

# Business problems encountered when developing an own business in a financially constrained environment: The north-eastern regions of Namibia

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## ABSTRACT

The purpose of this paper is to examine the macroeconomic environment of the poorest areas in Namibia, the Caprivi and Kavango regions, and to empirically investigate the problems experienced in developing an own business, specifically in the two largest towns Katima Mulilo and Rundu. First, a macroeconomic analysis of the Caprivi and Kavango regions was conducted to determine the potential for SME growth. It was found that there was no database of businesses in the two largest towns. Subsequently, a census of all the businesses (972) was conducted, from which a random sample of 176 businesses was drawn. The Mann-Whitney, Goodman and Kruskal's tau and Kendall's tau-b tests were used to test for differences in problems between the two towns. The major problems encountered in developing businesses were a lack of technical training, a lack of management training, a lack of credit for working capital, low demand and a lack of customers. Significant differences were found between the two towns with regard to major problems encountered. This is the first paper exploring problems experienced by SMEs in the remote regions of Namibia. Interventions such as a training centre for small business management training should be established in the two towns.

**Key words:** small and medium enterprises (SMEs), Namibia, Caprivi and Kavango regions, business problems, owners versus managers, age of business, training

The contribution of small and medium enterprises (SMEs) to employment, poverty reduction and economic growth is widely accepted in both developed and developing nations. Previous researchers have studied factors constraining

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small business in developed and developing countries, such as Nigeria (Okpara & Wynn 2007), Bangladesh (Chowdhury 2007), Ghana (Robson & Obeng 2008) and Canada (Gill & Biger 2012). When studying the business problems encountered in developing an own business in a specific country, such as Namibia, the internal and external components of economic trends need to be reviewed as they vary widely from one country to another (Arinaitwe 2006: 168). A literature search revealed that little research on entrepreneurship and small businesses in Namibia has been conducted. In summarising entrepreneurship research in Africa between 1963 and 2001, Naude and Havenga (2005: 105) found a single (0.19%) piece of published research concerning Namibian entrepreneurship and small businesses. Therefore, this research will contribute to the understanding of entrepreneurship in Namibia and to the body of knowledge.

Namibia has one of the most unequal distributions of income and wealth in the world (Republic of Namibia 2012: 9). Its Gini coefficient, at 0.58, is higher than that of both South Africa and Botswana at 0.53 and 0.52, respectively (Leigh, Flores, Garcia-Verdu, Basdevant, Benicio & Yakhshilikov 2012: 15). Consequently, with one of the highest Gini coefficients in the world, Namibian society is characterised by deep and widespread poverty. In addition, the contribution of SMEs in Namibia to employment and gross domestic product (GDP) is lower than in other developing countries. The 2003<sup>1</sup> figures from the Institute for Public Policy Research Unit (Stork, Matomola & Louw 2004: 3–4) suggested that SMEs account for 20% of employment in Namibia, and contribute 11% to GDP. In Ghana and South Africa, SMEs represent a substantial portion of businesses. In Ghana, they represent about 92% of businesses and contribute about 70% to Ghana's GDP and over 80% to employment. In South Africa, SMEs account for about 91% of the formal business entities, contributing between 52% and 57% of GDP and providing about 61% of employment (Abor & Quartey 2010: 223).

Although Namibia has a high Early Stage Total Entrepreneurial Activity (TEA) rate of 18%, few of these businesses are sustainable owing to the low demand (small market size) and the high level of unemployment. According to the Global Entrepreneurship Monitor (GEM) (Xavier, Kelley, Kew, Herrington & Vorderwülbecke 2012: 24), Namibia's established business activity rate is 3%. This rate is the third lowest among the 69 countries that participated in GEM 2012. With regard to youth established business activity, the GEM (Turton & Herrington 2012: 72) found that Namibia had the lowest rate (1%), which was also substantially below the average of 8% for the ten sub-Saharan countries. In terms of market size, Namibia has a population of 2.1 million people (Namibia Statistics Agency 2012b:

24), and its market size is ranked at 120 out of 144 countries on a global competitive index (World Economic Forum 2013: 176).

The level of unemployment is on the increase in Namibia. It increased from 27.4% in 2012 to 29.6% in 2013 (Namibia Statistics Agency 2013: 74). Given the high unemployment rate in Namibia, the low percentage of established businesses paints a bleak picture of the potential of the SME sector to contribute meaningfully to job creation, economic growth and a more equal income distribution (Simrie, Herrington, Kew & Turton 2012: 21).

## The importance of SMEs to the Namibian economy

To address the high rate of unemployment in the country, the Namibian government has identified SMEs as playing a vital role in creating jobs, eradicating poverty and helping the country meet both the Millennium Development Goals and Vision 2030 (Republic of Namibia 2004b: 16). Vision 2030 promotes the creation of a diversified, open market economy, with a resource-based industrial sector and commercial agriculture, placing great emphasis on skills development and where the contribution of SMEs to GDP will not be less than 30% (Republic of Namibia 2004b).

Although it would appear that the contribution of SMEs to employment and GDP is lower than in other developing countries, the lack of up-to-date statistics makes an accurate assessment difficult. An extensive search could not locate any recent data and thus 1997 government estimates and 2003 figures from the Institute for Public Policy Research Unit were used. The 2003 figures from the Institute for Public Policy Research Unit (Stork et al. 2004: 3–4) suggested that SMEs account for 20% of employment in Namibia, and contribute 11% to GDP, while the estimates by government suggested that they provide some form of employment for approximately 150 000 people, about one-third of the country's workforce. In addition, SMEs create net employment of 16 500 people per annum, as compared to the 3 000 to 4 000 people employed every year in the formal, large-scale sectors (Ministry of Trade and Industry 1997: 5).

The understanding of the problems affecting the survival and growth of SMEs is essential in developing countries such as Namibia in order to assist in reducing the rate of business discontinuation and increasing the rate of business establishment. It is against this background that this study was undertaken.

In the following sections, the theoretical background, methodology and objectives are discussed. The paper concludes with the findings on the business environment of SMEs in the north-eastern region of Namibia and recommendations.

## Theoretical background

### Factors that affect small business growth

The growth of SMEs presents significant opportunity for employment and growth; however, in developing countries in Africa and elsewhere, SMEs face a myriad of constraints that make it difficult for them to expand and prosper or to translate their ideas and energy into action, profit and jobs. Gill and Biger (2012: 659) and Erasmus, Strydom and Rundansky-Kloppers (2013: 131) state that there are different barriers to small business growth in different countries of the world. This may be because of the different economic situations, rules and regulations, political systems, market competition and legal systems. The different barriers to small business growth can also be found within a country. Yang and Xu (2006) found the existence of regional differences in entrepreneurship, regional economic growth, regional entrepreneurial activities and small business development in China.

The growth opportunities for SMEs is severely hampered by access to finance, including a lack of starting capital (Keyser, De Kruif & Frese 2000); lack of access to suitable sources of finance (Hassanein & Adly 2008); the high cost of capital, high collateral requirements, and bureaucratic procedures of banks (Bukvic & Bartlett 2003); and the lack of financial support (Okpara & Wynn 2007: 31). In addition, Okpara and Wynn (2007: 32) identified the following factors that present major obstacles to SME growth: lack of management skills; lack of training; lack of infrastructures; insufficient profit and low demand for products and services. According to Chipangura and Kaseke (2012: 48), SMEs with limited access to markets end up competing for the same customers, resulting in low sales and profit, which discourage future investment in businesses and therefore limit their growth.

According to Fjose, Grünfeld and Green (2010: 18), weakly functioning financial markets and lack of reliable electricity supply in sub-Saharan Africa are by far the most important obstacles for SME entry, growth and investment. Mateev and Anastasov (2010: 273) found that financial constraints tend to hamper the growth of small enterprises, as well as medium-sized enterprises to a lesser extent.

In a study to examine whether the liquidity constraints faced by businesses affect growth in Portugal, Oliveira and Fortunato (2006: 149) found that capital constraints are more likely to affect the growth of smaller and younger businesses. The latter tend to have higher growth cash-flow sensitivities than larger and more mature businesses.

The Organisation for Economic Cooperation and Development (OECD 2010: 164) reported that while SME financing problems have generally been recognised by policy makers, a lack of skills as a barrier to SME growth has received less attention,

despite the fact that learning processes are at the core of entrepreneurship and SME development. A lack of management training has been identified as a serious problem affecting the growth of SMEs in Namibia (Ministry of Trade and Industry 1998: 10; Stork et al. 2004). This is in line with the findings of the GEM expert survey of 2010 to the effect that, in most countries, the provision of entrepreneurship education and training after school is perceived to be either poor or inadequate (Martínez, Levie, Kelley, Sæmundsson & Schøtt 2010: 43).

The small size of SMEs implies that it is often incumbent on the managers (or owners) of these businesses to perform a wider range of tasks than employees in larger businesses would be required to do, as there is less room for specialisation in SMEs than in larger businesses. This, in turn, often requires diverse skills that SME managers may not possess, particularly in developing countries where the quality of management education may be lower than in developed countries (Martínez et al. 2010: 42). Accordingly, training in entrepreneurship would help those individuals with latent entrepreneurial talents to awaken and hone those talents.

Although Mensah and Benedict (2010: 152) suggest that financial assistance may facilitate growth, in the absence of training in entrepreneurship and financial control, financial assistance per se would not bring about growth and may even be abused (as it has already been). In their attempt to answer the research question of why there was a lack of black entrepreneurship in South Africa, Preisendörfer, Blitz and Bezuidenhout, (2012: 16) conclude that the skills component is the most serious obstacle to increased participation by black people in entrepreneurship activities. Ligthelm (2010: 150) confirms that, in the main, it is the human factor, particularly the business's entrepreneurial endowment and motivation, that dictates the survival and growth potential of SMEs.

In sub-Saharan Africa, SMEs are severely hampered by a weakly developed business environment that includes excessive red tape, corruption and complex entry regulations, which results in few incentives to become (or remain) active in the formal part of the economy (Fjose et al. 2010: 3). Levie and Autio (2011: 1411) state that bureaucracy and red tape hamper entrepreneurial growth and divert the scarce resources of potentially high-growth entrepreneurial businesses away from their core business. Aterido, Hallward-Driemeier and Pagés (2009: 4) also found that business regulations mostly affect the growth of small businesses, which seemingly prefer to remain small to keep below the radar of regulators. Therefore, governments that support entrepreneurship by making entry regulations easier, but not enforcing a strong rule of law, are compromising the quality of entrepreneurial entries and, consequently, the economic impact of entrepreneurship will be diminished (Levie & Autio 2011: 1412).

With regard to access to markets, the Africa Commission (2009: 20) states that the domestic markets of most African countries are small; hence, in order to foster SME growth in production and jobs, there is a need to increase regional and international trade. Accordingly, the developed world should relax the rules of origin, phase out trade-distorting subsidies and lower tariffs on African goods. However, the problems are not only caused by the developed world but are exacerbated by the trade barriers between African countries.

In Namibia, the development of SMEs is constrained by a number of factors, as revealed by various surveys commissioned since independence by the Ministry of Trade and Industry (1997; 1998; 1999, World Bank 2006: 6):

- Lack of finance
- Lack of access to appropriate technology
- Lack of marketing information
- Lack of information on cheaper sources of goods
- Regulations and rules that impede the development of the sector
- Lack of management skills and training.

According to the World Economic Forum (2013: 176), the most problematic factors for doing business in Namibia are an inadequately educated workforce, lack of access to financing and the prevalence of corruption. The business survey that was conducted by the World Bank in 2006 (World Bank 2006: 6) found that 20% of businesses identified labour skill levels in Namibia as a major constraint compared to the average for Africa of 16 per cent. A similar study found that business investment in the skills and capabilities of their workforce was higher in Namibia than the average for Africa (43% of firms offering formal training and 66% of workers offered formal training in Namibia, compared with 29% and 55%, respectively, for Africa) (World Bank 2006: 7). Orser, Hogarth-Scott and Riding (2000) pointed out that the intensity of several problems faced by small businesses differed by sector, gender of owner, size of the business, legal structure and age of the business.

## Research methodology

Despite the fact that Namibian government policy emphasises that SMEs are important in employment creation and income generation (Ministry of Trade and Industry 1997: 5), the businesses in the two regions under study had not been recorded or documented, and what little documentation there was, had not been updated. To overcome the lack of up-to-date records of businesses, a census of businesses was conducted by the researcher and a trained team who physically

visited every business in each of the two towns and recorded the demographic details of each business. In Katima Mulilo, a total of 573 businesses were found and 399 in Rundu.

In order to obtain more detailed information about the SME business environment from the SMEs' perspective, a random sample was drawn using the census data as a sampling frame. From 972 businesses in the two towns, a systematic sample of 100 SMEs was drawn using this sampling frame. Firstly, each of the 972 alphabetically listed SMEs in the two towns was allocated a unique number, and thereafter, the first case was selected using a random number, while subsequent cases were selected systematically using the sampling fraction. This sampling fraction was obtained by a subdivision based on the total number of businesses in each town divided by the sample size of 100 per town (Welman, Kruger & Mitchell 2006: 192). Owing to the unavailability and reluctance of some owners/managers, only 176 interviews (83 from Katima Mulilo and 93 from Rundu) were completed instead of the planned 200.

The fieldwork for the research study was carried out in the two towns of Katima Mulilo and Rundu in June and July 2009. Primary data (original data collected at source) (Collis & Hussey 2003: 160) were collected by two trained field workers who interviewed the SME owners/managers using structured questionnaires.

Two questionnaires were designed. The first instrument was used to obtain census data and the second assessed the barriers to the establishment and growth of SMEs. The captured data were analysed using the Statistical Package for Social Sciences (SPSS) for Windows version 16 (SPSS). The Mann-Whitney, Goodman and Kruskal's tau and Kendall's tau-b tests, which are measures of association, were used to determine whether the differences observed were significant.

## **Research problem and objectives of the study**

The research problem is rooted in the fact that no situational analysis of the SME business environment in the financially constrained north-eastern regions of Namibia, Caprivi and Kavango regions has been conducted. Thus, the primary objective of the study was to identify and examine the macro business environment that stimulates and constrains SME establishment and growth in Caprivi and Kavango. It involved a quantitative analysis. The secondary objectives were:

- To identify the problems experienced in developing an own business in Caprivi and Kavango
- To determine whether a significant difference exists between the two towns in terms of the extent to which they perceive the problems identified as being problematic

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- To examine whether a significant difference exists between the two groups (owners compared with managers) in terms of the extent to which they perceive the listed problems relating to developing an own business as being problematic
- To test whether the severity of the types of problems encountered changes as the business develops over the years.

The information to address the first objectives involved a quantitative analysis sourced from secondary data, such as government reports, economic reports, reports compiled by international bodies, and discussions with relevant government ministries, banks and non-governmental organisations. Further valuable information and insight were obtained by in situ observations – physically visiting the areas and, in particular, the two major towns, Katima Mulilo and Rundu, for protracted periods of time – and having discussions with local people.

## Socio-economic business environment in the Caprivi and Kavango regions

This section examines the business environment in the Caprivi and Kavango regions of Namibia with the aim of investigating opportunities and barriers for SME establishment and development. During the apartheid era in the 1970s and 1980s, the Caprivi and Kavango regions were used by the South African army as a base from which to attack Swapo positions in Angola. The economy of the Caprivi and Kavango regions flourished at that time and reached its peak shortly before independence because of the presence of United Nations troops. However, the economy shrank after 1990 owing to the withdrawal of South Africa from these economies. Until 1999, the regional economy recovered slowly owing to a growing tourism sector, which later collapsed as a result of secessionist attacks in the Caprivi region and the spill over of the Angolan conflict into the Caprivi and Kavango regions from 1999 to 2002 (Zeller 2000: 18). According to Zeller (2000: 18), “the Caprivi people and their neighbours in the Kavango region were being socio-economically and, to some extent, politically marginalised within their country”.

Since the withdrawal of the South African army and, consequently, its contribution to the local economies and the restoration of peace in Angola, the question arose as to how these areas could develop and restore themselves. The subsequent research problem is encapsulated in the question: Is there sufficient disposable income to stimulate SME development in the Caprivi and Kavango regions?

### *Economic environment*

Despite Namibia's strong record of macroeconomic stability, which is partly based on a credible peg to the South African Rand and has increased the per capita income to US\$7 436 in 2013 (Economist Intelligence Unit 2013: 15), the economic growth in Namibia has not adequately reduced poverty. The Namibia Household and Income Expenditure Survey for 2009/10 (Namibia Statistics Agency 2012a: 153) found that 20% of Namibian households are regarded as poor; "more and more of these households are moving closer to the poverty line"; and about 10 per cent of the households are severely poor or food poor, as measured by the lower bound poverty line of N\$277.54.

The study (Namibia Statistics Agency 2012a: 156) also indicated that poverty varies greatly between the Namibian administrative regions. The highest incidence of poverty is found in the Kavango region, where 43% of households are poor and 24% are severely poor. This is followed by the Caprivi region, where 42% of the households are poor and 26% are severely poor. The rate of unemployment in the Kavango region (35.6%) is much higher than the Caprivi region (29.5%) and the national average of 29.6% (Namibia Statistics Agency 2013: 75).

According to the development programmes, estimates of expenditure for the medium-term expenditure framework for the nine financial years of 1999/2000 to 2015/16 (Republic of Namibia 2013: 5; Republic of Namibia 2008: 5; Republic of Namibia 2004a; Republic of Namibia 2002: 3), government development expenditure inside and outside the state revenue for the Caprivi region for these years is N\$2 816 431 (8.67%) and for the Kavango region N\$2 797 438 (8.61%) of the national allocation of N\$32 460 784.

An analysis of the 2013/14 to 2015/2016 development budget by sector, namely, economic, social, security and public administration, shows that a relatively high share of the development budget allocation of 50% has been devoted to the economic sector (Republic of Namibia 2013: xii).

This sector is imperative for SME development as it is considered to be the key to employment creation and accelerating economic growth, as well as a catalyst for industrialisation. The social sector has been allocated an average of 28%, followed by security with an average of 17% and, lastly, public administration with an average of 5% (Republic of Namibia 2013: xii). Among the regions, Kavango and Caprivi received the fourth lowest allocation of 6% (Republic of Namibia 2013: xvi).

With regard to contribution to disposable income, the distribution of the development and investment budget over the three years for the period 2013/14 to 2015/16 indicates the national allocation of development and investment budget with an average per capita investment of N\$5 056 for Caprivi and N\$1 763 for Kavango

for planned development projects (Republic of Namibia 2013: xvi). This means that there will be more disposable income and opportunities for SMEs in the Caprivi region than in the Kavango region.

### *Social environment*

Consumption is a function of cultural and social change (Erasmus et al. 2013: 122). The issues in the social environment that are addressed in this section are the HIV/AIDS pandemic, the level of education and migration.

The population growth rate for the Caprivi and the Kavango regions is expected to decrease owing to the HIV/AIDS pandemic, which is reportedly having a serious impact on the Caprivi region in particular (37.7% infection rate in Katima Mulilo). The prevalence rate for HIV in Katima Mulilo increased from 35.6% in 2010 to 37.7% in 2012. In Rundu, it increased from 23.2% to 24.5%, while for Namibia as a whole, it dropped from 18.8% to 18.2% during the same period (Ministry of Health and Social Services 2013: 25).

As a result of HIV/AIDS, the productivity of the workforce is affected; the issues include staff not coming to work regularly as they might have a sick/dying relative, or staff themselves being ill or attending a funeral. In addition, consumer income is increasingly being spent on health services, funerals and caring for orphans, which benefits businesses that offer funeral and health services, and funeral and health policies, while other businesses that might have benefited, had it not been for this problem, no longer do so. This affects both the formal and the informal sectors.

Another social trend that could impact on SMEs is levels of education among the population. Since independence in 1990, Namibia has been spending more than 25% of its budget on education (World Bank 2010: 1). Nevertheless, the education system remains weak in terms of playing the role that is expected of it by Vision 2030 and by international standards. With regard to international standards, the health and primary education pillar in Namibia is ranked 120<sup>th</sup> and the higher education pillar is ranked 119<sup>th</sup> out of 144 countries on the 2012/13 Global Competitiveness Index (World Economic Forum 2013: 15). As a result, SME growth in Namibia is affected by the lack of skilled labour.

Owing to high unemployment in the two regions, most of the skilled and semi-skilled labour has migrated. According to the 2011 population and housing census (Namibia Statistics Agency 2012b: 45), the Caprivi region lost a significant number (about 5.5%) of its population to other regions between 2010 and 2011. This impacts negatively on some businesses in rural areas because they lose the skilled labour they need to grow.

### *Physical environment*

The Caprivi and Kavango regions have many natural resources, such as forests, wildlife and water. Among the tree species found in the region are economically important hardwoods for the timber industry such as kiasat, teak and rosewood (Republic of Namibia 2002: 16), and there is also immediate potential for the development of craft markets. The forest sector could be established as community forests. Sustainable forest management on communal land for the small-scale production of fuel wood, raw material for carving and furniture, and timber for the construction industry could provide an alternative source of income.

In terms of wildlife, there are more than 60 mammal species and 400 bird species, and the two regions have more wild animals and water than all the other regions of Namibia (Nature Travel Namibia 2014: 1). They also have excellent potential for further developing the tourism industry because of their strategic location en route to and from Zimbabwe, Zambia and Botswana, and unique cultural and natural assets. The protection of the biodiversity of the regions offers employment opportunities for the local community. Game wardens are needed to protect the wildlife and could also act as tourist guides in the parks. Furthermore, local communities could generate income from the sustainable harvesting of game and hunting by tourists.

There is potential for the establishment of a cultural village and development of arts and craft markets at tribal headquarters, where tourists could view traditional housing and lifestyles. Fishing, either for own use or to sell locally, is an important activity in the region for an estimated 30% of households (Tweddle & Hay 2012: 7). All the river systems are interconnected, providing good potential for fishing on a large scale as well as commercial fish farming. With its rich water resources, there is potential for the commercial development of fishing activity in the area, where extensive local knowledge of fishing exists. Markets for tilapia and catfish have been identified locally and in the East, where there is an enormous demand for the fish in countries such as Japan, Taiwan and China. There is also a need to establish a fish food factory to cater for the fish feeding needs of all government and private fish farms in Namibia. In addition, there is potential for training centres where training and advice could be obtained and fingerlings could be sourced. Many people in the two regions derive their livelihood from agriculture and the production of cash crops such as cotton, rice, sunflower, groundnuts and oriental tobacco. These crops should be promoted in the two regions.

The road network linking the rural areas off the main highway in the Caprivi and Kavango regions is poor, and during the rainy season many villages are cut off for several weeks, or are accessible only with four-wheel-drive vehicles. Inaccessible roads also affect distribution and increase transportation costs. With regard to

transport infrastructure, nine road network infrastructures, three of which are in the Caprivi region (183 kilometres in total) and six in Kavango Region (545 kilometres in total) have been constructed since 2004 (*New Era* 2009: 14). The construction of this infrastructure in these regions has not only increased disposable income for SMEs during the construction phases, but has also stimulated the local economies and opened up these areas for tourism and other primary and secondary sector development.

The electricity supply in the two regions, especially during the summer months, is erratic. Power failures affect the production of goods and services, and the lack of supply of this important utility makes it difficult for businesses to operate efficiently, especially in rural areas. As a result, most small businesses are forced to operate in towns where they have access to electricity, but they have to compete with well-established and larger businesses in these towns.

## Discussion of findings

### Demographic profile of the SME sample

The following demographic information was obtained: status of the respondents, gender, level of education and age of the business. Although the research strategy was to interview only the business owners, in many instances this proved to be impossible as the owners were often not in the office or available for scheduled meetings. After repeated attempts to meet with owners, the interviewers eventually interviewed the most senior manager. Nearly half of the respondents were owners (48.8%), while the remainder comprised managers (46.5%) and other members (4.7%). In Katima Mulilo it was possible to track down more than half of the business owners (55.6% of respondents), while in Rundu we could track down only 42.7%, as depicted in Table 1. Table 1 shows the status of the respondents, gender, level of education and age of the business in Rundu and Katima Mulilo.

Of the SME owners, 55.4% were male; while 51.9% of the managers were male. In terms of business owners' ages, the largest percentage fell into the 31 to 40 years age bracket (51%). In terms of level of education, 45% of the respondents had a secondary level of education, and 10% a primary level of education. Of the 176 respondents, 67 (38.1%) claimed to have a vocational training certificate/diploma, while 6.8% claimed to have an undergraduate degree; none of the respondents had a master's or doctoral degree. Rundu had a higher percentage of respondents with a vocational qualification (43.0%) than Katima Mulilo (32.5%), while more of the respondents who had attended senior secondary school were from Katima Mulilo (45.8%) compared with 12.9% in Rundu.

**Table 1:** Demographic profile of respondents

			<b>Rundu (%)</b>	<b>Katima Mulilo (%)</b>	<b>Total (%)</b>
Status of respondents	Owners		42.7	55.6	48.8
	Managers		57.3	34.6	46.5
	Others		0	9.9	4.7
Gender	Owners	Male	68.4	44.4	55.4
		Female	31.6	55.6	44.6
	Managers	Male	62.7	32.1	51.9
		Female	37.3	67.9	48.1
Age distribution of respondents	Owners	21–30 years	35.3	27.3	30.8
		31–40 years	44.1	56.8	51.
		41–50 years	14.7	15.9	15.4
		50 or older	5.9	0	2.6
Highest level of education	Highest educational level of respondents	None	4.5	0	4.5
		Some primary education	10.7	0	5.7
		Junior secondary	18.3	14.4	16.5
		Senior secondary	12.9	45.8	28.4
		Vocational training certificate or diploma	43.0	32.5	38.1
		Degree	6.4	7.2	6.8
		<b>Number of businesses</b>			
Years in operation	0–1 years	16			9.1
	2–5 years	98			55.7
	6–10 years	52			29.5
	11 years or longer	10			5.7

Respondents were requested to indicate on a predetermined list the number of years their businesses had been in operation. Of the 176 respondents, the majority (55.7%) had been in operation for between two and five years, 29.5% for more than six years, and 5.7% for 11 years or longer. Only 9.1% had been in operation for less than one year.

### Business problems encountered when developing an own business

Respondents had to indicate on a predetermined list of 19 problems (gleaned from a literature review) the level of the problems they encountered in developing

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their business, ranging from ‘not a problem’ or ‘a minor problem’ to ‘a major problem’. According to the respondents (Table 2), the five major business problems encountered in developing their businesses in both Katima Mulilo and Rundu were a lack of technical training (52%), a lack of management training (49%), a lack of credit for working capital (47.2%), a lack of markets or stalls from which to sell (46.2%) and a lack of start-up capital (46.2%).

When the scores for minor and major problems were combined, the most serious problem in developing the business in the two towns was low demand/lack of customers (85.6%). This was followed by lack of technical training (81.8%), lack of start-up capital (78.9%), lack of markets or stalls from which to sell (78.9%), and lack of management training (76.4%). The following were perceived not to be a problem in developing an own business: regional instability (52.7%), lack of credit facilities (48.0%), difficulty in finding an investor (42.9%) and lack of credit for investment (42.7%).

**Table 2:** Problems experienced in developing an own business

Problems experienced in developing an own business	Level of problem		
	Not a problem (%)	Minor problem (%)	Major problem (%)
Lack of technical training	18.2	29.5	52.3
Lack of management training	23.6	27.0	49.4
Lack of credit for working capital	38.6	13.6	47.2
Lack of markets or stalls from which to sell	20.5	32.7	46.2
Lack of start-up capital	20.5	32.7	46.2
Lack of funds for expansion	25.8	29.2	45.0
Lack of credit for investment	42.7	12.9	43.9
Difficulty in finding investors or inventors	42.9	15.2	42.9
Low demand/lack of customers	14.0	45.6	40.0
Lack of onsite technical advice	29.6	32.0	38.5
Lack of capacity to expand	41.9	20.3	37.8
Lack of credit facilities	48.0	14.5	37.6
Lack of onsite management advice	38.7	25.6	35.7
Lack of marketing information	28.8	36.5	34.1
Difficulty in finding employees	33.7	35.5	30.8
Lack of labour with required skills	29.4	40.6	30.0
Lack of information on cheaper sources of goods/suppliers	44.5	34.8	20.7
Government regulations	42.2	45.2	12.7
Regional instability	52.7	35.8	11.5

In comparing the data from the two towns, large variations were obvious (Table 3). In Katima Mulilo, most of the respondents perceived that their major problems included a lack of credit facilities (88.5%) and a lack of onsite management advice (88.0%), followed by a lack of management training (85.2%), a lack of technical training (84.3%) and a lack of marketing information (80.0%).

In Rundu, the respondents perceived that their major problems included a lack of onsite technical advice (35.5%) and a lack of labour with the required skills (35.5%), followed by a lack of information on cheaper sources of goods/suppliers (32%), a lack of credit for working capital (28.7%) and a lack of technical training (23.7%).

In terms of similarities, both towns scored a lack of technical training as one of the top five major problems. In terms of differences, while lack of labour with the required skills was perceived as the foremost problem in Rundu, the lack of credit facilities was perceived as the foremost problem in Katima Mulilo. In Rundu, a lack of credit facilities had the second lowest percentage. In general, the percentage of major problems identified in Rundu were very low, with only three problems identified as major by more than 30% of the respondents.

**Table 3:** Problems experienced in developing an own business in Katima Mulilo and Rundu

Problems experienced in developing an own business	Level of problem					
	Not a problem (%)		Minor problem (%)		Major problem (%)	
	Katima Mulilo	Rundu	Katima Mulilo	Rundu	Katima Mulilo	Rundu
Lack of credit facilities	5.1	74.2	5.1	19.4	88.5	6.5
Lack of onsite management advice	4.8	68.8	6.0	20.0	88.0	10.8
Lack of management training	3.7	40.9	11.1	40.9	85.2	18.3
Lack of technical training	4.8	30.1	10.8	46.2	84.3	23.7
Lack of marketing information	7.7	71.0	10.3	19.4	80.8	9.7
Low demand/lack of customers	4.9	85.9	17.3	12.0	77.8	2.2
Lack of capacity to expand	11.7	44.6	16.9	44.6	71.4	10.9
Lack of markets or stalls from which to sell	7.6	71.0	22.8	18.3	69.6	10.8
Lack of credit for investment	7.9	64.1	23.7	27.2	68.4	8.7
Lack of information on cheaper sources of goods/suppliers	19.0	31.5	21.5	35.9	59.5	32.6
Lack of labour with required skills	15.4	24.7	24.4	39.8	59.0	35.5
Lack of onsite technical advice	21.8	7.5	32.1	57.0	46.2	35.5
Lack of credit for working capital	19.5	36.6	37.7	35.5	41.6	28.0
Lack of start-up capital	15.6	40.9	42.9	38.7	41.6	20.9
Lack of funds for expansion	23.4	68.5	39.0	20.9	37.7	9.8
Difficulty in finding employees	24.1	41.9	30.0	39.8	30.4	18.3
Difficulty in finding investors	31.0	53.8	38.0	32.3	29.6	14.0
Government regulations	72.6	18.3	24.7	61.3	2.4	20.4
Regional instability	90.6	23.6	7.8	57.1	1.6	19.0

In order to determine whether there is a significant difference between the two towns in terms of the extent to which they perceived the problems identified as being problematic, the following hypothesis was tested using the Mann-Whitney test.

*Hypothesis 1: Differences between towns*

$H_{10}$ : No differences exist between the two towns in terms of the extent to which they perceive the listed problems relating to developing an own business as being problematic.

$H_{11}$ : Differences exist between the two towns in terms of the extent to which they perceive the listed problems relating to developing an own business as being problematic.

The Mann-Whitney test is a non-parametric test for assessing whether two samples of observations come from the same distribution. The test could be used because the following assumptions were met:

- Random samples from populations had been drawn.
- Independence within samples and mutual independence between samples existed.
- The measurement scale is at least ordinal.

The statistically significant results are presented in Table 4.

From Table 4, it follows that, except for the problem of low demand/lack of customers, the two towns differ significantly (at the 5% level of significance) in terms of the perceived severity on 18 of the identified problems. From the median rank level, it follows that for all the problems except the last two, respondents in Rundu (Town 1) perceived the severity to be less than respondents in Katima Mulilo (Town 2). For the problems 'Government regulations' and 'Regional instability', respondents in Rundu (Town 1) perceived the severity of the problems to be more severe than respondents in Katima Mulilo (Town 2).

Based on the above, the null hypothesis statement  $H_{10}$  is rejected in favour of the alternative hypothesis  $H_{11}$ , which states that differences exist between the two towns in terms of the extent to which they perceive the listed problems relating to developing an own business as being problematic.

A concern arose with regard to differences that may exist between owners' perceptions of problems encountered when starting an own business and the perceptions of managers as to the problems experienced by their business owners while developing their own businesses. The following hypothesis was formulated and tested. The results appear in Table 5.

**Table 4:** Statistical significance of the differences between respondents in Katima Mulilo and Rundu with regard to the severity of the problems encountered when developing an own business

<b>Problem</b>	<b>Mean rank</b>	<b>p-value</b>
Lack of management training	Town 1 = 62.89 Town 2 = 117.20	0.0000*
Lack of technical training	Town 1 = 59.18 Town 2 = 120.02	0.0000*
Lack of marketing information	Town 1 = 76.98 Town 2 = 95.79	0.0085*
Lack of capacity to expand	Town 1 = 57.41 Town 2 = 120.75	0.0000*
Lack of labour with required skills	Town 1 = 72.95 Town 2 = 100.66	0.0001*
Lack of market or stall to sell from	Town 1 = 66.43 Town 2 = 107.19	0.0000*
Lack of onsite management advice	Town 1 = 56.85 Town 2 = 117.97	0.0000*
Lack of information on cheaper sources of goods/suppliers	Town 1 = 72.68 Town 2 = 95.36	0.0011*
Lack of credit facilities	Town 1 = 50.61 Town 2 = 128.33	0.0000*
Lack of onsite technical advice	Town 1 = 60.79 Town 2 = 113.92	0.0000*
Lack of credit for investment	Town 1 = 52.39 Town 2 = 126.08	0.0000*
Lack of credit for working capital	Town 1 = 54.60 Town 2 = 126.49	0.0000*
Difficulty in getting an investor	Town 1 = 55.47 Town 2 = 122.40	0.0000*
Difficulty in getting employees	Town 1 = 74.47 Town 2 = 100.66	0.0003*
Lack of start-up capital	Town 1 = 76.2 Town 2 = 97.69	0.0023*
Lack of funds for expansion	Town 1 = 75.39 Town 2 = 98.35	0.0012*
Government regulations	Town 1 = 104.55 Town 2 = 56.68	0.0000*
Regional instability	Town 1 = 96.07 Town 2 = 46.19	0.0000*

\* Significant at the 5% level of significance

Note: Town 1 refers to Rundu and Town 2 to Katima Mulilo.

### *Hypothesis 2: Differences between owners and managers*

$H_{20}$ : No differences exist between the two groups (owners versus managers) in terms of the extent to which they perceive the listed problems relating to developing an own business as being problematic.

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$H_{21}$ : Differences exist between the two groups (owners versus managers) in terms of the extent to which they perceive the listed problems relating to developing an own business as being problematic.

The Mann-Whitney test, described earlier, was used to test this hypothesis.

**Table 5:** Statistical significance of the differences between the owners and managers on how they perceive the problems encountered when developing an own business

<b>Problem</b>	<b>Mean rank</b>	<b>p-value</b>
Lack of management training	Group 1 = 90.19 Group 2 = 72.37	0.0081*
Lack of technical training	Group 1 = 88.06 Group 2 = 72.75	0.0239*
Lack of capacity to expand	Group 1 = 86.72 Group 2 = 72.28	0.0328*
Lack of credit facilities	Group 1 = 87.38 Group 2 = 73.44	0.0364*
Low demand/lack of customers	Group 1 = 88.38 Group 2 = 69.26	0.0039*
Lack of onsite technical advice	Group 1 = 89.00 Group 2 = 66.86	0.0011*

\* Significant at the 5% level of significance

Note: Group 1 comprises the owners and Group 2 the managers.

From Table 5, the two groups differ significantly (at the 5% level of significance) with respect to only six of the 19 problems. From the median rank level, it follows that for all six of the statistically significant problems, the owners (Group 1) perceived the severity of the problems to be greater than the managers (Group 2). The differences relating to these six problems may be ascribed to the owners' vision to grow the business, which would typically require more training, more customers and more external finance, while managers may focus more on sustaining than growing the business. The reasons for these differences need further investigation.

On 13 of the listed problems in developing a business, however, no significant differences were found between the perceptions of owners and managers. Therefore, the null hypothesis  $H_{20}$  cannot be rejected in favour of the alternate hypothesis.

Another question that arose was whether the perceived severity of the types of problems encountered as the business develops over the years, changes. A hypothesis was formulated as follows:

*Hypothesis 3: Differences with respect to operating years*

- H<sub>30</sub>: No relationship exists between the number of years in business and the severity of the problems experienced in developing an own business.
- H<sub>31</sub>: A relationship exists between the number of years in business and the severity of the problems experienced in developing an own business.

The Kendal tau statistic, a measure of association between two ordinal-level variables, was used as the test statistic for Hypothesis 3. Kendall’s tau-b is a measure of association often used with, but not limited to, 2-by-2 tables. It is computed as the excess of concordant over discordant pairs (C – D), divided by a term representing the geometric mean between the number of pairs not tied on X (X<sub>0</sub>) and the number not tied on Y (Y<sub>0</sub>):

$$Tau-b = (C-D) / \text{SQRT} [(C + D + Y_0)(C + D + X_0)]$$

**Table 6:** Statistical significance test on the relationship between the number of years in business and the severity of problems experienced in developing the business

<b>Problem</b>	<b>Kendall's tau-b value</b>	<b>Approximate significance (p-value)</b>
Lack of technical training	-0.15684	0.02241
Lack of labour with required skills	-0.15487	0.02745
Low demand/lack of customers	-0.27478	0.00001
Lack of start-up capital	-0.17851	0.01046

\* Significant at the 5% level of significance

For only four of the 19 problems (Table 6), namely lack of technical training, lack of labour with required skills, low demand/lack of customers and lack of start-up capital, a statistically significant relationship (at the 5% level of significance) was found . The negative value of Kendal’s tau-b indicates that a negative relationship exists. Hence, as the number of years a business has been in operation increased, so the severity of the problems experienced decreased. This could be a result of the fact that those that have been in business for a longer period may already have acquired the necessary technical skills, employed labour with the required skills, are aware of market opportunities and do not require start-up capital from the banks, compared to those that are new in business.

Nonetheless, no significant differences were found on 15 of the 19 listed problems in developing a business; therefore the null hypothesis statement H<sub>30</sub>, which states

that no relationship exists between the number of years in business and the severity of the problems experienced in developing an own business, cannot be rejected.

In the small business baseline survey study conducted by the Ministry of Trade and Industry (1998: 10), a lack of management training was identified as an extremely relevant problem. Lack of training (management and technical training) limits an entrepreneur in his/her identification of new opportunities, possibly resulting in several businesses competing for the same customers, which in turn could lead to low profits and hence low income. It could also lead to high failure rates because of poor forward planning and poor planning for development. All too often, profits may be consumed instead of being invested in the business. The reason for this lack of training could perhaps be attributed to the lack of training institutions, especially in the two towns in the study, as well as to a lack of knowledge about other agencies that are involved in supporting SMEs.

Given the fact that the majority of businesses in the two towns are small and young, there is a need for training – technical and management training, which would include training in management functions such as marketing, finance, operations and human resources management – if SMEs are to grow. The fact that a lack of start-up capital and working capital were cited as major problems makes sense if one examines the respondents' sources of capital, which were primarily their own savings, money borrowed from parents and relatives and, finally, money borrowed from friends. It is not possible for these sources to generate sufficient capital, which explains lack of capital as one of the major problems facing businesses. Limited access to external finance hinders both the formation of businesses and the capacity of SMEs to expand. The findings of this study correspond with the findings of the Ministry of Trade and Industry (1999: 41) in the Otjozondjupa and Erongo regions, where a lack of credit for working capital and credit for investment were cited by the largest number of respondents as the most important problems.

The reasons for the lack of start-up capital and working capital may stem from limited access to external finance as well as the inability to afford the high interest rates and a lack of security or collateral. However, it could also be attributed to the fact that the owners/managers of SMEs are not capable of presenting feasible business plans. In other words, a low level of education or a lack of training may constitute the major constraint in terms of the lack of access to finance.

The problem of a low demand/lack of customers is not surprising. Both Katima Mulilo and Rundu are small towns with small populations and high rates of unemployment.

The problems of lack of labour with required skills identified in Rundu is to be expected as the respondents from Rundu had low levels of education – either they were without any education or, at best, some primary education.

## Recommendations

Based on the results of the study, the following recommendations are made:

It is recommended that a training institute that provides coordinated, comprehensive and forward-looking business management and technical training programmes be established in the two towns. Such an institute would provide management and business skills training that are important for SMEs to be successful in their businesses. The training institutes would be responsible for organising and structuring training modules to cater for the specific development requirements of the SMEs.

In order to reduce poverty, increase disposable income and create greater opportunities for SMEs in the Caprivi region, it is recommended that the government of Namibia increase its allocation of funds to programmes and projects that have a direct impact on improving the standard of living in the two regions.

As the major buyer of products and services, government is a possible lucrative market for new businesses. The government should introduce a policy or law that mandates the businesses that have government tenders to subcontract SMEs. Such a policy would stimulate the establishment and growth of SMEs in those industries and would open doors for new and small businesses to compete for government contracts.

The government should reduce both the time and costs of starting a business by simplifying the regulatory and administrative processes; this should lead to more start-up businesses. Acs and Szerb (in Bosma & Levie 2010: 13) argued that opportunity-driven entrepreneurial activity makes a bigger contribution to economic development when doing business has been made easier in a country.

## Conclusion

Although the Namibian government has put in place policies and institutions with the aim of developing the SME sector, their impact in the Caprivi and Kavango regions has been minimal, as revealed by this study.

Accordingly, the contribution of SMEs to economic development could be enhanced by creating an environment that is conducive for business. The call for a conducive business environment should not be misconstrued as some kind of massive government intervention, but rather as an enabling force to foster development.

## Endnote

1. After an extensive search, it was not possible to find recent literature. The Namibia Economic Policy Research Unit (NEPRU) has closed its offices and the Namibia Statistics Agency (NSA) has not conducted a study on SMEs.

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