collateral such as immovable assets due to their small asset base. Consequently, most of these enterprises resort to borrowing from friends and relatives. However, this type of finance is inadequate to cater for all the needs of the medium and small enterprises. Lack of finance is

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

Research institutions estimate, that in Namibia about 97% of businesses are not regarded as bankable. But banks are not necessarily to blame. Businesses without any financial track records operating in a very competitive field are not ideal candidates for credit. The consequence is that financial support to small businesses is often dominated by government institutions or donor funded activities with only a few private providers.

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

2.5.2.8 Insufficient managerial training

Majority of the SMEs owners or managers do not haveany form of managerial training and experience. The typical owners or managers of small businesses only know how to develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more operational than strategic. A consequence of poor managerial ability is that SMEs owners are not well prepared to face changes in the business environment or to plan appropriate changes in technology. Majority of those who run SMEs are individuals whose educational background is mostly poor . Hence they may not well be equipped to carry out managerial routines for their enterprises (King& McGrath, 2002).

According to Bennet (1997), management is concerned with the deployment of material, human and financial resources and the design of organization structure. Haimann (1977) sees management as a process of getting tasks accomplished with and through people by guiding and motivating their efforts. Education and skills are needed to run micro and small enterprises. Studies opine that those with more education and training are more likely to be successful in the SME sector (King & McGrath, 2002). Management is therefore necessary to enable group or business goals to be accomplished through the functions of planning, staffing, directing, controlling activities, coordination and directing.

According to Mbugua (2014), the inability to keep proper records, to separate business operations from personal, manage cash flow and growth is likely to affect business performance.

Inadequate marketing skills create marketing problems in the small business sector as the marketing of a SME determines, in long term, whether the business will succeed or go under. It is equally evident that small businesses are constrained not only by financial factors, but also specifically by non-financial factors such as lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure (Nurbaniet. al 2011; Scheers 2011).

2.5.2.9 Marketing strategy/plan and market access

Today's marketplace is dominated by strong competition, speed and change. New technologies have changed the way of doing business and have given rise to new market possibilities. Today's companies are forced to quickly respond to new changes and demand situations within short product life cycles. Fast changing technology and new market situations have forced businesses to be more innovative and apply strategy of change with continuous innovations of their products. Small firms typically are flexible and can respond more quickly than large organisations to changing market requirements, this flexibility forming a vital competitive strength(Heathfield, 1997, p.233–235).

Additionally, small firms face marketing problems which are a function of the general characteristics of small firms including: a limited customer base; limited marketing activity, expertise and impact; an over dependence on the marketing ability of the owner/manager; reactive rather than planned marketing. The owners of SMEs don't have enough knowledge about running a business, and donot understand the marketing process and its meaning for the success of a company in a market economy.

2.5.2.11 Inadequate knowledge and skills

Every managerial position regardless of whether in a small shop, supermarket chain or an enterprise warrants for adequate education and skill. However, research reveals that most of the managers of these enterprises lack adequate education. In addition, they are not well informed in terms of managerial knowledge and skills.

2.5.2.12Rapid technology changes
Technology change poses a big challenge to the growth of small and medium enterprises. Most of these enterprises are not able to adopt new technology due to its high initial and installation costs. In addition, this new technology, more often than not, does not suit the needs of these enterprises.

2.5.2.13New laws and regulations
Everyday, the government and other stakeholders continue to introduce new regulations for industries and enterprises. New laws are being enacted in a bid to regulate the operations of enterprises. However, such regulations sometimes pose tremendous threat to the growth of small and medium enterprises. This is because some of these laws are too tough. Other challenges facing small and medium enterprises include poor infrastructure, poor management of resources and inadequate support from the government. Small and medium enterprises should not be ignored. They can serve as the backbone of restoring our crippled economy back on its feet. Therefore, the government should intervene and help these enterprises gain momentum.

2.5.2.14 Taxation
Taxation may impose a relatively heavier burden on small than on large businesses, and it is appropriate to consider steps to reduce this distortion. If assistance to small businesses is considered desirable, then there is a need to consider whether such help is best delivered through the tax system. The economic arguments for aiding small businesses suggest helping certain types: firms in dynamic sectors of the economy; firms having difficulties in raising funds, etc. A fundamental question is to what extent the tax system is an appropriate vehicle for removing obstacles to SMEs in a cost-effective manner.

3   Research Methodology
The aim of this chapter is to provide an understanding of the methodology employed. A design was developed to collect data, analyse and illustrate the results of the study in regard to SMEs in the economic growth in Namibia. The chapter is thus structured into research design, population, sampling method,procedures, data collection and data analysis.

3.1 Research design
The study adopted cross- sectional research designthat was descriptive in nature. According to Bryman & Bell (2007), a cross-section design entails the collection of data on more than one case and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect patterns of association. This research design was adopted because it does not require follow-up and is therefore less costly and quicker than other designs. It is often a representative of a population, rather than a smaller sub-population. Its validation is not an issue and is good for descriptive analyses and for generating hypotheses.

This cross sectional descriptive study involved a survey (cross-sectional) conducted on a sample of small and medium sized enterprises (SMEs) within Windhoek (Soweto market &Amadhila IC) in Khomas region, Namibia. The study adopted the survey strategy because it is consistent, or systematic in collecting data.

3.5.2 Population
A population is defined by Wild and Diggines (2013, p.186) as 'the total group of people or entities [social artefacts] from whom information is required. Keyton(2011, p. 121) states that' [a] population consists of all units, or the universe- people or things- possessing the attributes or characteristics in which the researcher is interested'. According to Mugenda&Mugenda (1999), target population is the specific population about which information is desired. The target population under study was all the registered SMEs in Windhoek (Soweto and Amadhila). Indeed, almost 400 SMEs are currently registered in those areas. SMEs employing 1-5 persons were chosen for the study because they formed the group that had most SMEs and therefore achieving homogeneity.

3.5.4 Sampling Method
Stratified sampling technique was used. It is a probability sampling method where the researcher divides the entire population into different subgroups or strata, and then randomly selects the final subjects proportionally from the different strata. According to Neuman (2011), samples can be drawn from each stratum either by using simple random sampling or systematic sampling. The study applied the technique where 28% of the population in each sampling frame was selected to participate in the study. For the case of the exact respondents to participate in the study, the researcher used simple random sampling technique as it offers every member of the population an equal chance of being included in the sample. From the357 owners of SMEs, a sample size of 100 respondents within Windhoek areas of Soweto,Single quarters and Amadhila were chosen

from each of the strata whereby the target population was divided into strata and sample of 28% of each stratum was selected. This ensured that all the strata within the study area are included in the study and thus taken into consideration.100 SMEs were randomly selected and the other 20 policy makers were judgementally selected.

3.5.4.1 Sample size of respondents from target population
Table 3.5.1: Target population

SMEs types/strata	Target population	Ratio	Sample size
Retail clothing/Tailoring	100	28%	28
Barbers/Hair dressers (saloons)	9228%	26	
Shebeens/Liquor stores	80	28%	22
Restaurants	35	28%	10
Panel beaters and electronic repairs	50	28%	14
TOTAL357 100			

Retail clothing/tailoring, barbers, shebeens, restaurants, panel beaters and electronic repairs formed the sampling frame. According to Mugenda and Mugenda (2003), a sample of 10-30% is good enough if well-chosen and the elements in the sample are more than 30. The tabulations are shown on Table 3.5.1 above and that's how the sample size was derived at.

3.3.2Data collection methods/field work
According to Creswell (2007), data collection is a circle of series of interrelated activities aimed at gathering information to answer research questions. Data collection process was done in two stages. The first stage was to collect secondary data for the analysis of the contribution of small and medium enterprises on employment /job creation. Labour Force Survey Reports of (2012-2014) publications and the employment by sector for Namibia for (1997-2008) period was collected.The data was gotten from the Namibian Statistics Agency (NSA), the Ministry of Labourand the Ministry of Trade and Industry. A number of books, publications, journals, magazines, International Labour Organisations (ILO) and United Nations Development Programme (UNDP) reports and newspapers were also read.For the second stage- The study collected quantitative data for a period of three months.

3.3.3Procedures
After deciding on the sampling frame and the methodology to use, the respondents (SMEs owners/managers) were contacted to seek consent of participation in the study.This was done by visiting the premises and explaining to them briefly about the aims and objectives of the study and those who consented were issued with the questionnaires.This was assumed as the appropriate approach due to the time constraint. The data that was collected were analysed through the means of frequency tables and charts (bar and pie) after the data was edited for completeness.

Data analysis
In this research study, the process of analysing quantitative data included: data preparation, descriptive analysis, and inferential analysis. In order to analyse the data, the software SPSS was used. The reason for this is that the software allows the discovery of differences and relationships in data (Babbie et al., 2010).

3.7.2 Descriptive analysis
Descriptive analysis refers to the transformation of raw data into a form that would provide information to describe a set of factors in a situation that will make them easy to understand and interpret re-arranging, ordering and manipulating data to generate descriptive information (Zikmund, 2003). According to Cooper & Schindler (2008), descriptive statistics are used to point out location tendency (mean, median, and mode), spread (variance, standard deviation, range, interquartile range) and shape (skewness and kurtosis). In order to have a broad appreciation and overview of the data collected, and to provide guidelines for a more advanced statistical analysis, descriptive statistical techniques were used to describe characteristics of the population in terms of shape, spread and skewness.

4   Presentation and discussion of findings
The research study was conducted to identify the challenges that affects the growth and development of SMEs in Namibia and to establish the value or contribution of SMEs towards job creation/employment in the economic growth and development of the country. The study revealed that many of the challenges faced by SMEs in Namibia are anchored on lack of finance and expertise to operate their business. It also revealed that

many start small businesses because of the force factor of not finding employment elsewhere and some it was because they did not possess the qualifications that lets them qualify for any job.

Regarding access to finance, most of the commercial banks prefer to allocate their funds to large enterprises rather than to SMEs. This is due to the fact that large firms have a lower risk of default and their financial statements are clear and clean.For SMEs, the lenders find them more riskier as they do not have clear accounting information.

Table 4.1 Respondents' reason for starting a business

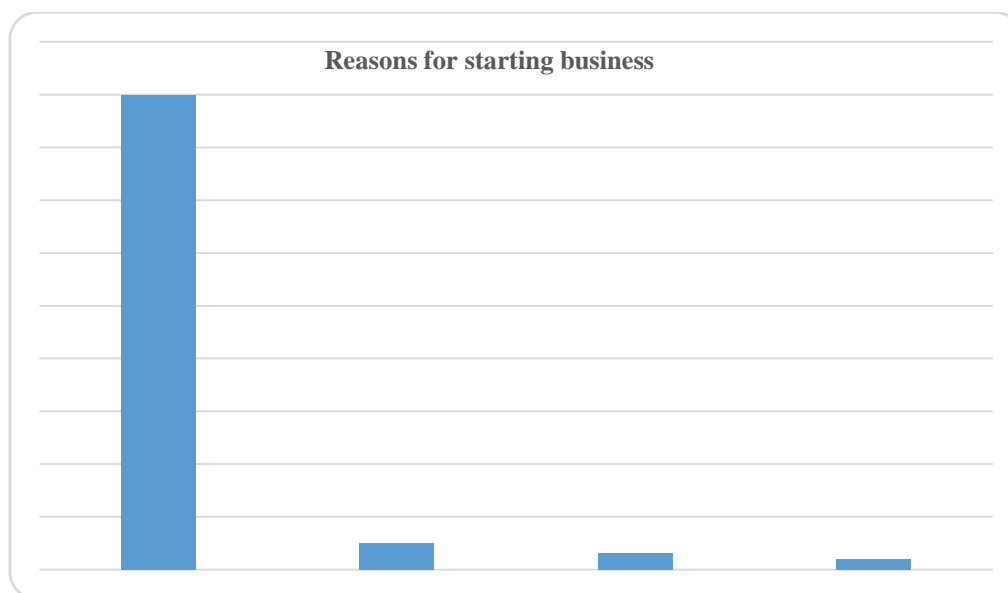| Reason for business start up	Number of respondents	Percentage
Un-employment	90	90%
Independence	5	5%
Family background	3	3%
Opportunity arising	2	2%
TOTAL	**100**	**100%**

Figure 4.1 Reasons for starting business

The findings reveal that majority 90% of the respondents' started business because they lacked employment, the quest for independence was the following reason for the respondents to start their businesses at 5%, 3of the respondents were in business because of their family backgrounds, just because business ran in their families so they decided to become business persons, while 2% were in business by shear chance.

Source of Initial capital to start the business

For the study to determine the source of capital for business start- up, the respondents were requested to indicate their source of capital when starting the business.The study found out that the majority of business were started by respondents using their own savings (at 78%) and borrowing from friends and relatives at 15%. Bank overdraft was the least at 7%.This implies that most respondents obtain their initial capital from sources that attract little or no interest rates. The study findings are shown on table 5 and fig. 4.5 respectively.

Table 4.2: Respondents initial source of capital

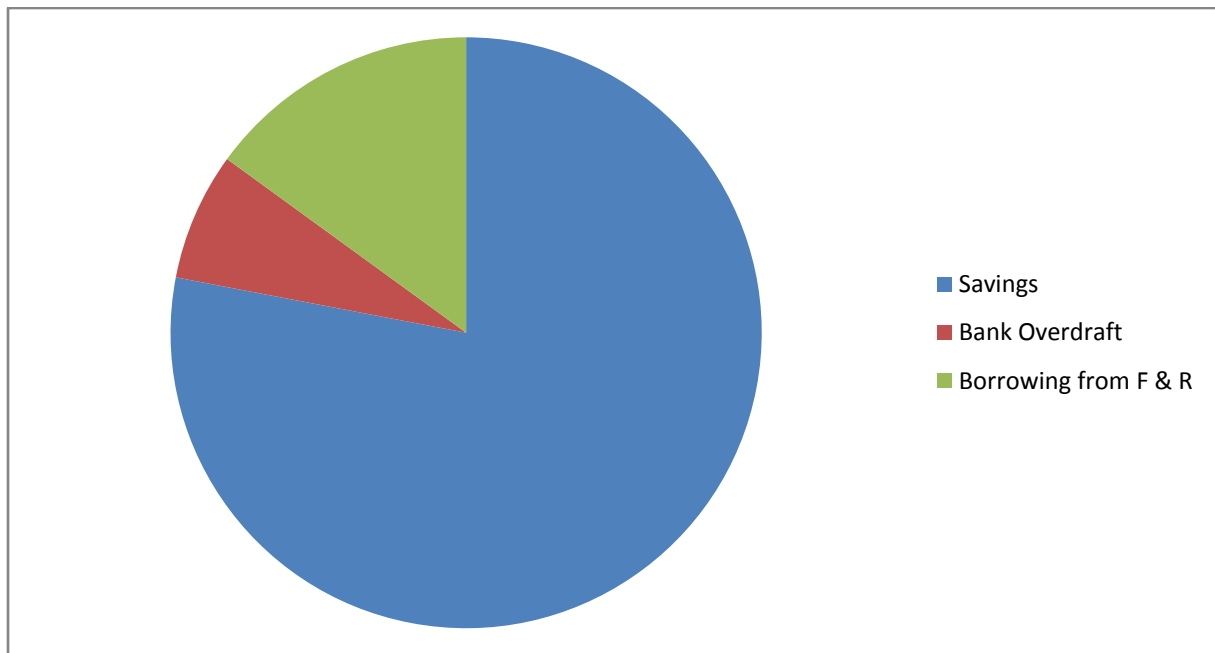| Initial capital source	Number of respondents	Percentage
Savings	78	78%
Bank Overdraft	7	7%
Borrowing from friends and relatives	15	15%
TOTAL	**100**	**100%**

Fig. 4.2 : Initial source of capital

Loan applicants

For the study to determine the awareness of the availability of credit facilities, the respondents were requested to indicate whether they at any time applied for the credit facility and the study found out that the majority at 80% did not apply, while those who applied were the minority at 20%. This implies that they either were not aware of the existence of the credit facility or had negative perceptions about it.According to MSME Policy, 2015 p.9, due to historical reasons and a skewed land distribution, there are limited affordable business premises available for SMES, and a high rental costs affects the start-up firms and the high cost of serviced land hinder further investments.

5. Summary of findings, conclusion and recommendations

5.1 Summary of findings

5.1.1 Business management/ entrepreneurial training

The study found out that the majority of the SMEs' owners/managers did not receive any form of training which means that they are run by persons with no training and as such are vulnerable to mismanagement leading to a high risk of failure. For a business to be successful it must not only have a mission and vision, but also internal control systems. Control is a vital ingredient of any organizational success and managers should be trained on control for businesses to be successful.

5.1.2 Marketing plan/strategy

The findings reveal that,majority 70% of the respondents, had a form of trade fair and exhibitions as a form of marketing strategy, 20% of the respondents used word of mouth as a marketing strategy, and about 10% had no marketing strategy in place. The findings imply that most of the SMEs know the importance of marketing to their businesses and have strategies in place to market their businesses. However the marketing done by these SMEs is limited to their geographical frame. Few of these firms have hardly sold their items outside Windhoek.The absence of marketing networks with high competitive edge that could provide the enterprises with the necessary information regarding the market needs is lacking within the SMEs environment.

5.1.3 Initial source of capital

From the study it was found out that the bank loan was not the major source of capital for starting the business since the majority of the SMEs never applied for bank loans possibly due to the avoidance of interst payment and savings was the major source of capital.

5.1.4 Level of education

Most of the SMEs in Windhoek are run by primary school leavers of age bracket 31-40 years of age and majority of them are male.

5.1.5 Innovation

The findings reveal that majority 95% of the businesses did not have innovation practices, while only 5% of the businesses had innovation practices. The findings imply that most businesses replicated services offered by other businesses and were not flexible enough to allow for the birth and growth of new ideas. The study found out that there is need of SMEs in Windhoek to practice innovation.

5.1.6 Services outside Windhoek

The SMEs in Windhoek mostly offer services locally in Windhoek where their clientsare found, and that they have not grown to offer services outside Windhoek.

5.1.7 Measure of Performance

The study found that most of the SMEs in Windhoek are stable and are likely to grow.They use mostly the volume of sales and the number of customers served as the measure of their performance.

5.1.8 Cost of services

It was found from the study that the cost of services while running a business in Windhoek was that the cost of electricity and telecommunication were high while the cost of water wasmedium(moderate).

5.1.9 Tax compliance

The study found out that the majority of SMEs in Windhoek are registered and are paying taxes.

5.2 Contributions

From the data collected from secondary sources and the literature read, the study found out that on contributions to economic growth, SMEs are not only regarded as engines of economic growth but also:

- They create employment opportunities; infact they create more employment opportunities per unit of investment because of their labour intensive operations.
- SMEs contribute significantly to improved living standards, poverty reduction and also bring about substantial domestic or local capital formation.
- SMEs have a higher net job creation than large firms.
- SMEs are more innovative, competitive and dynamic in nature than large firms.
- They assist in training entrepreneurs.
- They generate income and provide a source of livelihood for the majority of low income households in the country.
- The sector employs about 20 % of the Namibian population and contributes 12% to the GDP (Arnold et al, 2005).
- SMEs have ability to fuel economic growth because they create new jobs, expand the tax base, and are drivers of innovation.

5.3 Challenges of SMEs in Namibia
5.3.1 Access to finance

The lack of finance was consistently regarded within the data as being a significant challenge facing SMEs. It was argued that without enough financial resources, no business can survive.
Credit constraints operate in variety of ways in Namibia where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or a relative which is not enough to enable SMEs undertake their business activities optimally. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance.

5.3.1.1 Lack of finances as a factor affecting SMEs performance

It was found out that the majority 80% of the respondents' never applied for bank loans, only 20% of the respondents applied for bank loans. The findings imply that bank loan was not the major source of income for the respondents and that other sources played a key role in financing the SMEs. This can further be interpreted to imply that most SMEs' owners/managers not only rely on their own source of funding (savings) but also perceive the credit facility as negative. The banks' high interest rates, lack of collateral and fear of losing property prevented them from borrowing from banks.

5.3.2 Taxation

High taxation rate was repeatedly mentioned during the study. Taxation was mentioned as a major challenge affecting the success of SMEs. Tax regulations dictate the bearing of SME success. However, it was suggested that it was necessary to reduce corporate tax or the SMEs be given tax reliefs or tax incentives.

5.3.3 Government support

Given its vital importance, government support was reported by respondents to be a significant factor. The government should create incentives for risk capital. Establish policies (e.g. reduced capital gains taxes). Establish incentives for small and large businesses to co-innovate together. The government should support training of SMEs managers in entrepreneurial and business management areas.

5.4 Prospects of SMEs in Namibia

The challenges identified by the study are nothing compared to the crucial role SMEs play in the economic growth and development of developing countries like Namibia which has major income discrepancies between the rich and the poor, coupled with a headache of unemployment.
In Namibia, SMEs contribute 12% to the GDP and 20% to employment. It is crystal clear that the SME sector has a large potential for employment creation which is desperately needed in Namibia.

5.5 Research contributions

This study has significance because it is among very few studies that were taken in the Khomas region that explored the contribution of the SME sector towards economic growth as well as the challenges that it faces from the perceptions of owner-managers experiences who are on the ground and also involved policy makers as well as academics.
In terms of theory building, this research study integrates and extends well-accepted studies about challenges facing SMEs success and then offers a snapshot, based on the Windhoek entrepreneurs' perceptions and experiences that offer new insights into challenges that tend to be associated with SMEs in Namibia and in Africa in general.

5.6 Recommendations

- The development of suitable financial models for SMEs in Namibia.
- The government should create policies that favour the growth and expansion of SMEs.
- The government needs to strengthen and support SME bank in its endeavours of addressing the financial needs of SMEs.
- Establishment of various physical infrastructures to provide an enabling environment for production and trading by SMEs.
- Management training and capacity building activities should be a continuous process for the SMEs.
- Promote entrepreneurship through training and support for entrepreneurial ideas through academic programs.
- Partner up with research and business promotion institutes to facilitate entrepreneurship programmes for the youth or unskilled unemployed professionals.
- 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.

5.7 Conclusion

The objective of this study was to find out the value of the SMEs sector to economic growth in Namibia specifically the contributions to the economy and to highlight the difficulties faced by SMEs in their operation. From both primary and secondary sources of data it can be agreed that SMEs contribute to the economy in various ways. They create employment opportunities for the unemployed mostly the youth, reduce poverty among Namibians both in rural and urban areas, mitigate rural –urban migration, acts as source of income to the employees working in those firms, reduce income inequality among Namibians and contribute approximately 12% GDP in Namibia. Actually SMEs drive growth, innovation, development and job creation where the scale and diversity of large firms are insufficient to meet investment and employment needs of the nation.

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