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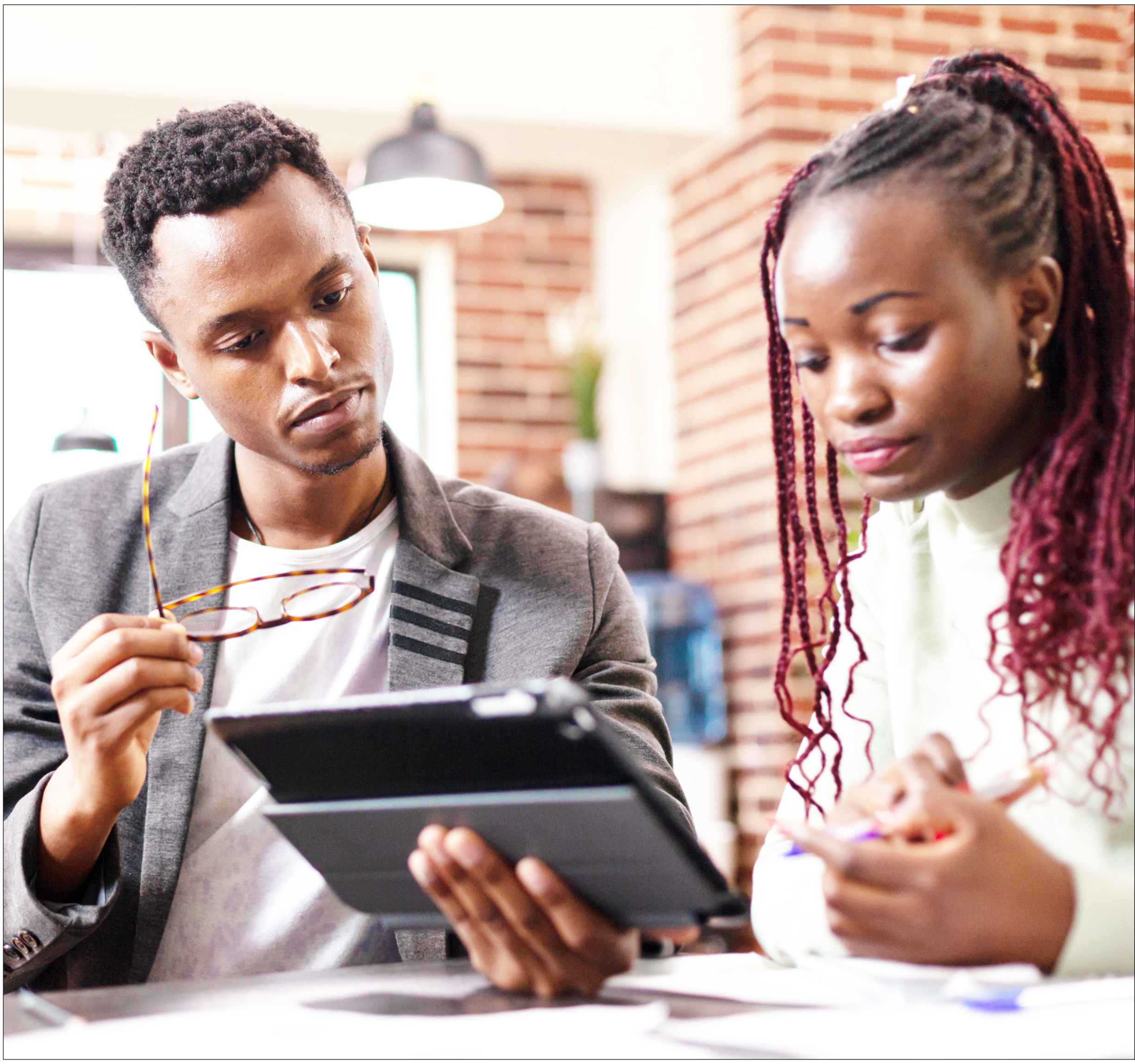
BRIEFING PAPER

SME FINANCING IN NAMIBIA: AN INTRODUCTORY DISCUSSION PAPER



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EXECUTIVE SUMMARY

Small and medium-sized businesses (SMEs) account for around 90% of African firms and are seen as the engines that will propel the continent's economic development. Despite their important role in development and job creation, SMEs continue to face difficulties around accessing finance. This paper seeks to review these challenges for SMEs and provides some recommendations regarding the way forward in Namibia.

The collapse of the SME Bank in 2017 created new challenges for SME financing, with the Development Bank of Namibia (DBN) initially seeking to fill the gaps. More recently, the Ministry of Finance and Public Enterprises together with the Bank of Namibia and several commercial banks have launched the SME Economic Recovery scheme. In addition, commercial banks and other start-up support organisations have stepped up their own efforts to advise and assist SMEs.

Following its inception in 2020, the Namibia Investment Promotion and Development Board (NIPDB) took on the role of bringing stakeholders together to provide support for SMEs including access to funding, mentorship, training, and enabling market access.

However, despite these important initiatives support for SMEs remains to some extent fragmentary. The desired outcome of the 2nd Harambee Prosperity Plan for a holistic National MSME Fund has yet to realised.

The key challenges facing SMEs include a lack of access to capital markets; lack of capacity, skills and training; lack of visibility with SMEs not being recognised by the larger investment base; and the under-development of government-led strategies to develop SME ecosystems.

To meet these challenges, the paper recommends the following:

- Greater capital market inclusion for SMEs
- Increased capacity-building programmes for SMEs and the creation of SME hubs
- Raising the visibility and awareness of SMEs
- Improved government policies to support and aid SME development and growth including an SME Advisory Council
- A comprehensive enterprise survey which would give greater insight into the small, medium, and micro elements of the SME landscape.

INTRODUCTION

Small and Medium Enterprises (SMEs) have played an important part in the development of most if not all economies in the world. Even in the most developed countries, SMEs continue to play a major role, as job creators and in providing crucial services and products. In addition, major global companies such as DHL, Nike, Apple, and Google were once SMEs, and it is partly through the support of financing schemes that they are now among the largest companies in the world.

In the developing world, SMEs play an even more significant role as contributors to job creation and economic growth. They represent more than 90% of businesses and contribute more than 7 out of 10 jobs in these countries (World Bank, 2022). Formal SMEs can contribute up to 40% of national income (GDP) in emerging economies, and if one includes the informal sector, this number is significantly higher (World Bank, 2022).

However, despite this recognition of the significance of SMEs, lack of access to affordable finance is cited as the greatest obstacle to SME to growth in emerging markets and developing countries such as Namibia (Wang, 2016).

Background of Paper

In Namibia, as with the rest of the developing world, SMEs are seen as catalyst for economic growth and key to achieving a reduction in unemployment. However SMEs are often left to finance their operations through internal funding, the support of family and friends, and short-term loans with high interest rates such as cash loans and purchase order financing.

The International Finance Corporation (IFC) states that the largest concentration of MSMEs is in the East Asia region (64 million), followed by Sub- Saharan Africa, which has 44 million MSMEs, the majority of which (97 percent) are microenterprises. Nigeria, which is a large contributor to the enterprise count in Sub-Saharan Africa, has 37 million MSMEs. Latin America and the Caribbean, which is the third largest region by number of MSMEs, has 28 million MSMEs, 26 million of which are microenterprises (IFC, 2017).

The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of US $5.2 trillion, which is equivalent to 1.4 times the level of the global MSME lending. Fifty-one percent or more of companies classified as SMEs globally find it difficult to get loans from traditional sources. When small businesses and start-ups in the shadow economy are factored in, the funding shortfall becomes much more severe.

The situation is no different in Namibia, with SMEs struggling for adequate and affordable financing. With over 71 000 MSMEs in Namibia (IFC, 2017) and few financing schemes available, SMEs have faced major challenges - especially since the SME Bank closed in 2017. Although commercial banks have come to the fore their requirements can be too strict for new businesses to meet.

Limitations of the Paper

The most difficult constraint for this paper was the lack of recent data and literature relating to SMEs in Namibia. It is difficult to diagnose problems and come up with solutions when data is scarce, incomplete, or fragmentary. The paper is based primarily on desk research, and no interviews were undertaken due to funding and logistical constraints.

Definition of SMEs

The definition of what constitutes an SME differs from country to country and sector to sector. As the World Bank has stated, there is no universally accepted definition of SME since such a definition would have to consider different countries' legal, social, and economic circumstances. In certain nations, the definition considers financial characteristics such as turnover and/or assets in addition to the size of the labour force (World Bank, 2015). The World Bank's definition of an SME is limited to firms which employ not more than 300 employees and have total annual sales of up US$15 million. In addition, the World Bank sub-categorises firms into three main groups:

- **Micro Enterprise:** up to ten employees; total assets/total annual sales of up to US$100,000; turnover must be more than US$400,000, and tangible assets more than US$200,000.
- **Small Enterprise:** between 10 and 50 employees; total assets/total annual sales between US$100,000 and US$3 million.
- **Medium Enterprise:** between 50 and 300 employees; total assets/total annual sales between US$3 million and US$15 million.

Although most countries adopt the World Bank's definition of SMEs, Namibia's approach is not so clear. The problem emanates from identifying and demarcating the sector, as well as distinguishing between formal and informal businesses, and micro, small, and medium-sized firms. According to Schöneburg-Schultz and Schultz (2006), these challenges make it difficult to establish criteria for classifying and monitoring SMEs in Namibia. Furthermore, the country has no legal definition of SMEs, but rather, the country SME framework has been guided by government policies, with some financial institutions left to develop their own working definitions and categories.

In 1997, the government, through the Small Business Credit Guarantee Trust (SBCGT), drafted the Policy and Programme on Small Business Development, which categorised and defined SMEs for developmental and financing purposes. The SBCGT served as the country's financing scheme for SMEs and provided an important framework for the country's SME financing goals. The Policy and Programme on Small Business Development definition provided below is accordingly adapted to fit in the Namibian context[1] :

Table 1: Definition of small businesses in Namibia (1997)

Criteria			
Sector	Employment	Turnover Less than N$000	Capital Less than N$000
Manufacturing	Less than 10 persons	1 000	500
All Other Business	Less than 5 persons	250	100

Source: Namibia: Policy and Programmes, 1997

[1] Wherever this paper refers to SMEs or small businesses, it is also referring to micro businesses.

The 1997 policy was replaced by the new Micro, Small and Medium Enterprise (MSME) Policy of 2016. The new policy, championed by the Ministry of Trade and Industrialisation, was commissioned to build on the 1997 policy and provide an improved definition of SMEs. Since 2020 the MSME Policy has been implemented by the Namibia Investment Promotion and Development Board (NIPDB). It is pertinent to note that this policy is dated 2016-2021 and hence it is already out of date.

Table 2: Definition of MSMEs in Namibia (2016)

Category	No. of full-time employees	And/or	Annual turnover (N$)
Micro enterprises	1 to 10	And/or	0 to 300,000
Small enterprises	11 to 30	And/or	300 001 to 3 000 000
Medium enterprises	31 to 100	And/or	3 000 001 to 10 000 000

Source: National Policy on Micro, Small and Medium Enterprises (MSME) in Namibia 2016 – 2021

Small enterprises are the most prevalent SMEs and are thought to employ and produce incomes for roughly one-third of Namibia's workforce (Ogbokor & Ngeendepi, 2012). This statistic demonstrates the sector's importance in Namibian society and bolsters the case for programmes aimed at promoting the growth and development of small and micro-businesses. SMEs in Namibia, as in any other country, might range from an unregistered informal operation to a properly regulated firm. Informal businesses are typically small firms with a revenue of less than N$20 000 monthly, whereas formal small businesses have larger workforces and turnovers.

Providing clear and comprehensive definitions of what constitutes different categories of SMEs serves as a guiding light for judging the efficacy and adequacy of SMEs in an economy (Madani, 2018). This also helps to provide governments with clear guidelines for interventions in the SME sector. As such, the definition of an SME is as critical as any component of the SME framework.

Global SME Development and Financing

Academics, corporations, and most notably, global financial institutions such as the World Bank and the International Monetary Fund, have produced a wealth of literature on SME financing and provided crucial and critical analysis on the financial challenges facing SMEs and financing instruments available to SMEs around the world. Different researchers and academics have attempted to evaluate the issue of SME access to finance during the last decade, highlighting their reliance on credit and cash flows. SMEs, according to Beck et al (2014), appear to be generally poorly funded. SMEs confront several challenges in borrowing funds, according to Ayadi & Gadi (2013), since they are small, less diversified, and have weaker financial frameworks. Evidence of payment delays on receivables, dwindling liquidity, and an increase in SME insolvencies and bankruptcies all point to this conclusion. Furthermore, SMEs find it challenging to consistently deliver high-quality collateral. They also have trouble maintaining openness when it comes to their creditworthiness (IFC, 2017).

According to Savlovsch and Robu (2011), statistics in almost all countries show that SMEs are dominant in the economy, accounting for more than 80 percent of all companies and having a significant influence on the gross domestic product and the supply of jobs. Furthermore, the same author explains that an important feature of start-up businesses is that they provide a major source of new employment. Ciubotariu (2013) adds that SME businesses help to raise societal living standards by stimulating economic activity, diversifying the products available to consumers, and creating new, innovative jobs. Another important aspect of new businesses is that they generate a greater amount of technical innovation in the economy. As a result, new businesses are regarded as key drivers and participants in national growth and development (Thuku, 2017).

In India, SMEs are the backbone of the economy, accounting for 45% of industrial output, 40% of India's exports, employing 60 million people, creating 1.3 million jobs each year, and producing over 8 000 quality products for the Indian and international markets (Mehta 2013).

SME businesses are not confined to a single region of the globe. They are found in both developed and developing countries. According to Ciubotariu's 2013 study on the role of SMEs in the modern economy, start-up businesses constitute an overwhelming proportion of the entrepreneurial structure of the European Union (EU), contributing significantly to economic growth, job creation, and innovation.

Even as many SMEs continue to massively contribute to economic development in both developed and developing nations, they also continue to face major constraints.

One of these constraints, and a major one, is access to finance (Rao, et al., 2021). Finance has been highlighted as the most critical element affecting the survival and growth of small and medium-sized businesses in both emerging and developed nations in several business studies. Since many SMEs do not have access to long-term finance, they are often compelled, as stated by the Association of Chartered Certified Accountants (2014), to rely on short-term loans that come with extremely high interest rates. The most obvious way to increase access to finance for start-up businesses is for more new organisations, both within and outside the banking system, to begin lending to them, which has occurred in many parts of the world.

Access to capital enables SMEs to make strategic investments to grow their enterprises and acquire innovative technology, ensuring their own and the country's competitiveness. Poorly functioning financial institutions can jeopardize a country's microeconomic foundations, resulting in reduced income and employment growth (United Nations, 2002). The availability and accessibility of funding have been identified as a key component in the global expansion and success of SMEs.

SME FINANCING IN SOUTH AFRICA

SMEs in developing nations face significant challenges in obtaining the necessary financial resources to effectively scale up and grow their companies. Traditional growth capital, such as debt and equity, is often prohibitively expensive (International Finance Corporation, 2017). Access to cash is one of the greatest difficulties faced by business owners and entrepreneurs, outranking energy shortages and other concerns in certain cases. According to the IFC's MSME Shortfall Assessment study, the worldwide finance gap for small and medium-sized businesses is US$5.2 trillion. Creating possibilities for SMEs in developing markets is a critical step towards economic growth and poverty reduction. It is also one of the primaries focuses of the World Bank Group and other international development agencies in this respect (International Finance Corporation, 2017).

SMEs Role in South Africa: Job Creation and Economic Development

SMEs play an essential part in the South African economy. South Africa will need to produce at least eleven million jobs for young people by 2030, according to its National Development Plan (NDP) (OECD, 2020). It is hoped that new and growing SMEs will account for 90% of these jobs. This highlights the significance of SMEs in the country (OECD, 2020).

Despite such a specific policy objective, estimates of the size of the South African SME sector vary. SMEs account for more than 20% of GDP, according to the Bureau for Economic Research (before taxes and subsidies). According to the Financing SMEs and Entrepreneurs 2022 OECD scoreboard, SMEs contribute 40% of GDP (OECD, 2022), but the Minister in the Presidency has claimed that they contribute 42% of GDP and employ 47 per cent of the workforce (7.3 million) (Makina, et al., 2015).

Similarly, the significance of SMEs in terms of employment is uncertain. According to the second quarter 2023 Quarterly Labour Force Survey, the informal sector of the economy (excluding formal SMEs) employs more than 2.9 million people, accounting for almost 20% of overall employment (Statistics South Africa, 2023). From 2.18 million in the first quarter of 2008 to 2.25 million in the second quarter of 2015, the number of SMEs in South Africa increased by 3% (BER, 2016). 1.5 million of the 2.25 million SMEs were unregistered, with a focus on commerce (wholesale and retail) and lodging (Statistics South Africa, 2017).

Micro enterprises account for 55.6% of registered firms in the formal sector, according to the South African Revenue Service (National Treasury Panel, 2016), while small and medium businesses account for 33.7% and 9.5% of the formal economy, respectively. The primary industries have a higher proportion of medium-sized businesses, whereas the manufacturing sector has a higher proportion of small businesses, and the services sector has most micro-businesses (Statistics South Africa, 2017).

Scaling up is a substantial difficulty for most SMEs, according to research on South Africa's business dynamics (Makina, et al., 2015). For example, average yearly growth rates are inversely proportional to business size, with larger firms seeing higher average growth. SME scaling up is hampered by a lack of access to markets, technology, business infrastructure, and information, among other things.

SME Financing Schemes

Despite the significant contribution of SMEs to growth and employment, South Africa has one of the lowest rates of successful SME creation. According to the Department of Small Business Development (DSBD), 70 to 80% of small businesses fail in their first year, with only about half of those that survive making it to the fifth year. In South Africa, SMEs' lack of access to capital continues to be a problem, impeding their development and long-term viability (OECD, 2020). The lack of suitable formal finance products available to small businesses, the lack of readily available credit information, the perceived riskiness of small business finance, and the apparent lack of appropriate assets available to small businesses for the purposes of collateral are all factors that contribute to low access to finance. All these challenges make credit more difficult to come by for small businesses and raise the cost of borrowing.

According to official figures from the South African Reserve Bank, overall SME credit exposure to banks was ZAR 631 billion at the end of 2022, accounting for 25% of total company loans (OECD, 2022). The low level of SME financing appears to stem from the demand side since the vast majority of SMEs state that they do not borrow from financial institutions, notably banks (Makina, et al., 2015).

SME support comes from the government in the form of grants and loans from development finance organisations (DFIs). The Industrial Development Corporation (IDC), the Small Enterprise Finance Agency (SEFA), and the National Urban Reconstruction and Housing Agency are among these DFIs.

Naturally, the larger a company is, the more likely it is to take on debt. While 85% of medium-sized firms and 74% of small companies have formal credit arrangements, only 26% of micro businesses do. Three quarters of this credit is offered as personal loans with the remainder being commercial loans from banks.

With just 32% of businesses categorised as essential services during lockdown, Covid-19 had a severe negative impact on SMEs. As a result, the majority of these businesses had cash flow and liquidity issues in addition to having restricted access to safety nets (OECD, 2022).

1. Credit Financing

In South Africa, credit financing for SMEs remains restrictive, especially on the banking side. Banks are the least probable source of finance for SMEs, according to a 2015 SME Survey (OECD, 2020), with just 2% saying that they depend on banks for funding. According to the poll, SMEs are confused about what type of goods or services they want from banks. Similarly, according to the National Small Business Chamber's (NSBC) 2016 Small Business Survey, 75% of SMEs did not seek financing (NSBC, 2016). This is backed by research by Makina et al (2015), which found that more than half of businesses do not borrow because they either do not need it or do not "believe" in it. Furthermore, 30.9% of businesses do not borrow from formal banks because they are afraid of being turned down or believe they would not be approved. Low borrowing rates tend to be compounded by the fact that some SMEs owners do not comprehend the value of credit in ensuring the operational viability and development of their businesses.

2. Alternative Financing

With restrictive credit financing, alternative sources of finance become very critical for SMEs. Indeed, according to the 2015 SME Survey, the single most probable source of finance for 57% of respondents was their own cash (Herrington, et al., 2017). Business partners and family members were the second most probable source of finance, according to 28% of respondents. The value of venture capital investments increased to ZAR 1.4 billion in 2020 from ZAR 1.2 billion in 2019, according to the Southern African Venture Capital and Private Equity Association (SAVCA). Some 122 entities were the target of these investments. Around 74% of the funding was allocated to new business ventures. Software, fintech-specific goods and services, and business products and services were the top sectors by investment value. By transaction stage, the investment value contributions were as follows: 38% went towards growth capital, 34% went towards start-up capital, 20% went towards later stage financing, 4% went towards seed capital, 3% went towards rescue/turnaround, 2% went towards buyout money, and less than 1% went towards replacement capital.

Government policies on SME financing

The South African government recognises that a lack of access to capital is a significant impediment to the growth of SMEs. One of the greatest barriers to SME growth, according to the South African government, is a lack of access to credit. Therefore, the government has pledged to remove structural barriers in the small company sector to improve access to formal finance (SAVCA, 2020). To do this, the government is considering introducing or supporting the policies listed below. The South African government is also focusing on establishing a movable asset register and a credit information database. Both programmes attempt to reduce the risk of lending and, as a result, make bank funding more broadly available.

A. Credit information sharing

Through the use of a variety of credit and risk assessment methods, South Africa has a well-established and highly developed industry for credit information services for both retail and corporate customers. Small businesses, on the other hand, are not as well established, and in general, information asymmetries prevent lenders from making appropriate lending choices in the SME area. Small and medium-sized enterprises have additional challenges when it comes to obtaining financial services from financial institutions. For this reason, the government intends to assist the construction of a common information system, which will serve as the foundation for lending criteria aimed at small firms (FinMark, 2020). Aiming to incorporate as many important data sources as possible, the system will guarantee that access to the information given by lenders is as unfettered as possible.

B. Credit guarantee schemes

Evidence exists that in South Africa higher cases of infant business mortality are associated with small firms. The combination of a high failure rate and stronger prudential standards under Basel III (international banking regulations) after the global financial crisis has resulted in a more cautious approach to lending loans to the small and medium-sized enterprise sector. The introduction of risk-sharing mechanisms, such as partial credit guarantee programmes, may help to mitigate the elevated risk of firm failure, and particularly the risk of start-up failure. Within this framework, the risk of default is shared between the lending institution and the credit guarantee issuer, which is often the government. The guarantee covers a percentage of the default amount that has been agreed upon by the parties, not the full default amount. The IDC and SEFA are the organisations that provide credit guarantees; in 2017 a total of ZAR 297 million was awarded, up from ZAR 243 million in 2016 and following significant declines in 2013 and 2014 (Herrington, et al., 2017).

SEFA manages the Khula Credit Guarantee Scheme, which provides partial credit guarantees to lenders for small and medium-sized enterprises whose access to funding is notably hampered by a lack of collateral. Commercial banks and other financial institutions are protected against SME credit defaults under the plan, with indemnities of up to 90% of loan amounts available (BER, 2016). Equity and financial allocations are used to support the whole plan, which is entirely funded by the federal government. The plan is now operated under mutually exclusive cooperation arrangements with South Africa's four largest commercial banks, and its operations are governed by agreements that were signed in 2007 and which came into effect in 2008. Unfortunately, commercial lenders have only taken a small number of these assurances into consideration. As a result, the South African government is conducting a formal evaluation of the scheme to identify the restrictions that are causing its restricted utilisation and to resolve those constraints via a rethink of the programme's parameters.

C. Movable asset register

A significant financial limitation for SMEs seeking finance from the banking sector is a lack of an acceptable variety of assets to serve as collateral when asking for loans. Immovable (fixed) assets are frequently accepted as adequate collateral for loans by credit providers. However, much of SMEs' capital in South Africa is movable (livestock, inventory, raw material, and equipment) (Makina, et al., 2015). Movable assets are usually not accepted as security by creditors since they cannot be quickly taken if the debtor defaults. Lenders also have a tough time determining if these assets have previously been seized as collateral by other debtors. The creation of a movable asset registry would enable SMEs to use these assets as traceable and valid forms of security, rather than relying on their owners' fixed private assets (for example, the owner's dwelling).

A movable asset registry would also offer a legal and institutional framework for recording the ownership and usage of movable assets as collateral for small business loans, as well as protecting credit providers' legal rights on such collateral if debtors defaulted (NSBC, 2016). The capacity of lenders to establish legal claims on movable assets used as collateral would reduce the risk of lending to small businesses, lowering the cost of credit administration and increasing SME access to financing. Loans providers will be in a better position to extend credit to viable firms at risk-appropriate pricing if the financial infrastructure and technologies outlined above are further developed.

SME FINANCING SCHEMES IN NAMIBIA

In Namibia, as with the rest of the emerging and developing economies, SMEs play a key role in economic development by being participants in job creation and income generation in the country (Tjano, 2019).

Namibia's SME sector is relatively small compared to other African countries (Schöneburg-Schultz & Schultz, 2006). However, virtually all stakeholders believe that the sector holds a great deal of promise in terms of economic development or poverty reduction.

In the absence of a recent, comprehensive enterprise survey it is difficult to be certain about the size of the SME sector in Namibia.

A 2017 International Finance Corporation study on micro, small, and medium enterprises (MSMEs) estimated that there are approximately 71 000 MSMEs in Namibia. The Ministry of Industrialisation and Trade stated in its 2016 National Policy on Micro, Small and Medium Enterprises that about half of MSMEs are formally registered, but admitted it did not have recent data. The same policy document said MSMEs provided employment and income to around 160 000 Namibians, accounting for approximately one-third of the country's workforce, and contributed around 12% of GDP.

The policy further stated that Namibian MSMEs operate in a variety of economic sectors, with the majority of them being retail traders; a further 25% are involved in food processing or other manufacturing, or in the creation of crafts; the remainder are engaged in the provision of services.

It is always difficult to craft effective policy responses when up-to-date data is lacking. The 2016 policy itself pointed out the need for "continuous quantitative research on Namibian MSMEs".

It can be assumed that many Namibian SMEs fail in their first couple of years, as this is a global trend. Data going back to 2005 indicated that 75% of Namibian enterprises closed during the first two years of operation, and in the majority of instances, even before they had a chance to develop and grow (Grossmann, et al., 2005). Although this assessment was made 18 years ago, it seems likely that many SMEs still fold early in their lifetimes, especially when considering impact of the recent economic recession since 2016 and the COVID-19 pandemic (2020-2022). The early closure of businesses appears to be more widespread among micro and small-sized firms operating in Namibia as opposed to larger entities.

Current SME Financing Schemes in Namibia

Financial institutions, which include banking institutions as well as development financial institutions, continue to be the most important source of external funding for businesses in Namibia, accounting for more than 90% of total SME financing in recent years, according to the International Finance Corporation (IFC, 2017). The following is a list of the current major SME financing schemes available in Namibia.

1. Commercial Banks

SMEs with annual revenues ranging from N$0 to N$10 million (Standard Bank Namibia (SBN), Bank Windhoek, First National Bank Namibia (FNB Namibia)) and N$0-N$5 million (Nedbank Namibia) are eligible for SME funding from the big four big commercial banks in Namibia (FLI, 2019). These commercial banks offer some overlapping products with a few exceptions. The following are some of the popular SME financing products to qualifying SMEs in Namibia:

- Business Current Account with Overdraft: Commercial banks provide SMEs with overdraft facilities, a common SME financing in Namibia (Financial Literacy Initiative, 2019). An overdraft refers to a short-term borrowing agreement in which an account limit is increased up to a certain amount. SBN and FNB Namibia provides overdrafts of up to N$100 000, with Nedbank Namibia offering overdrafts of up to N$1 million while Bank Windhoek's overdraft facilities are dependent on the size of the SME's turnover.
- Business Revolving Credit Plan: This is a traditional business loan for the purpose of financing operations. The maximum amount that may be awarded under this loan type will be determined by the yearly turnover of the SME. This type of loan usually require collateral and as such, SMEs find it difficult to apply for this type of loans. However, recently, the Namibian government recently launched the Credit Guarantee Scheme (CGS), providing collateral coverage of 60% for qualified SMEs seeking credit from participating commercial finance institutions (New Era, 2021).
- Property Finance or Business Mortgage Loans: Property financing is used to acquire commercial or industrial property, as well as residential property that will be utilised for company operations. These loans function more or less in the same way as a private mortgage

loan. It assists small and medium-sized enterprises in the acquisition of commercial real estate, such as land, stores, office buildings, warehouses, showrooms, factories, and any other property required for company operations.
- Vehicle and Asset Finance: This loan product is intended to be used to finance vehicles, machines, and other equipment. The asset that is purchased (such as a vehicle, machine, or other such item) also acts as security (or collateral) for the loan and the bank requires the SME owners take out credit life insurance to qualify for this type of loan.
- Contract & Tender Financing: If an SME gets a contract or tender, FNB Namibia and Nedbank Namibia (Business Financial Solutions: NamPro Fund also offers this type of SME financing) are able to provide unsecured loans to provide the required funding for the performance of a secured government or private sector tender (FLI, 2019). This is a fast-financing scheme for SMEs that have secured tenders are not able to meet the financial needs required for performance. However, this loan can also be costly for SMEs and the conditions are always never favourable to them.
- The commercial banks also offer other SME financing schemes such as Infrastructure financing, expansion loans and restructuring or merger financing schemes. Bank Windhoek's emerging small and medium enterprises (ESME) programme also offers savings and investment products to SMEs at affordable rates and benefits such as bulk discounts, aid with the acquisition of equipment and, most crucially, provide savings to cover unforeseen expenditures. Bank Windhoek also provides co-operative financing, a financing scheme custom-made solution for SMEs registered and functioning as Non-Agricultural Co-operatives under the Co-operatives Division of the Ministry for Agriculture.

2. Other Banking SME Financing Schemes

Apart from the big four commercial banks, there are a few other smaller commercial banks that offer financing to SMEs on a smaller scale. They are also regarded as significant contributors to SME financing in Namibia. One such bank is Trustco Bank Namibia, founded in 2018, which offers funding to small and medium-sized enterprises mostly in the form of commercial loans. In addition to commercial banks, Namibia also houses other types of governmental banks that were created by Acts of Parliament with specific mandates:

A. Agribank of Namibia:

Formed by an Act of Parliament, Agribank Act No. 5/2003, as amended, as mandated by the Act, Agribank provides funding to individuals, business, or financial intermediaries to encourage agriculture and agricultural-related enterprises (Agribank of Namibia, 2003). Agribank offers short-term loan for production purposes, medium-term loans for livestock purchase, infrastructure and implementation, vehicle and tractor and improvement loans and long-term loans for purchase of farmland, loan consolidation and bush control and utilization loans. Individuals and businesses, including SMEs are able to apply for these types of loans, and collateral is covered by equipment and farmland. The bank also provides loans for specialised agricultural activities such as aquaculture, solar energy for agricultural activities and agro processing. The Bank also provides financing to affirmative action loan scheme (AALS) - enabling emerging farmers from the previously disadvantaged communities to acquire farms in commercial areas. In addition to the AALS financing schemes, the Bank has also undertaken to financing the following:

- Draught Animal Power Acceleration Programme (DAPAP): The programme funds the purchase of cattle, donkeys, and horses for the purpose of pulling equipment such as carts, ploughs, cultivators, planters, and harrows
- Labourers' Housing: A loan scheme for farm owners to build farm labourers homes of suitable quality for a 4% interest rate.
- Post-Settlement Loan: Several years ago, the Ministry of Land Reform and Agribank collaborated to develop a finance plan for relocated farmers, allowing them to get loans for crop production, machinery and infrastructure, livestock and poultry, and other needs (FLI Namibia, 2019).

- Emerging Retail Financing Product: Priority will be given to financially viable and long-term agricultural-related retail products submitted by previously disadvantaged Namibian farmers for consideration of grant funds.

B. Development Bank of Namibia:

The Development Bank of Namibia was formed in 2002 (Development Bank of Namibia Act 8 of 2002) and is mandated with financing business, including SMEs to contribute to economic growth and social development of Namibia and for the sustainable promotion of the welfare of the Namibian people (DBN, 2003). DBN financing is linked with the key sectors identified in the country's National Development Plan (NDP), with a particular emphasis on infrastructure development, manufacturing, tourism, telecommunications, and logistics (FLI Namibia, 2019). The Bank is regarded as the biggest SME financier in the country, and it is expected to expand its financing capabilities after the liquidation of SME Bank (New Era, 2021). In 2020, DBN approved more than N$279.3 million for 318 SMEs, which was more than 24.5% of SME financing in the country (New Era, 2021). The funds were used to establish more than 956 new permanent jobs and 1 696 new temporary positions. The SMEs receiving loans are in a wide range of industries, from business services to commercial property development to general construction to education and health care to housing and land maintenance to manufacturing and wholesale and retail commerce (New Era, 2021).
DBN's loan facilities assist SMEs to start or expand their existing business operations and offers some of the following financing products:

- **Franchise Finance:** Facilitate the start-up of franchise enterprises registered in Namibia.
- **Contract-based Finance:** Working capital for businesses, excluding finance for capital assets such as office buildings, equipment, and machinery.
- **Project Finance:** Facilitate long-term financing of industrial and infrastructure projects based on predicted cash flows.
- **Enterprise Development Finance**: To provide funds to help start-up or expand businesses (Management buy-in or buy-out is included).
- Trade Finance: To provide working capital to meet liquidity requirements of traders.
- **Skills-based finance for young professional and artisans:** Youth professionals are able to apply for financing from DBN'S skills-based funding for professional and artisan initiative. Under this initiative, young professionals with NQF5 and above with skills such boiler making, plating and/ or welding; carpentry and/ or joinery; electrical; fitting, turning and/ or diesel machining; instrumentation; accounting; legal and medical professional are allowed to apply for new or existing businesses and can get financing of up to N$1 million.

3. Non-Banking SME Financing

Apart from the above sectors, there are upcoming SME financing schemes that aim to expand existing financing products and provide new products for excluded informal micro and small businesses. Although some of the products are not unique, they provide much relief to overlooked SMEs.

A. Business Financial Solutions (NamPro Fund I & NamPro Fund II)

BFS Fund Manager manages two investment vehicles, Nampro Fund I and Nampro Fund II, set up to assist SME suppliers needing funds to deliver on their contracts. Backed by the Government Institutions Pension Fund (GIPF) as its primary investor, the Fund manages around N$430 million. Nampro Fund I, which financed close corporations, has, however, ended its mandate and no longer provides financing while Nampro Fund II does not finance close-corporations, a blow to SMEs. (BFS, 2023). The NamPro Fund II offers financing for:

- Purchase Orders: This product is targeted to SMEs that have been awarded contracts to supply goods (and services) to approved off-takers (mostly government, including regional and local authorities, SOEs and reputable private companies).

- Short-term working capital finance and Medium-term finance facility: The short-term working capital finance facility finances SMEs that have been given contracts to carry out projects while the medium-term finance facility provides funding to SMEs to cover costs of goods, including employee costs for contracts that are for more than 12 months.
- Operating finance leases and Asset backed finance leases: For SMEs given contracts that require them to buy equipment and machinery over time.
- Performance guaranteed: For SME requiring performance bonds who have secured and want to finalise their supply contracts or value-added related contracts.
- Invoice Discounting Facilities: Enables SMEs to get funding for up to 85% of the value of invoices or receivables for goods delivered or services rendered, however, the invoice payment due date is longer.

BFS is also in the final stages of creating a new equity impact investment fund, Kula Capital Namibia, which intends to provide funding to start-ups with a market validated proof of concept that pursue social, environmental and economic objectives. While the impact fund is not yet operational, the fund will provide much needed venture capital to SMEs, something that has been lacking in Namibia. BFS also offers SME enabling services such as mentorship and coaching programming, a service much needed when SMEs seek or have secured funding (BFS, 2023).

B. Bellatrix SME Finance

Bellatrix SME Finance is a Namibian financial service provider offering purchase order finance, invoice discounting facilities, guarantees and sustainable (green) finance SMEs (Bellatrix, 2023). Bellatrix's funding capacity is targeted towards SMEs requiring financing not exceeding N$2m. Bellatrix also offers a green credit line facility for SMEs and startups with projects in the green and adaptation sectors such as sustainable agriculture, tourism, renewable energy and waste management. SMEs can either get funding through concessional loans or guarantees of up to N$2m or equity funding of up to N$6m, or a blend of both (Bellatrix, 2023). Bellatrix also offers mentorship and business coaching through Basecamp Business Incubator, an NGO startup and incubation centre, aiming to improve the conditions for start-ups in Namibia.

C. One Economy Foundation

The ONE Nation Fund Microfinance and Entrepreneurial Training Programme (ONF) was launched in 2018 by the One Economy Foundation and aims to support grassroots micro-entrepreneurs operating within the informal economy. These entrepreneurs, despite their vast potential, often face barriers accessing traditional loan providers due to deep-seated structural inequalities and lack of collateral for financing. One Economy Foundation, 2023). The One Economy Foundation is well positioned as a non-profit organisation to deliver a responsible, collateral-free microfinance product that is responsive to the requirements of grassroots businesses.

D. Namibia Business Angel Network (NABAN)

NABAN is a member-based entity composed of angel investors founded in 2020 and aims to champion angel investing into startups and early stage companies. NABAN links investment opportunities for start-ups, through its partnership with Basecamp (its deal-sourcing channel), through pitch events, where startups present via business concepts during these events to potential investors. Since 2021, NABAN has managed to facilitate investment opportunities to five start-ups, including Tololi, an online marketplace and sourcing company (The Namibian, 2021) and Ilotu Cosmetics, a cosmetic company that specialises in essential oil based products (Eagle FM, 2023).

4. SME Economic Recovery Scheme

The N$500 million COVID-19 SME Loan Scheme was launched by the government in partnership with the Bank of Namibia and other commercial banking institutions in November 2020. The scheme was intended to enable financially distressed SMEs to access bank loans at prime lending rates with deferred interest and capital repayment schedules. The primary impetus for this intervention was to ensure that businesses could continue covering their operational expenses despite the hostile macroeconomic environment created by the pandemic. This would in turn safeguard business productivity, job retention and the financial stability of the country as a whole. However, after it was determined that just N$6.4 million or 1.3% of the total availed funds had been utilised for these purposes between the scheme's inception date and January 2023, stakeholders opted to revise and relaunch the scheme to make it more accessible to target beneficiaries. The programme was subsequently relaunched as the SME Economic Recovery Scheme in February 2023 with expanded qualifying criteria no longer limited to the effects of the COVID-19 pandemic. However, access to the scheme continues to be restricted to registered businesses with business owners also required to have a pre-existing relationship with the commercial bank to which they are applying for a loan. This means that the majority of informal economy enterprises, most of which are not registered with the relevant authorities, have been left out from accessing the emergency financial assistance on offer (Mcgirr 2023).

CASE STUDIES

SME Bank: What Happened?

The SME Bank was established by the government following the dissolution of the Small Business Credit Guarantee Trust (SBCGT) which was transformed into a fully-fledged commercial banking institution under the control of the Bank of Namibia.

The process was championed by Trade and Industry Minister Hage Geingob who had been appointed in 2008. The Bank of Namibia provisionally granted a banking licence in March 2011 but only on the condition that certain unspecified conditions be met. It seems that one of the regulator's main concerns was the proposal to allow Zimbabwean businessman Enock Kamushinda a significant stake in the venture (Sherbourne 2022).

The vision of the Bank was clear – to provide financial services for all SMEs, including those in the rural communities, micro enterprises and previously disadvantaged individuals (PDIs). The Bank had a monopoly on SME financing, as it offered cheaper credit facilities to SMEs, with relaxed restrictions. However, even with such a straightforward vision and a monopoly for SME financing, the Bank failed. The Bank of Namibia took control of the SME Bank in 2017 (Bank of Namibia, 2022) due to certain investments that did not conform to sound investment principles and that could potentially pose a risk to the stability of the Bank. These concerns were mirrored by a public outcry over operations and affairs of the Bank, such as larger enterprises e.g. Woermann Brock receiving support while some smaller entities were denied funding.

The SME Bank unsuccessfully challenged the action of the Bank of Namibia, and in July 2017, the Bank was placed in provisional liquidation with the liquidation order made final on the 15 September 2017 (SME Bank, 2022). According to the liquidation order and subsequent court hearing, there were 7 entities owing the Bank N$150 million, which was a 109% of the SME Bank's total capital (see below).

Entity	Loan Value
Woermann Brock	N$34 million
Max Media Conglomerate	N$28 million
Sabika Investments	N$27 million
Global Pharmaceutical Exchange	N$18 million
Ferusa Capital Financing	N$17 million
Tura Properties	N$14 million
United Africa Group	N$12 million

Source: The Namibian Newspaper, 2017

In addition, former chairperson of the SME Bank, Kamushinda, allegedly led the looting of the bank when some N$247 million was stolen from it before its closure in 2017, according to findings made in a judgement delivered in the Windhoek High Court in October 2020 (Menges, 2020). The court further held that the custodians of the SME Bank had failed in their fiduciary duty and, as such, they must be held accountable for the liabilities of the Bank.

Such negligence, both from a governance and oversight perspective, led to the closure of the SME Bank, an institution that was established to advance and promote the growth of the SMEs sector in the country. With a high unemployment rate and lack of funding for SMEs in the country, this was a huge loss, and those who were entrusted with such a responsibility have not yet been held accountable. The Bank's total liabilities were around 1 billion, much of that amount owed to the Bank's former depositors.

The consequences of the closure of the Bank are not well documented. However, it is clear that a huge opportunity for SME financing was lost, and this has further marginalised the SME sector. Moreover, SMEs that had deposited their money in the SME Bank have either lost their deposits or have only received a fraction of those deposits. The Bank owes more than N$45 million to about 100 clients, which has caused some SMEs to close down (15 SMEs shut down in 2017 because their working capital was stuck in the SME Bank) while others have had to retrench their employees – with more than 1 500 employees estimated to have lost their jobs after the Bank was closed down (New Era, 2018). The failure of the Bank's directors and the government, as the largest shareholder, and the closure's effect on the overall economy of the country cannot be understated. However, thorough research is required to determine the actual impact the collapse had on SMEs, unemployment and the overall economy. It remains to be seen whether those responsible for the bank's collapse will be held accountable.

DBN's SME Finance: Any Success?

DBN's annual report for 2022-23 shows that the bank approved N$102.9m in financing to 102 SMEs during the year (out of the N$1.464.7 or 7.03%) (DBN, 2023). This is however a 11% decline from the 2021/22 financial year, where N$115.7m or 11.85% of approved loans were for SMEs. The decline is anticipated as DBN's strategic plan refocuses its lending priorities on larger projects while repositioning itself as an apex lender, supporting SME and microfinance lenders who, in turn, provide SME and microfinance facilities. Out of the 102 financed SMEs by DBN, it was highlighted that it approved a N$50m loan to a Namibian manufacturing company to help it expand its operations and create 50 new jobs (DBN, 2023), provided a N$20m guarantee to a Namibian tourism company to help it secure financing from a commercial bank and also made an equity investment in 2023 of N$10m Namibian technology start-up.

The Development Bank of Namibia (DBN) has a mandate to contribute to the development of the Namibian economy and the socio-economic wellbeing of its citizens. The Bank is mostly known for funding capital projects in the country, having backed projects such as the Namibia Plastics and Packaging, the OLC Arandis Solar Energy, and Eco-Sanitary Trading. These projects have employed more than 100 people and have contributed to economic growth in their respective sectors. In addition, the Bank was also responsible for SME financing prior to the establishment of the SME Bank, a role the DBN resumed in September 2017 after its closure. The Bank took the necessary steps to resume the financing of SMEs and created a special department for SME financing at the Bank.

The Development Bank has successfully stepped in to fill a gap that it did not necessarily see as a key part of its mandate - particularly after the short-lived existence of the SME Bank. The DBN's exact role within the SME financing ecosystem should still be clarified.

SME FINANCING CHALLENGES IN NAMIBIA

Despite the significant role that they play, many of Namibia's SMEs are unable to secure enough finance. Because of this, their capacity for growth and innovation has been hampered over the years, which has, in turn, prevented the country's economy from realising their full potential.

The key financing challenges SMEs face in Namibia include:

Inefficient Namibian capital markets for SMEs

The Namibian domestic capital markets are very small and offer little or no financing platform for SMEs. The capital markets also offer little liquidity and this has been a point of serious concern amongst SME owners. Capital markets serve as catalysts for business and economic growth by providing much needed capital to businesses and by allowing capital to flow from investors to businesses. However, this is not happening in Namibia and many parts of Africa. Namibian capital markets are currently funders of government bonds and large and well-established firms, leaving most SMEs relying on traditional short-term debt, which can be a very expensive method of raising finance.

Lastly, a lack of knowledge about how the capital markets work has limited the number of SMEs that seek funding in this way. This is not necessarily the fault of the SMEs themselves, but rather of the failure of the capital market. For example, there is a need for the Namibian Stock Exchange to educate the public and SMEs on the various funding possibilities available through the exchange.

Low capacity and the need for upskilling and training

The lack of experience and knowledge amongst SMEs in Namibia has led to the failure of many SMEs in the country. The lack of experience and knowledge has also resulted in a lack of confidence from potential investors. Most SMEs lack the necessary governance and oversight structures and financial reporting, leading to low levels of trust from investors. In addition, SMEs fear losing control of their businesses - contributing to limited equity financing. Furthermore, due to low salaries, SMEs often find it difficult to retain their talented staff and/ or attract new talent.

Minimal visibility to a broad investor base

SME visibility to the broader investment base can be described as the third most challenging obstacle SMEs face today. Visibility is crucial for investors, as most investors do not attend seminars or start-up events. Due to a lack of investment or capital, most SMEs in Namibia do not even have websites, which makes it difficult for international investors to come to know about an SME with huge potential. In addition, in Namibia, we do not have a register that lists Namibian SMEs. However, the Namibia Investment Promotion and Development Board (NIPDB) has launched a limited MSME catalogue. Businesses need visibility, not only for customers, but also for potential investors. Investment research firms nowadays gather information online, and if an SME is not visible online, it can miss out on potential funding.

Absence of government-led SME strategy to develop the SME ecosystem

Governmental support, specifically targeted at SME development, is critical for their success. Costly business registration costs, longer business and trademark registration times, taxation regulations that are not supportive of SME development, and nepotism and corruption affecting SME funding and tender opportunities have all hindered SME development in Namibia. The MSME policy (2016-21) has lapsed, while the objective of creating a holistic SME fund as described in Harambee II has not been met. The NIPDB has taken up the mantle of coordinating SME policy implementation but as of the date of this paper's publication it is not yet a statutory body and rather operates under the more uncertain status of being a Section 21 company.

CONCLUSION

A sizeable portion of economic development and employment creation is attributed to small and medium-sized firms. In many countries, the 2008 economic and financial crisis limited banks' lending capacities. In addition, the COVID-19 pandemic has had a significant influence on the availability of credit for small and medium-sized enterprises. This was particularly true in the case of SMEs' revenues, which fell suddenly and severely, resulting in acute financial difficulties that threatened the viability of many firms (OECD, 2021). Even before COVID-19, SMEs faced significant hurdles to access finance.

However, SME financing has also in recent years seen improvements, with new financing schemes being created and the participation of governments increasing. Banks have expanded their services and offered tailored advice for SMEs. Start-up support services are also coming into their own. At the same time, the growth of fintech and distributed ledger technologies, such as the blockchain, is propelling the development of novel financing solutions for SMEs worldwide.

Based on the experiences of SME financing in South Africa, and other countries around the world, there are a few ideas that Namibia can consider introducing into its own SME policy framework. Namibia can create a mandated institution with the main aim of providing loan guarantees and/ or encourage Namibian suppliers to implement Trade Credit from Suppliers, and a Leasing and Hire Purchase programme that would assist SMEs to acquire equipment more easily.

The South African government has introduced a Movable Assets Register that assists SMEs with presenting movable assets as collateral to commercial banks when applying for finance.
The authors hope that this study will be a prelude to further, more detailed research on the SME sector in Namibia - particularly as SME policy is revised and adapted to ensure its relevance and effectiveness. The availability of accurate, recent data including the detail that can be provided by a comprehensive enterprise survey is crucial for such research.

RECOMMENDATIONS

Capital markets inclusion for SMEs

SMEs in Namibia find it difficult to raise capital in the capital market as a result of the exclusivity of the market. As such, through regulation changes, the capital market should be opened to be more inclusive of SMEs and it should provide support and awareness to the SMEs. The Namibian Stock Exchange can create special tier-based SME segments to enable easier listing of SMEs, with support from the private financial institutions. Once fully developed, these SMEs listed in the tier-based segments can then be fully listed on the exchange's main market.

Capacity building programmes for SMEs and the creation of SME hubs

There are number of SME support programmes in the country including DBN SME Finance support programmes, the NIPDB MSME Development, Innovation and Acceleration programme, SME Compete, the Namibia Business Angel Network (NABAN), and Start-Up Namibia. These support programmes need to address several limitations such as:

- The existing supply is insufficient to satisfy the high demand.
- The support programmes that exist outside of Windhoek are still rather limited.
- The available SME incubators do not offer enough business perspectives to SMEs.
- The DBN's SME financing is skewed towards the construction sector, with SMEs in that sector receiving more than 24.2% of SME funding in 2022/23.

More public and private funding is needed for training and support programmes to handle the high demand. In addition, experienced and qualified trainers should be used while industry experts should be brought in cover specific sectors. SMEs that attend sector events or join an incubator or accelerator raise 23% more than those that do not, according to a Venture Capital for Africa research (AVCA, 2016).

Raise the visibility and awareness of SMEs

As stated previously, many SMEs in Namibia lack visibility and credibility, which is crucial to accessing funding and be seen by potential investors. The Namibian government, through its various institutions, such as the NIPDB, should continue to develop and support initiatives aimed at showcasing Namibia's leading SMEs to the world. Publicising positive information about SMEs such as business strategies, KPIs and governance structures could play a role. At the same time a public register for Namibian SMEs should be established.

Government policies should support and aid SME development

The current regulatory framework in Namibia, especially on business registration, copyright protection and taxation is not fully aligned with supporting SME development and growth. The government should embed SME development throughout its legislative and policy directives, national development goals. and growth strategies. In addition, the government should create an SME advisory council consisting of experts from the business, legal, financial and community development sectors. The government should further promote the roles of SMEs in value chains for government projects. Lastly, SME support programmes should be part of various government ministries.

The NIPDB should undertake an enterprise survey to provide up-to-date statistics on SMEs - how many are micro, small, medium etc, where they are situated in the country and so on.

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Institute for Public Policy Research (IPPR) was founded in 2001 as a not-for-profit organisation with a mission to deliver, independent, analytical, critical yet constructive research on social, political and economic issues that affect development Namibia.
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Active in more than 60 countries around the world, the Hanns Seidel Foundation (HSF) is a German non-profit organisation promoting democracy, good governance, the rule of law and anti-corruption. Cooperating with its Namibian partners, such as the IPPR, HSF also seeks to contribute to sustainable economic and social development, environmental sustainability, as well as climate adaptation and mitigation. The contents expressed in this publication are those of the authors and do not purport to reflect the views and opinions of the HSF.

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