OPPORTUNTIES FOR THE SAEDF IN NAMIBIA

Final Report

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ACRONYMS AND ABBREVIATIONS

CBO	Community-Based Organizations
COSEDA	Cooperative Support and Enterprise Development Agency
DSSII	Division of Small Scale and Informal Industries
ECU	European Community Union
FNDC	First National Development Corporation
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GON	Government of Namibia
IESC	International Executive Service Corps
IFC	International Finance Corporation
ILO	International Labour Office
IMLT	Institute for Management and Leadership Training
JCC	Joint Consultative Committee
KRCCI	Kavango Regional Chamber of Commerce and Industry
MSE	Micro and Small Enterprise
MTI	Ministry of Trade and Industry
NANGOS	Namibian Association of NGOs
NANGOF	Namibian NGOs Forum
NDC	Namibia Development Corporation
NDF	Namibia Development Fund
NGO	Non-Governmental Organization
NNCCI	Namibia National Chamber of Commerce and Industry
NNRCCI	Northern Namibian Regional Chamber of Commerce and Industry
NOBUDEC	Northern Business Development Consortium
PEDS	Private Enterprise Development Support Project
PSF	Private Sector Foundation
PTO	Permission To Occupy
RSA	Republic of South Africa
SACU	South African Customs Union Agreement
SAEDF	South African Enterprise Development Fund
SIAPAC	Social Impact Assessment and Policy Analysis Corporation
SED	Small Enterprise Development
SME	Small and Medium Enterprise
TSG	The Services Group
USAID	United States Agency for International Development
WVTC	Windhoek Vocational Training Centre

US$1.00 = N$3.60

Board Memorandum: Opportunities for the SAEDF in Namibia

Introduction

The purpose of this report is to assess the opportunities for utilization of USAID's Southern Africa Enterprise Development Fund (SAEDF) to assist small- and medium-sized enterprises (SMEs) in Namibia. Given USAID/Namibia's past focus on social issues, the mission felt that an overview of the private sector's current constraints and future opportunities would allow it to maximize the Fund's potential in Namibia. Specifically, the report provides USAID/Namibia with an overview of Namibia's private and financial sectors, focusing on the disadvantaged small- and medium-scale business sector; identifies specific firms and financial intermediaries that are potential beneficiaries of, or partners to, the Fund; and determines the extent of technical assistance and/or training required to make the firms and intermediaries identified viable partners to the Fund.

Overview of the Private Sector

The dualism of Namibian society is well recognized and is particularly apparent in terms of economic activity. It is evident not only in the wide gap in per capita income between whites and blacks but in the geographic distribution of registered enterprises. It is also reflected in the large size and capital-intensive nature of the formal private sector. The main sectors of the economy -- mining, commercial agriculture, fishing, and government -- account for 65 percent of GDP and lend themselves to large-scale operations. This aspect of the economy has made it particularly difficult for small- and medium-scale enterprises to compete and grow.

Since independence, the Government of Namibia (GON) has attempted to reduce the gap between white commercial enterprises and black (largely informal) enterprises through changes in legislation and regulations. One example of this is the recent repeal of the Trade Licensing Act. Despite these efforts, the influence of past history continues to act as an obstacle and will continue to do so for some time.

While the influence of past history still continues to act as an obstacle to private sector development, the economy also possesses a number of comparative strengths. With regard to utilization of the Fund's resources, Namibia's changing political and economic environment creates several potential opportunities for near-term business growth. Foremost among these changes are:

- The development of an emerging middle class with stronger buying power than previously existed. This has important implications for the housing, retail, and service sectors.

- South Africa's re-entry into GATT will force it to lower and rationalize its tariff system, thereby opening the country to increased international trade.

- Independence in South Africa creates an opportunity for increased overseas tourists.

- The policing of Namibia's fish resources and policy of Namibianization will lead to increased investment needs.

- Changes in land policy in communal areas will increase businesses' ability to access financing.

The sectors which are likely to have the most potential for Fund activity include:

- traders who can bypass the high cost structure of South African products by importing from lower cost producers in Asia;

- small-scale construction projects oriented to family housing;

- suppliers of goods and services to the GON;

- communal farmers trying to make the transition to commercial farming; and

- niche industries such as the production of roses and cosmetics for the local markets and fish farming for export.

In addition, potential also exists in the fishing and tourism sectors.

Lending Niche for the SAEDF

Although Namibia has a healthy commercial banking sector, these institutions seldom make business loans below N$100,000 (US$27,777). While there are a relatively large number of non-governmental organizations (NGOs) making loans to small- and medium-sized enterprises (SMEs), these organizations generally offer loan sizes only up to N$50,000 (US$13,890). Thus, there is a well-defined niche which the Fund can effectively address for enterprises requiring lending assistance between the range of N$50,000 to

N$100,000. As such, the SAEDF can be considered to be highly complementary to existing financial schemes.

Potential SAEDF Projects

Despite the significant obstacles faced by Namibia's SMEs, there are clearly many projects with good commercial potential, strong management, and which fit the parameters required by the SAEDF. This is reflected by the fact that on a daily basis, two or three sound proposals emerged for the consultants' review.

A sampling of the well-developed project proposals includes:

- **Auto parts importation and sales**: Project sponsor plans to import auto parts directly from Asia; currently, owing to the nature of the distribution network, the sponsor's wholesale source is also his retail competition. The project's key benefit would be increased competition and substantially lower prices for auto parts in Oshakati.

- **Private family home construction business**: Owing to the large-scale construction efforts being undertaken in Namibia, large construction firms are not aggressively seeking out individual house construction projects. This project sponsor proposes to fill that niche by building approximately three houses per month. Project benefits include an estimated 100 jobs after 2-3 years.

- **Turbot fish farming**: This proposed project intends to farm turbot for export by air to markets in RSA, Europe, and Asia. Similar aquaculture projects have been successful in Spain; Namibia offers similar climatic conditions and far superior water quality. A full feasibility study for this project has been completed which shows a substantial profit potential. Project benefits include introduction of a new technology, generation of non-traditional foreign exchange earnings, and an expected job creation of 30-35 jobs at full production levels.

- **Industrial chemical production**: Project sponsor proposes to purchase an existing industrial chemicals company. The sponsor has already obtained letters of interest from schools to purchase the company's products, and the GON has also expressed interest. Under the proposed expansion plan, employment could rise from its current seven workers to 65 employees, and marketing efforts would be expanded to the North, thereby substantially expanding the company's current market.

- **Cold season rose production**: By constructing a greenhouse, sponsor would like to extend his current rose production throughout the cold season; under the proposed expansion, the number of rose bushes in production would increase by threefold. Expanded production would enable Windhoek florists to reduce imports of lower quality South African and Zimbabwean roses; the four largest florists, representing 50 percent of the market, have already provided letters of intent to do so, should production occur on a year round basis.

In addition to these projects, there are a number of other promising proposals have been articulated to the consultants. While these additional projects are in need of further refinement as business proposals, a number have development potential which will make them worthy of consideration once a business development plan is completed.

Training Needs to Assist SAEDF-Supported Firms

A significant number of NGOs currently provide training to SMEs in business development skills. All of the organizations which are currently providing such training have expressed a strong desire to work with the SAEDF, and they see the Fund as complementary to their current programs. For NGOs, the ability to address somewhat larger projects would allow them to assist firms which they currently turn away. These existing organizations are already familiar with the SME sector, and appear able to do a good job in identifying and training potential projects.

Potential Financial Intermediaries for the Fund

Both the strength of Namibia's commercial banking sector, and the limited staff resources of most NGOs and Chambers of Commerce, suggest that commercial banks should hold responsibility for the disbursement of SAEDF funds, collection of loan payments, and the in-country monitoring of loans and equity investments. While the banks would not have discretionary authority over the granting of funds, this arrangement would minimize program administration costs by capitalizing on the banking sector's existing capabilities.

Conclusion

While a number of NGOs provide lending assistance to disadvantaged SME businesses, and larger, established businesses can benefit from traditional commercial bank lending, there exists a lending gap which could be met by the SAEDF. By focusing primarily on projects in the

N$50,000 to N$100,000 range, SAEDF resources can be used in a fashion which is highly complementary with existing lending efforts and satisfies a clear-cut need of the private sector that is currently not addressed. Moreover, the capacity to use existing NGOs and commercial banks as training and financial intermediaries for the program avoids duplication or competition with existing NGO or governmental programs, thereby making the most effective and focused use of USAID resources.

Chapter 1

Introduction

This report presents the investigation and analyses conducted to assess the opportunities for utilization of USAID's Southern Africa Enterprise Development Fund (SAEDF) to assist small- and medium-sized enterprises (SMEs) in Namibia. The findings and recommendations it describes are derived from the research and field investigations conducted by Robert Rauth of The Services Group (TSG) and Dennis Smyth of Coopers & Lybrand. Mr. Rauth, a Business Development Specialist, and Mr. Smyth, a Financial Sector Analyst, conducted their field investigations in Namibia during June 1995 under the auspices of USAID's Private Enterprise Development Support (PEDS) Project.

The SAEDF has been established to provide both debt and equity financing to disadvantaged SMEs throughout the Southern Africa region; Namibia is one of eleven countries targeted by the Fund. The SAEDF will work directly with both individual firms and through intermediaries such as non-government organizations (NGOs) and African financial institutions.

The purpose of this report is to:

- provide USAID/Namibia with an overview of the Namibian private and financial sectors, with a focus on the disadvantaged small- and medium-scale business sector;

- identify specific firms and financial intermediaries that are potential beneficiaries of, or partners to, the Fund; and

- determine the extent of technical assistance and/or training required to make the firms and intermediaries identified viable partners to the Fund.

The remainder of this report is organized as follows. Chapter 2 examines the Namibian private sector, assessing the sector's strengths and weaknesses, and profiling key sectors of the economy to assess the likelihood of projects suitable for SAEDF funding. Following this discussion, a number of potential projects are presented; these include project proposals which are well developed, as well as those which require further development but which show substantial promise. The chapter concludes with a review of current training programs conducted by a variety of NGOs for SMEs in Namibia.

In Chapter 3, Namibia's financial sector environment is examined, including an assessment of current constraints faced by SMEs in Namibia. In order to evaluate the possible scope for SAEDF lending activities, both past and current efforts to assist the SME sector are reviewed, including activities by the GON, various NGOs, and Chambers of Commerce. Drawing upon this discussion, the potential niche for SAEDF lending is identified.

Finally, Chapter 4 presents the report's conclusions and recommendations, focusing on how USAID/Namibia can best maximize the use of SAEDF resources in Namibia. The chapter also identifies the preferred medium for providing technical assistance to potential Fund beneficiaries, and identifies potential financial intermediaries for the implementation and monitoring of SAEDF lending.

The Private Sector in Namibia: Opportunities for the SAEDF

Overview of the Private Sector

Dualism of the Namibian Economy

The dualism of Namibian society is well recognized. This dualism is particularly apparent in terms of economic activity and is perhaps the most defining characteristic of Namibia's private sector. Evidence of this dualistic nature include the following:

- In 1988, it was estimated that the white modern sector contribution to Gross Domestic Product (GDP) was 71 percent.
- In 1991, the World Bank calculated that the average per capita income of the white modern sector was US$16,500 while black per capita income was US$365.
- The Namibia National Chamber of Commerce and Industry (NNCCI) notes that only 10 percent of registered businesses are found in the North, despite the fact that the majority of the population is located in the region; in contrast, Windhoek -- with approximately 10 percent of the population -- is host to more than 50 percent of registered businesses.

The dualism is also reflected in the large size and capital-intensive nature of the formal private sector in Namibia. The main sectors of the economy -- mining, commercial agriculture, fishing, and government -- account for 65 percent of GDP and lend themselves to large-scale operations. Of the 274 manufacturing enterprises surveyed by the Ministry of Trade and Industry (MTI), only 35 were considered small and these accounted for less than six percent of the sector's employment and two percent of manufacturing turnover. The dominance of the economy by large firms has several implications. These include:

- The dominance of the economy by large businesses makes it difficult for small-scale firms to act as suppliers as the quality and price levels are extremely competitive and the size of the orders are typically beyond small and medium enterprise (SME) capability. For Namibian businesses, the learning curve is steep as there are few niches without strong existing competition.
- Most large firms in Namibia are based in South Africa and

have long utilized South African suppliers which further impede Namibian marketing opportunities.

- The high wages of the white formal sector have artificially raised wages which has had the effect of encouraging capital-intensive rather than labor-intensive industries. The Commonwealth Secretariat, for example, found that the capital investment per employee is US$34,000 -- a level which is similar to more industrialized countries with much higher labor costs than Namibia. Generally, developing countries would have a figure of less than US$10,000. The capital-intensive nature of industry hinders Namibia's ability to address its growing unemployment problem.

Continuing Structural Weaknesses

Since independence, the Government of Namibia (GON) has attempted to reduce the gap between white commercial enterprises and black (largely informal) enterprises through changes in legislation and regulations. Despite these efforts, this process is likely to continue far into the future before significant gains are achieved. The influence of past history continues to act as an obstacle for private sector development. Examples include:

- Until independence, Namibia served as a de facto province of the Republic of South Africa (RSA). Namibia's economic relationship has continued to be one of providing food products and raw materials in return for capital equipment, intermediate inputs, and consumer products. South Africa accounts for 90 percent of Namibia's imports.

- Formal, black businesses have been encouraged only since independence. These ventures naturally have less experience, sophistication, and capital than their white counterparts.

- Educational levels of indigenous entrepreneurs are low with the majority limited to less than secondary education. This has made it difficult for small businesses to maintain good records for financial management and planning purposes. Moreover, it has made it extremely difficult for firms to bid on government tenders which comprise a huge potential revenue source.

- The Southern African Customs Union (SACU) Agreement -- while an important source of revenue for the GON -- has served as an obstacle to private sector development in Namibia as its high tariff levels have protected South African manufacturers from international competition and allowed it to dominate smaller economies such as Namibia (the agreement also effectively prohibits Namibia from offering infant industry protection).

- In apparent conflict with the SACU Agreement, several sources report that South African firms are receiving export incentives on sales to Namibia, which further strengthens their competitive edge vis-a-vis Namibian manufacturers.

- The bulk of government expenditure on agriculture and rural development has gone towards land development and provision of infrastructure in commercial areas while the communal areas were neglected.

- While a strong commercial banking sector does exist in Namibia, it continues to be oriented towards larger white businesses. To some extent, this is a reflection of the fact that white businesses have better access to land titles and thus are more able to provide collateral to obtain financing.

- Many pre-independence policy and regulatory constraints remain in force. This is particularly true with regard to licensing activity in high potential sectors such as accommodation and transportation where stringent standards have effectively restricted new entrants.

It is worth noting that the distribution networks which exist in Namibia are a strong obstacle to SME development. Owing to restrictions on overseas investment, South African firms were forced to expand both vertically and horizontally. Independent distribution networks are therefore less common than in many other countries. Consequently, even large retailers in Namibia are forced to purchase their supplies from distributors rather than direct from the factory. This increases their costs as well as those of the consumer. In addition, the South African distributors also act as retailers and typically sell their goods at the same price to consumers as those offered to competing retailers. The strong protection afforded by SACU has made this distribution network difficult to evade.

Comparative Advantages

While the list of obstacles faced by Namibia is long, the country's strengths should not be overlooked. Foremost among these are:

- The government is generally pursuing pragmatic economic policies and has provided a sound macroeconomic environment.
- The country possesses an extremely well-developed

infrastructure by African standards.

- Namibia has an extremely diverse base of natural resources with a large number of minerals, gas and oil reserves, extensive fish resources, and extensive land holdings for agricultural purposes.

- The private sector is relatively sophisticated with high levels of business support services.

- Unlike many African nations, Namibia has a functioning commercial banking sector with excess liquidity and the capacity to make long-term loans.

- Namibia is home to one of Africa's few functioning multi-party democracies and has a strong free press.

- Windhoek and other major towns boast a superior quality of life with high quality medical and educational facilities.

At the same time, Namibia's changing political and economic environment leads to several potential opportunities for near-term business growth:

- The boycott of Southern Africa by overseas tourists has ended opening the way for the region to actively develop this sector.

- Extensive over exploitation of Namibia's rich fishing resources has been stopped and the GON has instituted a system designed to encourage the development of an indigenous fishing and processing industry.

- Incentives have been introduced to stimulate export investment in manufacturing.

- South Africa's re-entry into GATT will force it to lower and rationalize its extremely complex tariff system. This will open the way for increased international imports and improved trade opportunities for Namibian retailers.

- The post-independence government is more equitable in its activities and has fostered the development of an emerging black middle class with stronger buying power than previously existed.

- The requirement that pension funds invest a minimum 35 percent of their assets in Namibia will likely stimulate local investment at least in the short-term.

- Changes in land policy in communal areas (starting with municipalities) will allow businesses to obtain land deeds which will increase their ability to access financing.

Sector Profiles

Although comprehensive investment statistics are not maintained in Namibia, there is a consensus that investment has been concentrated in tourism, fishing, and mining in recent years. Investment in manufacturing has been limited, despite the introduction of a series of incentives. In fact, the Namibia National Chamber of Commerce and Industry (NNCCI) reports that overall, private investment capital continues to flow to South Africa; pension funds and insurance companies in Namibia invested N$515 million (US$143 million) in South Africa in 1993 (up from N$420 million (US$117 million) in 1992).

A brief overview of the critical sectors and their likely relevance to the SAEDF are explored below.

<u>Mining</u>. Mining represents 18 percent of GDP and 54 percent of export earnings. It is generally believed that Namibia's mineral resources are under-explored and that current exploration is not sufficient to maintain stable levels of mining activity into the future given the long lead times required for mine development.

The sector, as throughout the world, is dominated by large firms. The number of small mining operations is difficult to determine. Anecdotally, there are several one-man operations mining semi-precious stones on a clandestine basis. The Commonwealth Secretariat estimates that small mining operations may employ as many as 1,000 to 2,000 persons.

Like their larger counterparts, the formal small-scale mining sector is dominated by whites. The Association of Miners and Prospectors believes that of the 900 outstanding prospecting licenses, fewer than 150 are active. The association currently has approximately 60 members, of which three or four are black Namibians. It is estimated that 90 percent of black-run mining operations are done within the informal sector; these are primarily involved in semi-precious stones.

Apart from the small percentage of disadvantaged Namibians within the sector, there are other reasons why mining does not hold strong potential for SAEDF activity. Most importantly, other donor efforts have not proven successful in stimulating small-scale mining -- despite the fact that known reserves could be profitably exploited in several locations. For example, a European Community project worth ECU 150 million for capital investment in small-scale mining has remained unutilized in its first 18 months. The project, known as Sysmin, would also provide for the free preparation of feasibility studies by the large mining firms in Namibia.

The Chamber of Mines believes that there are three factors explaining the failure of the project to proceed:

- the new Mining Act imposes stringent reporting requirements on small firms which has discouraged activity;

- the GON has demonstrated little interest in small-scale mining as demonstrated by the fact that the Directorate for Small Miners was never created as planned; and

- small-scale miners generally have "pioneer-like mentalities" which make them reluctant to deal with the requirements of donor and GON agencies.

<u>Fishing</u>. Namibia is home to some of the richest fishing grounds in the world with potential for sustainable yields of up to 1.5 million metric tons per year. Investment in the fishing sector has been substantial and is reflected by the growing importance of fishing to the Namibian economy; it is now the fastest growing sector of the economy in terms of employment, export earnings, and contribution to GDP. Fish products accounted for US$235 million in exports in 1993 while unprocessed fish accounted for an additional US$67 million. Together, the two are second only to diamond exports which totaled US$452 million in 1993. The Ministry of Fisheries estimates that as many as 100-200 additional vessels will be required over the next ten years as fish resources continue to recover.

Long controlled by foreign companies, the GON's overriding objective is the "Namibianization" of the sector. Preferential treatment on the allocation of fish concessions has been based on the level of local ownership and investment. The policy has generated extremely strong interest among indigenous Namibians.

Investment needs in the sector are substantial and are typically beyond the level possible under the SAEDF. Fishing vessels are regularly priced well beyond the US$500,000 loan limit and fish processing plants require even larger investments. As a result, any SAEDF activity would likely have to be as an equity investment.
Due to the fact that investment requirements are high and that quotas

were granted to over 120 firms, many concessionaires have established consortiums to pool resources. Even by pooling resources, however, many groups have been forced to sell quotas to other companies. At present there is a vast underutilization of existing processing plants; two canneries never became operational this year while two others were forced to cease production after their quotas were filled.

Concessionaires receive fish quotas for periods between 4 to 10 years and although these can easily be sold on a secondary market no bank has yet accepted them as collateral (one fishing executive stated that the revenues from selling quotas represent one-third of the market price while another noted that it meant one-eighth the profit that would occur if caught directly). One ship owner claimed that the GON does not allow the quotas to be used as collateral but this could not be confirmed.

Agriculture. Given Namibia's climate, the country's most important agricultural products are meat related items. Meat and meat preparations are the fourth most important export at US$99 million in 1993 followed by the export of live cattle and sheep at US$79 million.

Two-thirds of Namibia's 1.44 million people derive their living from subsistence farming and herding. The Namibia National Farmers Union has 60,000 to 80,0000 members -- nearly all of whom are traditional farmers operating on communal lands. Consequently, they have no "acceptable" collateral and little access to commercial bank lending. In contrast, there are 1,000 to 2,000 commercial farmers in Namibia; of this amount, it is estimated that there are approximately 250 black commercial farms. According to National Agricultural Union officials, commercial farmers have good access to commercial banks as well as the Agricultural Bank.

More than 60 percent of the population however lives north of the Trans-Veterinary Cordon Fence or "Red Line" which has been constructed to prevent the spread of cattle disease. Only government-authorized institutions such as Meatco are allowed to buy cattle in these regions and the cattle must be quarantined to ensure its safety before being slaughtered; the prices received for this cattle are therefore regularly less than those received for cattle raised south of the red line. This issue remains highly volatile for both economic and environmental reasons.

Tourism. Tourism related activities generate approximately N$500 million (US$139 million) annually and provide 10,000 direct and another 10,000 indirect jobs. In 1993, 255,000 tourists visited Namibia and the number is expected to reach nearly 400,000 by 1997 and 635,000 in 2002. Earnings in the sector are forecast to expand four-fold between 1992 and 2002 to become the second or third most important sector of the economy. However, overall room occupancy in 1994 was only 40 percent and the number of visitors actually decreased between 1992 and 1993.

Namibia's objective is to develop "high yielding quality tourism." While this is a relatively recent formal policy, Namibia's tourism sector has long had rigid standards which have made it difficult for disadvantaged entrepreneurs to enter the market (accommodations must have at least 10 rooms for example). Consequently, while tourism may have received more investment than any other sector in recent years, little of this investment has been sourced from black Namibians. Instead, much of the investment has been in the proliferation of guest farms, which are primarily sponsored by white commercial farmers (for diversification of revenue as well as tax purposes).

Stringent controls mean that many of even the most well-known accommodations in the Northern region remain unregistered; Rundu and Oshikati, for example, have only one registered accommodation facility each. The liberalization of licensing policy would bring greater opportunities for emerging entrepreneurs; nonetheless this sector will continue to be dominated by white Namibians as well as foreign investors.

The GON has received more than a dozen applications for community-based tourism projects up north. These projects are often too small for the SAEDF with investment levels as low as N$10,000 (US$2,780). More importantly, the project sponsors have no tourism expertise and no clear delineation of management responsibilities.

Manufacturing. Manufacturing accounts for only nine percent of GDP and 10,000 jobs. The economies of scale enjoyed by South Africa gives its manufacturers significant cost advantages over Namibian competitors; moreover, the Namibian market is too small for many kinds of manufacturing activities. Despite a series of incentives offered to stimulate manufacturing investment, the results have been disappointing and manufacturing activity is largely stagnant.

MTI estimates that there are approximately 90 formal, small manufacturing operations which employ 550 permanent staff and 200 part-time staff. While it is possible that certain niches could be competitive due to the high cost structure of South African firms, in the medium-term, the reduction of tariff levels as part of South Africa's compliance with GATT will introduce even more competitive products from Asia and elsewhere. In the near-term, investment opportunities are most likely to emerge in the export processing zone which is off-limits under USAID regulations.

Construction. Since independence there has been a boom in the construction sector. This is partly the result of increased migration to Windhoek and the GON's attempt to provide adequate housing. According to the National Housing Enterprise, it is estimated that about 45,000 to 50,000 houses in Namibia are inadequate. The large number of government tenders has allowed smaller firms to face less competition on private individual projects. This is clearly a potential sector for the SAEDF to address.

Transportation. The transportation sector is typically one of the first opportunities available to SMEs in other African countries. In Namibia, however, Transnamib continues to enjoy preferential status and hauling licenses are not easily obtained. According to NNCCI officials, there are still no licensed transportation firms in the Northern region of the country, although at least three are known to be operating informally. Privatization of Transnamib -- which has been discussed within government -- would allow significant opportunities for the SAEDF as would further liberalization of licensing procedures.

Trade and Services. Wholesale and retail trade accounts for 12 percent of GDP. As discussed above, distribution networks which are tied to South Africa, and the high tariffs of SACU, currently pose as significant constraints to indigenous development in this sector. At the same time, however, this high cost structure can present an opportunity to those utilizing alternative sources from outside the region.

Black entrepreneurs are concentrated in the trade and services sector and are predominately small and informal. Despite their informality, the size of informal sector businesses can be significant. A survey conducted by the Commonwealth Secretariat found that almost half of all informal businesses employed three or more persons; a survey carried out in Ovamboland by the Northern Namibia Regional Chamber of Commerce and Industry (NNRCCI) found that the average employment was 11 workers. The Commonwealth survey stated that sales revenue could also reach high levels among informal firms with a peak of as high as N$30,000 (US$8,333) per month. Similarly, the Hawkers Association notes that its members sales often reach net profit levels as high as N$3,000 to N$4,000 (US$833 to $1,111) per month.

Given the concentration of indigenous businesses in this sector, it is likely to be a primary source of SAEDF opportunities, largely at the low end of the market -- which of course is where most Namibians are. Potential is strong for traders who have sufficient purchasing power to access goods from Asia and other lower cost producers. The relatively high cost South African products will face difficulty in competing with inexpensive Asian imports, particularly as South Africa's high import tariffs come under pressure from GATT. In addition, indigenous traders are well positioned to take advantage of this market opportunity as they can better target more cost-conscious black consumers.

Privatization. Although not a sector per se, excellent potential exists for the SAEDF should the GON begin a divestiture program. Government assets which would be particularly attractive to SMEs would include the Amcon retail outlets in the North, government-owned tourist facilities, and Transnamib trucking operations.

Unfortunately none of these opportunities is likely to emerge in the near future. The Amcon holdings fall under the Namibia Development Corporation (NDC) umbrella -- although they are now expected to operate independently on a commercial basis. NDC management states that divestment should occur over the next five years. At present, the GON has no plans to privatize the tourist accommodations; instead, a parastatal will be created to operate the lodges independently on a commercial basis. The World Bank's International Finance Corporation (IFC) reports that Transnamib management has expressed interest in privatizing 50 percent of its shares; but, rather than a piecemeal approach that would allow for small independent operators, Transnamib management would prefer to sell the shares on the stock exchange.

Description of SME Sector

The SAEDF is designed to assist small and medium enterprises. As noted in the SAEDF Project Paper[1], no firm definition can be used across countries. A large-scale industry in Namibia could be a medium-sized business in South Africa. In Namibia, the Ministry of Trade and Industry has defined small industries as those with capital employed in plant and equipment of less than N$1 million (US$277,780). In contrast, NNCCI officials define a SME as one having fewer than 50 employees.

The Commonwealth Secretariat estimates that up to 30 percent of the country's workforce, amounting to over 150,000 people, derive some form of employment and income from small and informal business activity. Their estimate on the employment breakdown within small

[1] Southern Africa Enterprise Development Fund, Project Paper, U.S. Agency for International Development, September 1994.

formal sector firms is the following: retail trade 50-60 percent; catering 20-30 percent; repair and other personal services 10-15 percent; with industrial activities at 5-10 percent.

Compared to other developing nations, Namibia has a significantly higher concentration of activity in retail and catering while industrial activities are well below the levels that would be found in other countries. In Kenya, for example, as many as half the small businesses surveyed have been in manufacturing. The relative weakness of small-scale industrial activities in Namibia is demonstrated by the fact that goods sold by the informal sector are often more expensive than those sold by the formal sector. This is because the informal sector typically buys finished goods at retail prices and then resells them.

The Commonwealth's sectoral estimates are reflected by Chamber membership in Northern Namibia. Overall, the membership is dominated by small retail, cuca (informal restaurants) and liquor shops. The three northern branches of the NNCCI estimate that 80-90 percent of their members fall into this category. This replication of activities is one of the main reasons for businesses' inability to grow; the seeking out of new market niches remains relatively rare. Overall, Chamber officials in the North estimate the less than 20 percent of members can be considered to be SMEs -- while 80 percent would be considered micro-enterprises.

Profiles of Potential Projects

Overview

The Project Paper states that the Fund "will focus on indigenous and disadvantaged enterprises, and primarily on the small and medium end of this market... In general terms such an entity could be thought of as one that is owned, controlled, and operated by a citizen of the country, has lacked access to finance, and employs up to 150 people." Firms should have "an indigenous majority ownership or a plan for the indigenization of the ownership. At a minimum, indigenous will mean an enterprise owned, operated, and controlled by a citizen of the country in question..."

The Project Paper notes that the Fund can be flexible in dealing with larger companies that fall outside the SME definition when there is "exceptional development potential -- e.g., large number of jobs; spreading ownership and wealth; [and] significant demonstration effect..." This provision allows for a few additional project profiles to be included which would otherwise not be eligible.
The Project Paper states that loans will range from US$5,000 to

US$500,000 and that equity contributions must total a minimum 30 percent by the sponsor. Given these parameters, it should be emphasized that the SAEDF has not been created to assist informal sector micro-enterprises. To meet the minimum loan and equity requirements, a venture or project sponsor must have already had some success; the SAEDF is designed to assist the entrepreneur to move up to the next step on the economic ladder. According to Chamber and NGO officials, the number of firms that can reach these parameters is low, although they are quick to emphasize that such firms do exist and are worthy of funding.

Because black businesses have only been formally recognized since independence, the potential universe of eligible firms is relatively small. There are approximately 9,400 registered businesses in Namibia of which approximately 2,000 are members of the NNCCI. The NNCCI estimates that among its members, 80 to 90 percent are owned by whites; the number of black-owned formally registered businesses is approximately 200 to 400 firms.

Given that NGOs in Namibia generally make loans only as high as N$50,000 (US$13,890), the SAEDF only overlaps NGO activity at the smaller end of the spectrum. Conversely, commercial banks in Namibia generally do not make business loans below the N$100,000 (US$27,780) threshold. As a result, the need for SAEDF will likely be especially acute between the range of N$50,000 to N$100,000. At present, the NDC is the only institution which plans to address that level and thus the SAEDF can be considered to be highly complementary to existing financial schemes.

The following list of potential projects is listed into two categories: proposals that are already well-developed and those that require further development but show substantial promise.

Well-Developed Project Proposals

Project proposals in this section are well advanced. Ideally, they would have full feasibility studies with projected financial statements, engineering plans etc. Not surprisingly, these projects are typically sponsored by more sophisticated entrepreneurs.

Project Sponsor:	**B.H. Motor Spares**
Contact:	Mr. Benjamin Hauwanga, General Manager/Owner
Address:	Oshakati, Namibia
Phone:	(06751) 30315
Project Description:	Mr. Hauwanga currently has nine auto parts stores in the region. Because of the nature of the distribution networks his wholesale source is also his retail competition. The competitor's retail and wholesale prices are the same. Sponsor would like to import directly from Asia at substantially lower costs.
Previous Experience:	Sponsor is one of the most successful businessmen in the region.
Ownership Structure:	Family business
Size of Investment:	Wants to import N$500,000 in stock from Asian suppliers.
Equity Contribution:	Sponsor can pay 40 percent of the necessary amount in cash. His current investment in buildings is N$400,000 and his stock is valued at N$2.6 million (only N$200,000 of which is on credit).
Target Market:	Oshakati vehicle owners/garages
Expected Sales:	Current gross revenue is N$300,000/month
Opportunity for Growth:	Sponsor notes that on many products the imported goods will allow him to sell items at 33 percent of current costs.
Expected Job Creation:	Currently has more than 50 employees
Profitability Estimate:	Current profits average N$110,000/month
Need for Technical Assistance/Training:	None
Comments:	Sponsor has already traveled to Asia to obtain price quotes and examine quality of products. He is clearly a good businessman who understands the needs of his market. As his main competitor has recently established operations in the area he needs to find an alternative supplier. He has been unable to buy directly from the factory as Cymot and other suppliers hold exclusive sales rights.

Project Sponsor:	**KT Construction**
Contact: Address: Phone:	Mr. Heinrich Uazuva Kaumbi P.O. Box 23659, Windhoek, Namibia (061) 290-2410 (w) (061) 243-154 (h)
Project Description:	Sponsor is in the process of establishing a small construction company and is interested in both equity investment and a credit guarantee for an overdraft facility. Because of the nature of the construction business, the firm needs an overdraft facility of N$50-100,000.
Previous Experience:	Mr. Kaumbi is a civil engineer and is currently in the third year of study for the B.Com degree. He is also presently employed with the Windhoek municipality. Mr. Kaumbi is a registered estate agent and has been designing houses on a part-time basis for three years. His partner, U.G. Kamberipa is a Senior Instructor of Building and Construction at the Windhoek Vocational Training Centre; he also works part-time on house construction projects.
Ownership Structure:	Closed corporation
Size of Investment: Collateral:	Investment needs are minimal at approximately N$10,000. Sponsors are willing to put up houses and vehicles as collateral
Target Market: Expected Sales:	Private family house construction in the Windhoek area Three houses/month
Opportunity for Growth:	Because of the large-scale construction efforts being undertaken in Namibia, large firms are not aggressively seeking out individual house construction projects. Several projects have been refused by the sponsor because of current cash limitations; he is currently working on six quotations and agreement has been reached on five other projects. Unlike other small-scale builders, Mr. Kaumbi is well-versed in costing projects, undertaking critical path planning etc.
Expected Job Creation: Profitability Estimate:	100 jobs after 2-3 years 20-30 percent on revenue before tax
Need for Technical Assistance/Training:	None
Comments:	Mr. Kaumbi is one of the most impressive entrepreneurs met during this visit. He is dynamic, multi-faceted, and has a vision for the future. He is currently in the midst of developing his own business proposal which will be completed in the near future.

Project Sponsor:	**Marine Life Namibia Pty.**
Contact:	Mr. J. Juhanak
Address:	P.O. Box 40218, Windhoek, Namibia
Phone:	(061) 34038 (061) 225063 (fax)
Project Description:	Interested in equity finance to establish a turbot fish farm in Hentes Bay
Previous Experience:	Mr. Juhanak is an engineer who is currently director of the Namibian National Institute of Productivity and Economic Growth.
Ownership Structure:	Naras Investment, a group of black Namibians headed by Festus Naholo Secretary of Economic Affairs for SWAPO, is expected to assume the largest shareholding in the enterprise with a small one percent share taken by Sun Fish Norway which will supply the technology. As project designer, Mr. Juhanak hopes to receive a founder's share of five percent.
Size of Investment:	US$3.5 million
Equity Contribution:	Sponsor believes that 30 percent level can be achieved.
Target Market:	Product would be air freighted to export markets
Expected Sales:	First phase production will be 130 tons per annum at approximately US$11-12/kilo.
Opportunity for Growth:	Project is designed to expand to a production of 500 tons per annum. Demand for the product is strong in the RSA, Europe, and Asia.
Expected Job Creation:	30-35 jobs at full production
Profitability Estimate:	IRR of 24-25% with full repayment after five years
Need for Technical Assistance/Training:	Technical assistance will be provided through the Norwegian partner.
Comments:	A full feasibility study of this project has been completed. With production costs of US$3.6-3.8/kilo, and sales prices averaging US$11-12/kilo, the profit potential of this project is substantial. Marketing will be conducted through a firm based in Cape Town. Turbot aquaculture projects are successful in Galacia Spain which offers similar climatic conditions to Namibia; sea water quality in Namibia is far superior to that in Spain. From a development perspective, this project is highly positive in that it will generate foreign exchange earnings and introduce new technology.

Project Sponsor:	**Jesco Industrial Chemicals**
Contact: Address: Phone:	Mr. Rakurupa Murangi P.O. Box 514, Walvis Bay, Namibia (0642) 3497/6188 (0642) 3498 (fax)
Project Description:	Sponsor proposes to purchase an existing industrial chemicals company. The company has developed 47 products in areas such as soaps, floor polishes, bleaches, toilet bowl cleansers. He is open to either equity or loan finance.
Previous Experience:	Mr. Murangi has paid N$4,000 to Jesco in exchange for training. He studied Criminology at the New York Institute of Technology; his wife studied Business Administration at Mercy College. Mr. Murangi has managed three different businesses and until recently was employed at the Namibia Ports Authority as an Instructor. Mrs. Murangi is presently employed with Namibian Sea products as credit controller, administrator and receptionist.
Ownership Structure:	Jesco is operated as a sole proprietorship.
Size of Investment: Equity Contribution:	ND$300,000 to buy the machinery and technology (building is leased) ND$40,000
Target Market:	Cleaning products for schools (mining operations are secondary market and currently export to mines in Botswana and Zimbabwe)
Expected Sales:	Sales are N$2.8 million annually
Opportunity for Growth:	Jesco has no competitors manufacturing within Namibia. Firechem -- a South African company -- is the primary competition but its clients are dissatisfied with its performance. Jesco is also more competitive in terms of price than Firechem and the quality is the same. Jesco has never tried to market its products in the North and has basically been reactive in its marketing efforts. Strong interest has been evidenced by GON and school officials to purchase Jesco's products should sponsor become the proprietor.
Expected Job Creation:	Currently employs 7 people. The present owner states that with Mr. Murangi's expansion plan, employment could "easily increase to 65."
Profitability Estimate:	Last year's after-tax profits were N$1 million and break-even point could be reached in less than a year
Need for Technical Assistance/Training:	Mr. Murangi would like further training in business management and marketing. Sponsor plans to retain current consultant on a full-time basis.

Comments: Mr. Murangi was interviewed on the telephone and he came across as a dedicated and creative individual. He has already done a lot of groundwork in marketing Jesco and has several letters from schools offering to purchase his products. Mr. Murangi states that the current owner wishes to retire in South Africa; as a member of SWAPO, the current owner would like to sell the company to a Namibian which appears to be the reason behind the low sales price.

Project Sponsor: **Namib Roses**

Contact: Mr. Francois Durand
Address: P.O. Box 5917, Windhoek, Namibia
Phone: (061) 251301 or (0628) 1641

Project Description: Sponsor grows roses for the local market and would like to establish a greenhouse to allow him to continue production during the cold season. As part of this expansion, the number of rose bushes would be increased from 3,000 to 10,000.

Previous Experience: Mr. Durand has been in the rose business for six years. Namib Roses has been in business for two years, prior to that, the sponsor was farm manager of a rose farm in South Africa. Mr. Durand attended the University of Stellenbosch.

Ownership Structure: Sole proprietor

Size of Investment: N$210,000 for greenhouse (N$110,000), rose bushes (N$60,000), and working capital (N$40,000)
Equity Contribution: Mr. Durand has already invested approximately N$100,000

Target Market: Primarily local florists
Expected Sales: Current sales are N$9,000/month.

Opportunity for Growth: Sponsor is the only rose grower in Namibia and presently supplies 10 percent of the market. The four largest florists in Windhoek represent 50 percent of the market and they would like to increase their purchases from Namib Roses (and have given him letters stating this intention) because of superior quality and difficulties in dealing with air freighted roses. Competition is primarily from South Africa; South African roses are similar in price but inferior in quality due in part to lack of cool rooms at the Windhoek airport. Zimbabwean roses are less expensive but of even poorer quality.

Expected Job Creation: Currently 2 full-time and 3 casual
Profitability Estimate: Current after-tax profits of N$2,800/month; proposed investment would

reach break-even point within 2 years. Construction of a greenhouse would give sponsor an additional three months revenue per year; moreover, productivity would increase by 25 percent due to the fact that roses grow faster in greenhouses than in the present shadecloth facility.

Need for Technical Assistance/Training:	Would like business management training but finds that the IMLT program is "too basic."
Comments:	Mr. Durand is an impressive candidate who has demonstrated strong understanding of the market. A full marketing and financial plan has been completed. He is a white Namibian who has been able to obtain only one loan of N$30,000 (guaranteed by his father). Sponsor has no collateral as he has a ten-year land lease with option to renew. He has never paid himself a salary and has re-invested all profits.

Project Sponsor:	**African Challenge**
Contact:	Mr. Jesaja Denis Hatutale
Address:	P.O. Box 61246, Katatura/Windhoek, Namibia
Phone:	248-585 248-587 (fax)
Project Description:	Sponsor has created a board game entitled "African Challenge" which he wishes to sell in the United States. The game tests players knowledge of African politics, geography, and history. He is open to either equity or loan financing.
Previous Experience:	Mr. Hatutale created the business in 1992 with his board game: "Namibia Challenge." He has a degree in Biology from Grambling University.
Ownership Structure:	Closed corporation
Size of Investment:	US$85,000
Equity Contribution:	Sponsor has already invested approximately N$75,000
Target Market:	First phase: African-Americans. A Chicago firm has proposed a budget for a production run of 5,000 copies. It is projected that they will be produced for US$9.95 each, wholesale at US$18.99 and retail for US$24.99.
Expected Sales:	US$103,950

Opportunity for Growth: The game has generated huge amounts of interest and would appear to have a large potential market. Apart from African-Americans, the OAU has recommended that African schools purchase the game. A French company has translated it and has approached a French publisher with extensive experience in selling educational texts in Africa. A South African publisher would also like to produce the game. A "Zimbabwe Challenge" has been written and Mr. Hatutale is now preparing a "Latin America Challenge."

Expected Job Creation: None

Profitability Estimate: For the U.S. campaign, a profit of US$33,955 is forecast on sales of US$103,950

Need for Technical Assistance/Training: None

Comments: Sponsor is an extremely creative and persistent person who has developed an outstanding product. He received a grant of N$9,000 from Oxfam Canada for use in producing "Namibia Challenge." Despite little access to white shops, no phone, and no marketing budget, Mr. Hatutale sold all but 150 of the 1,300 games produced. NDC agreed to give him a loan to produce "Africa Challenge" but has never made this money available. As a result, the printer refuses to release 1,500 copies (the other 1,500 have already been sold or given as samples) until he pays N$93,000. This issue needs to be settled as the printer still holds the original film which the South African publisher needs to proceed.

Project Ideas Requiring Further Development

The consultant met with a large number of entrepreneurs who demonstrated ambition, good business sense, claimed to have sufficient equity or security, and identified a sound market niche. Oftentimes however, these were plans that existed in their heads rather than on paper. Consequently, while the ideas were attractive sounding, the entrepreneurs did not have a project proposal on paper and could not articulate the return the investment would generate.

Project Sponsor: **Trans-Caprivi Service Station**

Contact: Mr. Faustinus Wakudomo
Address: P.O. Box 339, Rundu, Namibia
Phone: 067372-859 or 339

Project Description: To establish a service station on the Trans-Caprivi Highway which is currently under construction

Previous Experience:	Mr. Wakudomo is currently the Chairman of the Kavango Chamber of Commerce. He is also a manager of his brother's construction business. He studied accounting and did three months of business courses.
Ownership Structure:	Individual owner
Size of Investment:	N$860,000
Equity Contribution:	30 percent
Target Market:	At present, the closest petrol station on the highway is 180 km away; government vehicles are expected to be the main source of revenue.
Expected Sales:	N$100,000/month
Opportunity for Growth:	The Trans-Caprivi Highway will allow shipments to go from Walvis Bay to Northern Botswana and Zambia; it is expected to have a significant impact on regional traffic patterns
Expected Job Creation:	None
Profitability Estimate:	Estimates five years to reach break-even point
Need for Technical Assistance/Training:	Engen will provide customer relations training as it is part of the franchise agreement.
Comments:	Sponsor has a verbal agreement with Engen to have a franchise. The franchise fee of N$160,000 is included in the total investment amount. A PTO for the site has already been obtained. The sponsor is eventually interested in establishing a truckport and motel to serve truckers and other travelers. Two major questions remain: there is no consensus on when the Highway will be finished and the sponsor's understanding of how franchises work seems limited.

Project Sponsor:	**Namibia Undertakers**
Contact:	Mr. C.D. Shifotoka
Address:	P.O. Box 791, 9000 Oshakati, Namibia
Phone:	Unknown
Project Description:	Namibia Undertakers is interested in obtaining refrigeration facilities which would allow him to provide a higher level of service than his competitors.
Previous Experience:	The business was established in 1986 and is now the largest firm of its kind in the Oshakati area. Mr. Shifotoka has taken business

	training courses from the IMLT and the Institute of Business Management.
Ownership Structure:	Individual owner
Size of Investment:	To be determined; his initial estimate was N$50,000 for the refrigeration facilities but this may be an underestimation of the true costs.
Equity Contribution:	Sponsor holds a PTO from the municipality for the land. There is a substantial building which he put up and he estimates his investment to date at N$500,000.
Target Market:	There are currently seven other manufacturers of coffins in the area but sponsor is the only one which provides other funeral services. He is more expensive than the others and thus serves the higher end of the market.
Expected Sales:	The average funeral generates N$450 (average coffin comprises N$400 of this amount) and 6-7 funerals per week is the average.
Opportunity for Growth:	No other undertaker in the region offers refrigeration facilities. At present, the only such facilities in the area are with the hospital and police. The facilities would allow people to hold services on weekends which would allow more attendees -- this is therefore an important cultural consideration which can be used to increase business.
Expected Job Creation:	Currently 10 employees
Profitability Estimate:	None
Need for Technical Assistance/Training:	Would like further business management training.
Comments:	Sponsor is a good businessman who has done well over time. However, at this time he needs to determine the cost and revenue implications of the refrigeration facilities. He has already received a loan from the NNRCCI program for N$50,000 which he has reportedly been paying off without difficulty.

Project Sponsor:	**Yetu Cosmetics**
Contact:	Ms. Salmi Kaulinge, Managing Director
Address:	P.O. Box 3361, Windhoek, Namibia
Phone:	(061) 214574
Project Description:	Yetu Cosmetics makes simple cosmetics such as body lotions and petroleum jellies. To meet the needs of the expanding business,

packaging equipment and an extra tank are required so that two products can be made simultaneously.

Previous Experience: Ms. Kaulinge established the business in 1992. She previously worked as a community development worker for the Rossing Foundation.

Ownership Structure: There are three shareholders of which Ms. Kaulinge holds a majority share.

Size of Investment: The packaging equipment and extra tank likely represent an investment of N$70,000

Equity Contribution: Investment to date is estimated at N$40,000 to N$50,000

Target Market: Because of the difficulties in supplying Windhoek shops, Yetu has focused on smaller ships in black areas such as Oshikati and Katatura. The biggest seller is petroleum jelly for which they add coloring, perfume, and other additives.

Expected Sales: Sales in 1994 were N$60,000

Opportunity for Growth: There is strong demand for the product particularly in black areas; a large order was also recently received from Botswana.

Expected Job Creation: Currently 30 employees

Profitability Estimate: The 1994 profit was N$6,000 representing ten percent of sales.

Need for Technical Assistance/Training: Sponsor is interested in further business management particularly on the marketing side. She would also like to expand her product line and would be interested in getting assistance from a retired chemist such as those provided by the IESC.

Comments: Ms. Kaulinge is a bright, modest and cautious woman who started the business in her kitchen. It has outgrown each facility moving from her kitchen to her garage to factory space and now slightly larger factory space. She feels as though a loan could help her business but she is somewhat reluctant to assume the risk. She has never drawn a salary at Yetu. She has five agents working on a commission basis who are apparently working well. One concern is that there appears to be a high GON official who has been analyzing her products with the intention of starting his own business; he is reportedly well-capitalized.

Project Sponsor:	**P & A Car Wash and Carpet Cleaning**
Contact:	Patrick Haingura
Address:	P.O. Box 26, Rundu 9000, Namibia
Phone:	(067372) 670 (067372) 36 (fax)
Project Description:	To establish a car wash on the property of the Engen service station in Rundu
Previous Experience:	Mr. Haingura is currently a business advisor with CARE Austria. He has a certificate in Administration and Management and is enrolled in correspondence classes with the University of Namibia to obtain a diploma in the subject. His partner is a journalist with the Namibia Broadcasting Company and has a Grade 12 education.
Ownership Structure:	Partnership
Size of Investment:	Approximately N$40,000
Equity Contribution:	Can provide 30 percent equity
Target Market:	There are 3,000 registered vehicles in Rundu; GON and NDC officials have expressed interest in establishing contracts
Expected Sales:	Average N$12/service, expect to do three cars per hour
Opportunity for Growth:	There is currently no competition; steam equipment will also be used for carpet cleaning
Expected Job Creation:	Seven
Profitability Estimate:	Sponsor believes that the investment will reach break-even point after three years
Need for Technical Assistance/Training:	Needs technical training in minor maintenance form the equipment manufacturer
Comments:	Sponsor appears to be bright and ambitious and has written a short business profile. He has taken the initiative to investigate the local market and has had discussions with the NDC and GON on establishing on-going contracts. The owner of the Engen service station has agreed to allow them to operate the facility on his centrally located property. Because he is a trainer with CARE Austria, the sponsor is not eligible for its loan program. The sponsor has already paid off two personal loans and will soon finish paying off a school loan.

Project Sponsor:	**Coca-Cola Bottling**
Contact: Address: Phone:	Mr. Tsudao Gurirab Get contact info from NNCCI Unknown
Project Description:	Namibia is one of the few countries in which Coca-Cola itself holds the majority of the local bottling franchise; 20 percent is held by the GON and Coca-Cola would like to reduce the participation of both itself and the GON. Coca-Cola would like to sell a minority share of up to 49 percent of the operation to local business people.
Previous Experience:	Mr. Gurirab was the former Permanent Secretary of the Ministry of Trade and Industry; he is currently working as a consultant. Other members of the group include the manager of Lintas Advertising, Mayor Shikongo, and an employee of the Bank of Namibia.
Ownership Structure:	n/a
Size of Investment: Equity Contribution:	N$10-30 million The group could reach the 30 percent equity level if the sales price is N$10 million.
Target Market: Expected Sales:	Namibia soft drink consumers n/a
Opportunity for Growth:	Mr. Gurirab did not know current or forecasted sales levels. However, Coca-Cola franchises are known to be highly lucrative and exceptionally safe investments.
Expected Job Creation: Profitability Estimate:	None n/a
Need for Technical Assistance/Training:	As a minority shareholding this is likely not an issue.
Comments:	Purchase of up to 49 percent in the local Coca-Cola bottling franchise is well beyond the normal parameters of the SAEDF. However, this project would seem to fulfill the exceptional financial considerations required to go beyond the normal parameters. For example, the Fund is supposed to "give special attention to opportunities to include U.S. partners"; moreover, "there will be important exceptions and development opportunities in privatization." The group met with Coca-Cola representatives 3-4 months ago and expect to hear from them in the near future. A second group is also being considered which is headed by Aaron Mushimba.

Project Sponsor:	**Okutumbatumba Hawkers Association**
Contact: Address: Phone:	John Kadenga Katatura, Namibia Contact through NNCCI
Project Description:	The Hawkers Association is interested in two separate but related projects. The first is for the construction of a 60 stall market near downtown Windhoek. The second is for a warehouse with refrigeration facilities to enable the Association to make group purchases of meat and other perishables for its members.
Previous Experience:	The Hawkers Association was created in 1989 when it started with five members. It has been set up without any donor support and only received its first donor assistance in May 1995. The association conducts bulk-buying and has a mandatory savings scheme. Repayment rates are reportedly 100 percent. Membership currently stands at 250 and there are 2,000 additional applications. It is female run although there are male members; many members are illiterate.
Ownership Structure:	Non-profit association, but the market would be operated as a profit center and be registered as a corporation
Size of Investment:	N$1.4 million for the market N$300,000 for warehouse and refrigeration facilities
Equity Contribution:	The land in Windhoek which the association would like to develop as a market is valued at approximately N$500,000. The association believes that the municipality will sell the land to them for half its market value. To reach the 30 percent equity level, the association would thus need to raise an additional N$170,000. Mr. Kadenge was confident that this money could be raised from its suppliers as well as from other contributions. Alternatively, the municipality has suggested a 30-year lease but the association is reluctant to put up a facility on leased land (unless it can get an option to purchase); it would also increase the amount the Association would need to provide the minimum equity contribution.
Target Market:	Most members in the association are in retail and cooking operations. Because of the high meal prices of white-owned businesses in downtown Windhoek, they believe that there is a strong demand for inexpensive meals to black workers on the area.
Expected Sales:	Mr. Kadenge suggested that the 60 stalls would pay rent of approximately N$100/month but there is flexibility to raise this amount as many have profits of N$3-4,000/month.

Opportunity for Growth: Many workers in Windhoek now take taxis to Katatura for lunch as it is only one-third the cost of meals downtown (half the price when taxi fare is included).

Expected Job Creation: 180 for the market

Profitability Estimate: n/a

Need for Technical Assistance/Training: Would like training on how to operate and maintain a market facility.

Comments: The Hawkers Association is one of the most successful NGOs in Namibia. It has been extremely prudent financially and has shown an ability to get things done. Feasibility studies for both the market and warehouse facility have already been conducted. Although this is an unusual profile for a SAEDF financing, its development potential makes it worthy of further consideration.

Training

The United Nations International Labour Office (ILO) has noted that Namibia probably has the highest number of NGOs per capita in Africa. Several of them are involved to some degree with the private sector. Those that have been involved in business development include: Rossing Foundation; Private Sector Foundation; Institute of Leadership and Management Training; NNCCI; Evangelical Lutheran Church; Namibia Development Trust; Namibia Credit Union League; EHAFO; and Cooperation for Development.

Many of the programs listed above however, are primarily oriented to micro-enterprises. Training programs which provide training to SMEs are somewhat more limited. The approach of these programs is discussed below.

<u>NNCCI</u>. The national body of the NNCCI serves as a coordinating body for its affiliated members and does not have a formal training program per se. Apart from the Kavango Chamber and the Northern Namibia Regional Chamber, none of the affiliates have on-going training programs. The other Chambers have sporadically held workshops utilizing the ILO-designed "How to Improve Your Business." The NNCCI is currently seeking donor funding to provide one person to conduct these workshops on a more regular basis in the regional centers.

<u>Kavango Chamber of Commerce and Industry/Care Austria</u>. This training is related to CARE Austria's revolving credit scheme (discussed in greater detail in the following chapter); however, the program has strived to separate the training and financing aspects as

much as possible. CARE Austria has decided to forego up-front training to entrepreneurs and concentrate on on-going, on-site assistance to develop management skills. Technical skills development is not addressed; an agreement was reached to provide this assistance from the local vocational center but it has never proceeded.

The program focuses on those who have received loans but is not limited to them. Before training commences, each firm must complete a questionnaire which serves as a company profile. Each venture is visited bi-weekly and if three visits in a row are missed, the assistance is terminated. It is a time-consuming approach and two local business advisors complement the work of the Austrian project manager. This staff is sufficient for current needs. Currently, the training provided is free of charge although the establishment of a fee of N$50 (US$14) is being contemplated (to participate, businesses must join the Chamber as members which costs N$150 (US$42)).

<u>Northern Namibia Regional Chamber of Commerce and Industry</u>. In conjunction with its credit guarantee scheme, the NNRCCI provides both up-front and on-going assistance. Before the loan becomes operational, the entrepreneur must undertake a training workshop. These programs are quite similar to the ILO designed programs "How to Start Your Own Business" and "How to Improve Your Business." Training recipients were highly positive in their reviews of the program. Participants pay N$70-100 (US$19-28) based on whether or not they are a Chamber member. The program assistance is provided by Finland and is scheduled to end in 1996.

<u>Institute for Management and Leadership Training (IMLT)</u>. In conjunction with the revolving credit scheme it operates with the Ministry of Trade and Industry (discussed in greater detail in Chapter 3), the IMLT requires that entrepreneurs take a five-week small enterprise development course. The training is oriented to "practical, hands-on" matters such as marketing surveys, costing, pricing, and financial forecasting. Participants are taught to maintain income and cash flow statements and a business plan is completed by the end of the course. While the IMLT recognizes that the long program has a high opportunity cost for small businesses, they feel that it results in a higher success rate.

This training is supplemented with quarterly follow-up visits. Because the IMLT operates throughout the country, there are nine people involved in this activity. The program was recently audited and reportedly received a positive review. The program is funded by the Hans Seidel Foundation and is scheduled to run to the end of 1997, although there is a strong possibility it will be renewed.

Namibia Development Corporation. In its earlier incarnation as the First National Development Corporation (FNDC), the organization undertook substantive training activities. With its restructuring in 1983, however, it was determined that the organization was not an effective trainer and that these activities imposed a serious financial burden. At present, the NDC refers those in need of training to the IMLT, although it is not clear how many of these people actually go on to take the IMLT program.

The NDC is currently in discussions with the IMLT on how to formalize this coordination. The NDC is negotiating on the price of these training sessions which is estimated at N$1,500 (US$417) per participant. The NDC plans to include this cost as part of the borrower's loan package. NDC management views the IMLT program as an effective approach for SMEs.

In contrast to the relatively laissez-faire attitude exhibited by the FNDC, the NDC will be undertaking extensive after-care assistance to borrowers. This assistance is expected to serve as a form of on-going training. As part of this plan, the NDC has recently established regional offices in Oshakati, Otjiwarango, Walvis Bay, and elsewhere.

Other Training. Like the International Executive Service Corps (IESC) based in the United States, Namibia has reportedly had active participation from similar organizations in Germany and the Netherlands. As with the IESC, the retired executive donates his time while the local firm assumes expenses such as food and accommodation. The donor generally assumes the cost of airfare.

The availability of such programs in Namibia is a plus as these are demand-driven assignments. The willingness of the local company to assume a portion of the costs is a strong sign of its seriousness and commitment to implement the necessary actions.

Joint Consultative Committee (JCC). This program is currently being planned by the Ministry of Trade and Industry, the NNCCI, the Windhoek Chamber of Commerce, the NDC, the Commonwealth Secretariat, and IMLT. Although the framework has yet to be finalized, it is likely that this program will feature a two-pronged approach in developing SMEs with the assistance of larger firms which have been active members in the Windhoek Chamber. The two elements of the program will be a mentorship program and a vendor development scheme. It is expected that the program will start on a small scale to ensure a good beginning, and that the vendor development program will assist 20-30 SMEs "with a proven track record." Unlike other training programs in Namibia, this scheme is not tied to any funding mechanism and thus could prove to be one of the best channelers of potential projects to the SAEDF.

The Financial Sector in Namibia: Potential Financial Intermediaries for the SAEDF

Overview of the Financial Sector Environment

Many countries in Sub-Saharan Africa have weak or inefficient formal financial institutions with an overall lack of liquidity. Namibia is relatively unique in that it has a viable banking system and excess liquidity. It has several private sector commercial banks, building societies, and insurance companies, all of which have sound balance sheets and profitability levels exceeding international averages. Furthermore, while banks in countries such as Tanzania and Zambia only offer relatively short-term loans of one or two year maturities, banks in Namibia offer term loans with maturities as long as seven to ten years.

While the financial health of Namibia's existing banking system is excellent and enviable, most SMEs receive relatively small amounts of credit from these institutions. This disparity is due to the dualistic economy which originated prior to independence, when Namibia was controlled and occupied by South Africa. The economic development needs of the black Namibians living in the communal areas in Northern Namibia, where much of the South African Defence Force was based, were virtually ignored by the South African-controlled government, businesses and financial institutions. Banks, in particular, existed mainly to serve the large white-owned businesses located in the major urban centers in the central region of the country. This is still the case today, as many of the financial institutions and large companies operating in Namibia are subsidiaries or affiliates of South African entities. The banks have limited branch networks and, like most prudent bankers, weigh the cost of opening a branch against the anticipated increase in revenues from the new customers. The majority of bank branches are located in the urban commercial areas where the bulk of lending and other credit activities take place. The small number of bank branches in the North are used mainly for deposit mobilization and servicing the credit needs of the northern branches of large, well-established companies.

Most black Namibians living in the North have been forced to operate outside of the white-controlled commercial sector of the economy because of the long standing and apartheid-derived traditions of restrictive regulation and central control of the SME sector. This has resulted in a large informal economy in the North where a high percentage of savings and investment are outside the formal banking system. Most of the indigenous businesses in the region are SMEs.

The geographic and psychological distance between disadvantaged entrepreneurs in the North, where more than half of the population resides, and the urban commercial centers, has made attempts to finance the establishment or expansion of small businesses extremely difficult.

The exclusion from access to traditional bank lending has forced many SMEs, if they qualify, to rely on bank overdraft accounts, which carry high interest rates and must be repaid on demand. Individuals are sometimes able to obtain personal loans ranging from N$1,000 to N$20,000 (US$278 to $5,556), for consumer purchases, but generally cannot obtain loans for business purposes. Institutional investors, such as insurance companies and pension funds, as traditional providers of equity funding, have mainly focused on large foreign investments, creating a shortage of equity funding for many businesses in Namibia. Credit unions, which collect members savings and make loans available to them, are growing in popularity but, like non-governmental organizations which attempt to organize informal savings groups, may have to register as banks under the Banking Act if they continue to accept savings and make loans. The new Banking Act, which is expected to be approved by Parliament in early 1996, is expected to address this issue by granting waivers to these organizations on a case-by-case basis.

Constraints Faced by Small and Medium Enterprises in Namibia

Bankers' Attitudes and Perceptions

The apartheid-derived policies and practices introduced by South Africans fostered negative attitudes and preconceived perceptions concerning the ability or willingness of non-white entrepreneurs, particularly in the North and other parts of the country, to operate a business and use credit responsibly. The North's virtual exclusion from the economic development in the commercial areas of the country has reinforced many bankers' perception that SMEs in all communal areas are unacceptable risks requiring significant amounts of security to protect the bank from loss.

While all prudent bankers are expected to approach SME lending with the appropriate degree of caution, banks in Namibia, like banks elsewhere, have often failed to make a distinction between proposed SME projects which are inherently uncreditworthy (i.e., with little hope for success) and viable SME projects which do not at first glance appear creditworthy because they lack traditional forms of security or formalized business plans. Many SMEs in the latter group need only basic business training to transform viable ideas into "bankable" business proposals. Banks in Namibia are more conservative than some of their South African counterparts, which are more SME-oriented. The Namibian bankers' preconceived notions of SMEs have clouded their ability to identify potentially profitable SME project proposals.

SMEs' Lack of Formal Financial Records

Due to the difficulties in obtaining the various trade licenses required to open a business, such as traveling several hundred miles to visit the appropriate ministries in Windhoek, many black-owned SMEs in the North are not licensed or registered. Most trade license requirements have recently been removed but there continues to be bureaucratic and other constraints to obtaining some licenses, particularly in the tourism and transport sectors. Since most non-whites in general were forced by circumstances to forego higher education, including business studies, few small businesses have been aware of the relevance of keeping accurate and thorough financial records. The lack of financial record-keeping is mainly due to that fact that the motivation for opening many of the small businesses was subsistence rather than profit. The attitude was, and often still is, that measuring profits or asset values is unnecessary since their primary goal is feeding and clothing the family and sending children to school.

This is a serious problem, especially in the North, but steps have been taken by government, local chambers of commerce, the national chamber of commerce, NGOs, donors, and more progressive bankers to teach basic bookkeeping and record-keeping skills to entrepreneurs. The fruits of these efforts will be financial records which banks and other lenders can use to assess the creditworthiness of potential borrowers.

Lack of Required Forms of Security

Prudent banking rules recommend that bankers should first examine the borrower's character, experience, management capability, financial history, and capacity to repay before determining the level of collateral needed. These rules indicate that bankers should seek collateral only as a last resort to protect the bank against loss in the event of default. Due to their skepticism concerning the creditworthiness of SMEs, banks in Namibia have usually requested a large amount of collateral before reviewing preliminary issues of character as well as technical and business skills. If the potential borrower is well known to the bank, shows evidence of regular income, or can obtain some form of guarantee, collateral requirements are reduced or eliminated. These options are generally not available to newly formed or newly registered SMEs in Namibia.

According to several entrepreneurs, NGOs, and bankers, SMEs in Namibia are usually asked to provide forms of collateral to which they often do not have access. Disadvantaged entrepreneurs in Namibia, especially those in the North, do not always have access to traditional forms of collateral requested by banks. Each bank has its own policies regarding acceptable forms of collateral, including: cash on deposit with the bank, insurance policies, formal land titles, investment accounts, securities; and personal guarantees from individuals well known to the bank. While entrepreneurs operating SMEs in communal areas often have a *permission to occupy* (PTO), which allows them to occupy a particular piece of land and build upon it, banks do not consider PTOs as acceptable forms of collateral because they are not easily transferable and therefore lack liquidity[2].

Attempts to Assist the Disadvantaged SME Sector

The Government of Namibia and several NGOs have made numerous attempts to assist disadvantaged entrepreneurs at the micro-, small-, and medium-sized level. They have established loan schemes and training programs designed to provide loans and business education to individuals who cannot obtain traditional bank financing. Many of the programs offered a combination of services, including skills training, finance, guarantees, marketing, and extension services. The problem, according to a 1993 ILO report, is that organizational weaknesses and ambiguity about the roles and objectives of many of these programs have resulted in a poor quality of service.

Previous Attempts by the Government

Many of the government programs have not worked for several reasons, including: lack of a coordinated approach, lack of disciplined structure, and failure to inform potential beneficiaries. Each of these weaknesses is discussed below. Some of the credit schemes simply failed while others were suspended as the government sought alternative programs.

- **Lack of a coordinated approach**: Funds for SME development, estimated to total as much as N$180 million (US$50 million), have been spread over at least seven Government ministries, including those responsible for trade

[2] The individual with a PTO does not own the land but has, as indicated by the name, permission to occupy it. PTOs for land within a municipality are usually in written form while PTOs for land in rural outlying areas are usually verbal approvals by traditional authorities. There is also some uncertainty regarding the upcoming declaration of various locations as townships. The declarations are a positive development, since they will offer PTO-holders the right to purchase and gain formal title to the land they occupy, but this is expected to be time consuming due to the land surveys and expected disputes which will take place in the meantime.

and industry, youth and sport, labor and manpower development, education, local government and housing, women's affairs, and agriculture. This wide distribution was mainly for political reasons, as each ministry sought to use the funds to increase its popularity and budget. This hindered the effectiveness of much of these funds. According to one banker, record-keeping and coordination has been so relaxed that some of the ministries have little idea to whom loans were made and how much has been lent.

- **Lack of disciplined structures**: Two unintended results arose from the failure to closely monitor and coordinate the management and distribution of these funds. First, several of the ministries have held onto the funds rather than put them to the intended uses. Second, with the exception of a few, many of the ministries that did attempt to employ the funds as intended established credit schemes which were loosely structured, lacked financial discipline and therefore lacked sustainability.

- **Failure to inform potential beneficiaries**: Many SMEs that would have been eligible for assistance under some of the credit schemes never knew of their existence. Many ministries either failed to inform the general public or did not advertise their programs in the traditional and rural areas where a majority of expected beneficiaries of such programs live. Several ministries interpreted the lack of loan applications as an indication that people were not interested in such programs.

Recent Attempts by the Government

Some recent attempts by the Government and foreign donors to assist SMEs are described below. Some are too new to determine if they have been successful while others have experienced some problems because they did not thoroughly assess all participating organizations' ability to effectively offer such programs.

Ministry of Trade and Industry

Revolving Fund Credit Scheme. A revolving fund credit scheme for SMEs was established as a pilot program in 1993 by the Division of Small Scale and Informal Industries (DSSII) of the Ministry of Trade and Industry. The DSSII, a division of the MTI's Department of Industrial Development, was created with a mandate "to develop, initiate and promote small scale cottage and informal enterprises in the country." The GON recently announced that the MTI would serve as the coordinating entity for GON assistance to the small- and medium-sized business sectors. The pilot loan program was started with DM1 million (US$714,285) from the German Government and N$200,000

(US$55,555) from the GON. The GON also contributes N$50,000 (US$13,888) on an annual basis.

The MTI has individual contracts with two NGOs -- the Private Sector Foundation (PSF) and the Institute for Management and Leadership Training -- and the Namibia National Chamber of Commerce and Industry to implement the program. These contracts stipulate the terms and conditions under which Namibian entrepreneurs can participate in the revolving fund. The MTI also has a contract with the GTZ, the German donor agency which supports the program on behalf of the German Government. The NGOs and the NNCCI screen the loan applicants and offer applicants three weeks of training, which is viewed as a form of collateral. Conventional forms of collateral are not required. However, the equipment purchased with the loans is also considered as collateral.

When the fund was established, it was agreed that it would be evaluated after two years. An evaluation was recently launched and is expected to be completed by the end of this year. To date, only the IMLT and PSF have been able to distribute funds under the program. The NNCCI received N$600,000 (US$166,666) but suspended its involvement in the fund because it currently lacks the infrastructure and staffing capacity to effectively participate in it. The PSF and IMLT are averaging a repayment rate of approximately 75 percent. Each is allowed to use up to 50 percent of the loan funds allocated to it to cover administrative costs associated with the program.

Credit Guarantee Scheme. In 1994, Standard Bank and the Commercial Bank of Namibia agreed to participate in a credit guarantee scheme for SMEs. It would be offered through regional offices of the MTI and through the participating banks. The creation of the scheme has been delayed for several months as negotiations on the structure and management of the scheme have stalled. One banker indicated that he would like to see the banks and borrowers share the risk as follows: guarantee scheme (60 percent); bank (20 percent); and borrower (20 percent).

FNDC/NDC

A pre-independence parastatal, the First National Development Corporation, introduced a loan scheme with several components aimed at micro-, small-, and medium-sized enterprises. FNDC was often criticized for identifying projects for its own benefit, resulting in a negative image that caused it to be rejected by the communities it was serving. It also was seen as a colonial organization, causing many borrowers to feel that they had no obligation to repay the loans. The loan scheme, according to several sources, lent money too freely by employing poor appraisal techniques and inefficient management techniques, as well as conducting little or no monitoring of outstanding loans.

The poor reputation of the FNDC led to the promulgation of the Namibia Development Corporation Act in September 1993, which established the Namibia Development Corporation. The GON has a 100 percent share-holding in the NDC, but it is controlled by an autonomous Board of Directors. The Board consists of twelve members: five represent the Government and seven are elected from the private sector. In the beginning, the NDC faced image problems similar to those associated with the FNDC, but has brought in several highly regarded managers to improve the performance of the organization and the services it offers. While the Government was the sole contributor to FNDC, the NDC has received no Government funds since its inception other than N$8 million (US$2.2 million) for agricultural projects implemented on behalf of the Government.

NDC's investments take the form of term loans, equity participation and guarantees. NDC continues some of the original FNDC lending scheme but it no longer offers training due to the high cost and necessary reallocation of personnel. It now has a contract with the IMLT (described below) to provide training to the loan scheme beneficiaries. NDC continues to provide "after-care business advisory services" to its clients.

Based on the idea of corporate social responsibility, the NDC is about to launch its SME Start-up Assistance Program which is expected to evolve into a venture capital fund within two years. Initially, however, it will take the form of a heavily subsidized revolving fund with a minimum capitalization of N$500,000 (US$138,900). NDC will contribute N$100,000 (US$27,777) and the remaining amount will come from local institutional investors. The program will offer: free training by the IMLT and the Windhoek Vocational Training Centre (WVTC); subsidized loans, carrying an interest rate of 2.5 percent per year (current market rates are about 18 percent), for the acquisition of fixed assets; and grants for working capital purposes. Maximum loan sizes are N$50,000. The NDC plan is to assess how well this fund performs after a one or two year period before beginning the process of converting it to a venture capital fund. While it is understandable that the NDC wants to improve its public image by providing a fund that will be extremely attractive from a borrower's point of view, its lack of both sustainability and commercial principles creates considerable uncertainty about its viability and contribution to private sector development.

Non-Governmental Organizations

Background

There are many national and international non-governmental organizations (NGOs) and community-based organizations (CBOs) operating in Namibia. The ILO indicates that pre-independence apartheid policies, a dualistic economy, a skewed income distribution, and political mobilization are partly responsible for the size and areas of activity of NGOs and CBOs in Namibia. Several NGOs operate micro and small enterprise (MSE) loan and guarantee schemes, combined with savings mobilization and skills training, while others serve only SMEs. Some serve both MSEs and SMEs.

Several credit programs have failed because the particular NGOs attempted to handle too many aspects of the process, while lacking the staff and skills capacity to offer such services. Many NGOs tried to identify borrowers, perform the credit analysis, manage the funds, collect the loans, train the borrowers, and monitor the overall performance of the programs. Trying to play all of these roles has reduced the effectiveness of these NGOs. Several have decided to focus on the roles in which they have a comparative advantage, such as training or loan evaluation, and using banks, other NGOs and other organizations to cover the remaining components.

The most successful NGOs focusing on MSE and SME assistance programs have employed commercial lending principles to ensure sustainability. This has included: thorough appraisal of potential borrowers; requiring borrowers to receive appropriate technical and management training; charging commercial rather than subsidized rates of interest; requiring borrowers to save a portion of the loan amount; and providing, or arranging for, follow-on business advisory services and specialized training. Many of these NGOs also try to establish links with commercial banks that will be valuable to their clients in the future. They do this by placing the pooled savings of their clients with commercial banks. Some banks have been willing to accept these deposits but are reluctant to offer much else to the NGOs' clients. Once NGOs have been able to transfer a significant number of clients to the banks, it is hoped that more bank loan officers will see the ability of NGOs to help entrepreneurs create bankable projects and companies as a good reason to establish links with them.

The goal of most of these programs is to enable MSEs and SMEs, most of which would not normally have access to bank credit, to establish a track record that will be presentable to a bank. The most successful programs view their mission as providing opportunities for businesses to grow to the point where they can become direct customers of formal banking institutions. The intention is also to prove to bankers that MSEs and SMEs are worth considering, despite their lack of conventional forms of collateral.

Institute for Management and Leadership Training

The IMLT was established in 1983 to provide training courses directed mainly at the commercial, industrial, and agricultural sectors. In July 1993, the IMLT established a Small Enterprise Development (SED) department when the MTI introduced its pilot Revolving Fund Credit Scheme (discussed above). The IMLT entered into an agreement with the MTI, which stipulates the terms and conditions under which Namibian entrepreneurs can participate in the Revolving Fund Credit Scheme. The IMLT also signs a contract with each entrepreneur. At that time, the IMLT amended its mission to make small business development, especially for the disadvantaged section of the population, its primary objective. While its main activity is training, participation in the credit scheme enabled IMLT to provide loan capital to eligible clients. Target groups for IMLT are start-up businesses, existing SMEs, public sector personnel, parastatals, and NGOs.

The IMLT received N$971,000 (US$269,700) from GTZ in September 1994 for use in the MTI's revolving credit scheme. Entrepreneurs with proposals relating to manufacturing and service concerns are the main focus, but proposals for retail and wholesale concerns are also considered after an assessment of the competition the intended business will face. The IMLT's loan sizes range from N$5,000 (US$1,400) to N$50,000 (US$13,900), with an average loan size of N$21,000 (US$5,800). The contract with MTI states that loans will carry the following annual interest rates: two percent below prime lending rate in year one; one percent below prime in year two; and prime lending rate in years three through five. The IMLT is highly regarded by the MTI and is an active participant in the credit scheme. As mentioned above, it is currently averaging a 75 percent repayment rate and is taking steps to improve this.

The IMLT also operates a credit scheme with funds from the GON. It received N$80,000 (US$22,200) from the MTI, and N$30,000 (US$8,333) from the NDC. The IMLT employs the same guidelines for this scheme as the MTI/GTZ scheme.

Private Sector Foundation

The Private Sector Foundation was established in 1980 by a group of local businesspeople to address the social and economic problems of the disadvantaged section of the population. In 1983, it changed its focus to concentrate on the small business area because there were a sufficient number of other groups focusing on specific socio-economic issues. The PSF receives core funding from corporate members of the Ford Foundation and funding for credit schemes from Great Britain's ODA and Germany's GTZ. Its ODA funding is for the

APT Design and Development Program, and the GTZ funding is in connection with the MTI's Revolving Fund Credit Scheme. The PSF concentrates on making the micro loans to the informal sector of the economy. It requires loan recipients to receive training before they receive any loan funds.

The PSF began offering loans of N$2,500 (US$700) but lowered this maximum to N$500 (US$140) when it saw the need for such loans in the disadvantaged areas. It occasionally makes loans of N$1,000 (US$278) to previous borrowers with good repayment records. Ninety percent of its client base are women. The PSF has disbursed all of the N$40,000 (US$11,100) in GTZ funds it received for the revolving fund. The PSF has been participating in the ODA and MTI/GTZ programs for the past 16 months and currently has 350 loans outstanding, with an average overall repayment rate of 75 percent. It currently operates in Windhoek and Oshakati.

While the PSF's eligible client base is far too small for consideration by the SAEDF, it receives applications for entrepreneurs seeking larger amounts of funding than it can offer. It may therefore be able to identify potential SMEs for consideration by the SAEDF. The PSF is currently working with USAID/Namibia's READ Project, a capacity building project for NGOs, in order to train PSF's trainers. The PSF also has done advocacy work for micro and small enterprises, including convincing banks to lower minimum deposit balances.

Chambers of Commerce

Several chambers of commerce participate in loan funds and credit guarantee schemes in various parts of the country. These include the Kavango Regional Chamber of Commerce and Industry, as well as the Northern Namibia Regional Chamber of Commerce and Industry, with some assistance from the Namibia National Chamber of Commerce and Industry.

Kavango Regional Chamber of Commerce and Industry

The Kavango Regional Chamber of Commerce and Industry (KRCCI), based in the northern city of Rundu, has joined with CARE Austria (acting on behalf of the Austrian Government) in two programs, the first of which is an SME loan fund called Lisikamena ("be self-supported"). The other program offers training for SMEs in the entire Kavango region, as well as institution building for the KRCCI. The loan fund, which made its first loan in May 1994, is staffed by two Namibians with occasional assistance by a banking consultant funded by the Austrian Government.

The fund is run according to commercial banking principles. A loan management committee reviews each loan application and makes a recommendation to the Namibian fund manager. The committee consists of a banker from the local branch of the First National Bank of Namibia, a business consultant from CONAMCO (a local consulting organization) and a regional officer from the Ministry of Trade and Industry. Loans have been made to brick makers, transport concerns, bakeries, and retail shops. The fund, which was started with N$1.2 million (US$333,400), has 35 to 40 loans outstanding and is averaging a repayment rate of 85 percent. Most of the loans exceed N$20,000 (US$5,500) and the largest loan outstanding is N$60,000 (US$16,700). The loan maturities range from two to as high as ten years, with a current average maturity of three to five years. The fund was initially offering 100 percent financing but now requires borrowers to put up 10 to 20 percent of the project amount.

Northern Namibia Regional Chamber of Commerce and Industry

The NNRCCI, based in Oshakati, has a credit guarantee scheme which was started in 1993 and is funded by SwedeCorp FINNCHURCHAID. Swedecorp contributed N$250,000 (US$69,400) directly, as well as providing a fund manager, and FINNCHURCHAID contributed an additional N$250,000 through the Evangelical Lutheran Church in Namibia. The N$500,000 (US$138,900) was placed on deposit with the First National Bank of Namibia, which agreed to make loans to SMEs using these funds to cover 80 percent of the risk of each loan. The remaining 20 percent of the risk is covered by funds placed on deposit by the borrower. An additional N$500,000 was provided by FINNCHURCHAID to cover administrative costs associated with the credit guarantee scheme and the related training program. The NNCCI also assists NNRCCI in this and other small business development activities.

Under the guarantee scheme, the NNRCCI reviews applications from SME borrowers and, if approved, asks the First National Bank to lend the appropriate amount (up to N$50,000) for up to 36 months, at an interest rate of prime plus four percent. The First National Bank makes the loan based on NNRCCI's recommendation since the bank bears none of the risk associated with the loans. The bank manager indicated that, in the future, the bank may be willing to bear a percentage of the risk but would then insist on being involved in the lending decision. The credit guarantee scheme now has 16 loans outstanding, two of which are experiencing payment problems.

Niche for the Southern Africa Enterprise Development Fund

There are gaps in the business loan sizes being offered to SMEs by the existing loan schemes. The PSF offers loan amounts up to N$500 (US$139). The IMLT offers loan amounts ranging from N$5,000 to N$50,000 (US$1,389 to $13,890). Commercial banks generally offer loans of N$100,000 (US$27,777) or more. The NDC offers a broad range but lacks funding for various categories. For example, a gap between the IMLT and NDC loan sizes was supposed to have been filled by NNCCI but it has temporarily suspended its participation in MTI's loan scheme. The other programs are not prepared to fill this gap due to funding and staffing limitations. The banks are discussing SME credit guarantee schemes and other programs but none are currently in place.

The SAEDF is designed to assist small and medium-sized enterprises. Since NGOs operating in Namibia generally offer loan sizes up to N$50,000, the SAEDF only overlaps their activities at the smaller end of the SME spectrum. Conversely, banks in Namibia generally do not make business loans below N$100,000. As a result, the need for SAEDF's involvement will likely be most critical between the level of N$50,000 to N$100,000. At present NDC appears to be the only institution which plans to address this gap, but its ability to fund its loan commitments has been inconsistent. The biggest niche for the SAEDF in Namibia is in the area of equity finance for SMEs, where there is a severe shortage of equity funding sources, with the exception of insurance companies and pension funds.

Chapter 4

Conclusions and Recommendations

Despite the significant obstacles faced by Namibia's SMEs, there are clearly many projects with good commercial potential, strong management, and which fit the parameters required by the SAEDF. Given that the consultants were in Namibia for only two weeks, the projects described in Chapter 2 can be assumed to represent a small portion of those with good potential but needing additional financing. This is reflected by the fact that on a daily basis, two or three sound proposals emerged.

In spite of the existence of a working commercial banking sector, good projects are being overlooked. Given the polarized orientations of Namibia's commercial banks and NGOs, there is clearly a niche which the Fund can effectively address. Recent and forthcoming changes in the Namibian business environment on issues such as land policy, fishing, tourism, and trade have created a number of unique investment opportunities. Fund support can play a critical role in helping SME entrepreneurs to develop these opportunities into viable businesses.

While there are clearly specific opportunities in Namibia for SAEDF investment, it should be noted that changes in current commercial bank lending policies could also play an expanded role in encouraging investment activity. As discussed in Chapter 2, there appear to be strong arguments for expanding what is acceptable as collateral. The commercial banks have been highly conservative in this regard which has prevented good projects with high equity from obtaining finance. CARE Austria and the NDC accept cattle as collateral which is an important source of savings in the North; both have taken possession when loans defaulted. Similarly, the NDC accepts PTO properties and buildings on PTOs as security, and has successfully foreclosed on these properties. If there is not a government stipulation restricting the use of fishing quotas as collateral, this aspect should also be considered as security.

In order to most effectively utilize SAEDF and USAID/Namibia's resources, a number of recommendations are made below. These are divided into two categories: recommendations regarding the provision of technical assistance and training to potential beneficiaries of the Fund, as well as proposed measures by which USAID/Namibia can maximize the Fund's use; and recommendations regarding potential financial intermediaries for the SAEDF. These are discussed in turn below.

Proposed Mechanism for Training and Technical Assistance

Given the large number of institutions which are already providing SME training, and the limited resources of USAID/Namibia, it is recommended that no new training program be established to assist SAEDF-supported firms. All of the organizations which are currently providing training to SMEs have expressed a strong desire to work with the Fund. These organizations see the Fund as complementary to their current programs for various reasons. For NGOs, none of which currently makes loans above N$50,000, the ability to address somewhat larger projects would allow them to assist firms which they currently turn away. Utilization of existing organizations to identify and train Fund recipients has several advantages:

- This approach prevents potential duplication of activities through the creation of yet another organization and also reduces USAID/Namibia's financial and time constraints to the bare minimum.
- Existing organizations already know the SME sector well and appear to be doing a good job in identifying and training potential projects.
- By using the SAEDF for financing and already existing NGOs for training, these two activities can be separated to a much greater extent than currently practiced. This should create an improved environment for undertaking training activities.
- The NGOs already assist entrepreneurs in assembling business plans and it will be easy for them to undertake these for somewhat larger ventures.
- The use of existing NGOs will strengthen them and give them enhanced credibility with both entrepreneurs and donors and thus assist them in their efforts to become sustainable.

For USAID/Namibia to maximize the use of the Fund in Namibia, the following recommendations are suggested:

- Since most of the projects identified as having potential are yet to be fully developed, it is recommended that USAID utilize a local consultant to assist project sponsors in completing basic business plans prior to the Fund's initial visit to Namibia. This will ensure that a positive impression is made on Fund management of Namibia, Namibian SMEs, and the USAID mission's commitment to the project.

- During the Fund's initial visit to Namibia, a workshop should be held with the key NGOs expected to channel project proposals to the SAEDF. At that time, Fund management should clearly outline what it's looking for in terms of financial profitability, sector preferences, loan sizes, as well as how proposals should be forwarded. If a standard loan application is not to be created, the Fund management should note the aspects and level of detail required in business proposals. This will increase understanding between all parties.

- A mechanism should be created to incentivize organizations that assist the Fund. A cash contribution or prize should be awarded on an annual basis to the organization that has identified the most Fund recipients as well as those that have trained businesses with the highest repayment rates. This mechanism would thus incentive organizations to identify and provide effective after-care services.

- USAID/Namibia may want to consider establishing a periodic monitoring of the program to ensure that it is being effectively utilized in Namibia. In addition, this work should be oriented to suggest improvements to the Fund's operation and highlight upcoming opportunities and challenges in Namibia. This could be done by USAID staff or by hiring a consultant to undertake this process once per annum.

- Although the NGOs currently assisting SMEs cover the bulk of the country, USAID should consider setting aside a small budget for local consultants to assist in the formulation of business plans should there be some reason why one of the existing NGOs cannot be utilized. In similar fashion, USAID should help firms access IESC services on a cost-sharing basis when specialized technical assistance is required.

- USAID should continue to push for liberalization of the economy by highlighting policy and regulatory constraints to SME start-ups and operations. Although the GON has made progress in this area, significant constraints still exist in critical sectors such as transportation and accommodations.

- USAID should push for privatization of parastatals such as Amcon, Transnamib, and accommodations. Transnamib and Amcon represent significant competition to SMEs and a level playing field does not exist. Structured properly, the transport, accommodation, and trade sectors offer significant opportunities to SMEs if privatized. Moreover, the SAEDF is likely to give special attention to small privatization proposals.

- USAID should consider financing through the NNCCI a training program on how SMEs can become suppliers of goods and services to the GON. At present, the procedures are complex and few small businesses have the expertise to win tendered contracts. Given the substantial role played by GON spending in the national economy, this is a substantial market opportunity that is largely closed to disadvantaged SMEs.

Potential Intermediaries for the SAEDF

While the SAEDF seeks to identify financial institutions in which it could invest, the abundance of liquidity in the banking system in Namibia calls for a slight variation in approach that would more effectively reach the SAEDF's primary target of indigenous SMEs. The numerous interviews undertaken during the course of this study identified several potential partners for the SAEDF in Namibia, each of whom could play roles that would take advantage of each organization's comparative advantages. In order to maximize the Fund's effectiveness in Namibia, the following recommendations are made:

- Rely on the presence of an extensive network of NGOs, Chambers of Commerce, and governmental development agencies to identify and train prospective SME borrowers. This option would make use of commercial banks' abilities to transfer funds, receive payments and monitor loans and investments.

- Examine options for the Fund's investment in several local venture capital funds which may be formed in the near future.

- Explore joint investment opportunities with institutional investors such as insurance companies and pension funds, as well as the Namibia Development Corporation.

Each of these recommendations is discussed in further detail below.

Using Local Organizations

This option would use NGOs, the Chambers of Commerce, the NDC, and the MTI to identify and train prospective disadvantaged SMEs for consideration by the SAEDF. The final approval would be made by SAEDF representatives, but the bulk of the often laborious up-front work would be done by these existing indigenous organizations. While, in some cases, the NGOs, Chambers, and government entities may simply refer eligible SME project proposals to the SAEDF for consideration by its managers, some of these organizations could help SMEs to prepare their project proposals for submission to the SAEDF managers. This option would be structured as follows:

Non-Governmental Organizations

Identification and Training of SMEs: Since NGOs have extensive branch networks of their own, or networks shared with donors, chambers of commerce and other organizations, they would be excellent partners for the identification of disadvantaged SMEs who would be potential SAEDF beneficiaries. This would address a problem which occurred in some of the previous Government programs: the failure to inform potential beneficiaries of the existence of such assistance programs.

NGOs have considerable experience in working with entrepreneurs in both urban and rural areas of Namibia. Some organizations focus on specific areas, such as micro-enterprises, micro and small enterprises, and small- and medium-sized enterprises, while others focus on regions or sectors. Several of the NGOs interviewed indicated they often turn away potential borrowers because they do not fit that particular NGO's client profile. For example, the PSF focuses on micro enterprises, offering training and loans of N$500 (US$139) or less to eligible individuals. It often receives applications from viable disadvantaged SMEs for loan amounts exceeding what it can offer. Other NGOs experience similar situations.

<u>**Potential NGO Partners**</u>

Private Sector Foundation
Institute for Management and Leadership Training
CARE Austria (working with the Kavango Regional Chamber of Commerce)
Cooperative Support and Enterprise Development Agency (COSEDA)
Namibia Development Trust

Mechanism for Coordinating NGO Activities: The large number of NGOs in Namibia and the lack of coordination[3] of their activities has led to some duplication and inefficiencies in the delivery of their services. In response to this situation a Joint Consultative Committee is in the process of being formed. Its role will be to coordinate NGO and GON activities in Namibia relating to SME assistance and development. In an attempt to avoid unnecessary duplication by NGO

[3] The Namibia Association of NGOs (NANGOS) has been dormant for a while and the Namibian NGOs Forum (NANGOF) has been focusing on policy issues.

and Government SME assistance programs, the JCC will establish a database of existing programs and outstanding loans so that members can share information. The membership will consist of representatives from NGOs, chambers of commerce, NDC, and others to be determined. The Chairperson of the JCC works for NDC, which has a mandate to administer the funds. The JCC will receive funding support from the Friedrich Ebert Foundation.

Enhancing the Capacity of NGOs to Serve as Partners with the SAEDF: USAID/Namibia's READ (Reaching out with Education to Adults in Development) Project has a principal goal of enabling Namibian NGOs to meet the needs of their constituents. This includes strengthening NGOs' ability to plan, implement, monitor, and evaluate their activities through participatory, non-formal training skills development. The READ Project has worked with more than fifty-two NGOs since its inception in 1993. READ is currently using the Social Impact Assessment and Policy Analysis Corporation (SIAPAC) to help NGOs develop proper monitoring and evaluating systems. Such assistance will enable NGOs to strengthen their capacity to partner with the SAEDF.

Chambers of Commerce

The NNCCI, the Windhoek Chamber of Commerce, and several regional chambers of commerce would be very capable partners in the identification of disadvantaged SMEs with the potential to qualify for SAEDF loans or equity investments. These organizations are actively engaged in the business of promoting and expanding private sector business activity, including SMEs. They already participate in several SME loan and guarantee schemes which operate in various regions of the country, some of which were described earlier. These organizations receive numerous business plans and project proposals from SMEs but lack the funding and staff to adequately consider them. They are in an appropriate position to identify those requests from disadvantaged SMEs which could be referred to the SAEDF managers for consideration.

Potential Chamber Partners

Namibia National Chamber of Commerce and Industry
Windhoek Chamber of Commerce and Industries
Kavango Regional Chamber of Commerce and Industry
Northern Namibia Regional Chamber of Commerce and Industry
Caprivi Chamber of Commerce and Industry

Government Development Agencies

Two particular government entities would be appropriate partners for the SAEDF in the identification of disadvantaged SMEs which would qualify for SAEDF loans or equity investments. These are:

MTI, Division of Small Scale and Informal Industries (DSSII). The DSSII has considerable experience in working with donor organizations and NGOs in the area of SME development. It is currently coordinating the activities of two NGOs, the national chamber of commerce, a donor, and two Namibian commercial banks in the operation of a revolving fund for SMEs. It also finances another SME loan scheme. As the ministry responsible for coordination of Government assistance to SMEs, the MTI would be a good partner for the SAEDF.

Namibia Development Corporation. Although it was initially forced to confront the negative image of the FNDC, the NDC should also be considered as a possible partner for the SAEDF. Since its restructuring in 1993, it has been attempting to improve its level of efficiency and reliability. It serves micro, small, medium and large companies and it has regional offices throughout the country. Its service to SAEDF's primary target group is reflected in the fact that seventy to eighty percent of the small business loan recipients in the NDC's loan scheme are non-white, most of whom live in rural areas.

Potential Government Partners

Ministry of Trade and Industry's Division of Small Scale and Informal Industries
Namibia Development Corporation

Commercial Banks

Disbursement, Collection, and Monitoring of Funds. Since the staffs and resources of most NGOs and Chambers of Commerce are stretched close to the limit, one recommended option is to have commercial banks handle the disbursement of funds, collection of loan payments, and the in-country monitoring of loans and equity investments. The banks would not have discretionary authority over the granting of funds. Funds allocated for SME projects approved by the SAEDF manager would instead be wired to the banks from SAEDF headquarters. The banks may then pass the funds directly to the approved borrowers or, in the case of loans for equipment or other purchases, the funds could be wired to the bank with a payment order to the particular supplier. The latter method will ensure that the funds are used for the stated purpose. The banks could use what is known as a suspended sales agreement, which is a form of hire-purchase whereby ownership of the asset will remain with the bank (acting on behalf of the SAEDF) until the final loan payment is made.

The banks are quite familiar with the process of collecting and monitoring loans of various sizes and maturities and appear capable of handling these tasks on behalf of the SAEDF. While the number of SAEDF loans and equity investments in Namibia may be small, banks will certainly seek some sort of fixed fee or percentage of the funds disbursed, collected, and monitored. The details should be worked out in negotiations between the SAEDF manager and the banks.

Since there are several viable commercial banks in Namibia, the SAEDF manager can choose to work with one or more of them. Most businesses interviewed indicated that Standard Bank and the Commercial Bank of Namibia have the most open attitude toward small business. Some NGOs and Chambers of Commerce already work with particular banks on credit and guarantee schemes. The SAEDF manager could therefore choose the bank for a particular project based on the existing relationship that the identifying NGO or Chamber of Commerce has with a local bank.

Potential Banking Partners

Commercial Bank of Namibia
First National Bank of Namibia
Standard Bank Namibia

Channeling Loan and Equity Funds through Local Venture Capital Funds

In attempting to identify financial institutions that appear promising for SAEDF investment, the team discovered there are plans underway by various individuals, governmental organizations, and financial institutions to establish venture capital companies and funds in Namibia. These venture capital funds would allocate various amounts of funds for loans to, and/or equity investments in, promising SMEs that have good project proposals which are perhaps considered too risky for conventional financing by commercial banks. All of the following venture capital ideas seem to be in the early to middle planning stages so there is not much information available.

Public/Private Sector SME Venture Capital Fund

Several local bankers mentioned they were discussing the idea of establishing a Namibian SME venture capital fund. There is a possibility that the initial capital for this fund would come from the Namibia Development Fund (NDF), which was created by the South Africa Development Bank in 1987 to promote private sector development, but has remained somewhat dormant until recently.[4] The idea is to create a fund using the capital from the NDF and invite banks and other companies as well as Government entities to contribute. A Cabinet-level committee has been formed to work out a program for making productive use of the NDF funds. Decisions have yet to be made regarding the possible venture capital fund's autonomy and management.

The SAEDF manager should monitor the progress regarding the development of this fund to determine whether it could use it as a financial intermediary to reach its primary target group of SMEs.

Namibia Development Corporation's Venture Capital Fund

The NDC is considering the establishment of a venture capital firm for SMEs. The NDC has indicated that during the first phase the fund, scheduled to be launched in July 1995, will take the form of a heavily subsidized revolving credit fund for SMEs. As mentioned in the previous chapter, the revolving fund will be evaluated after a one or two year period before a commencement of the second phase occurs. During the second phase, the fund will convert to a conventional venture capital fund with a capitalization of N$100 million (US$27.8 million), of which NDC is expected to pledge N$20 million (US$5.6 million). The remaining N$80 million (US$22.2 million) is expected to be raised from local and foreign institutional investors. NDC indicated that there is a large amount of interest in the venture capital fund from institutional investors.

The NDC venture capital fund will focus on three groups: start-up companies (60 percent); expansion of companies already listed on the Namibia Stock Exchange (20 percent); and firms that have the potential for listing on the stock exchange (20 percent). Although it appears that the NDC venture capital fund will not be in place for another year or so, the SAEDF manager should monitor the progress toward the development of this fund, in case the NDC reconsiders Phase One's lack of viability. Once the NDC venture capital fund is closer to becoming a reality, the SAEDF manager should determine

[4] When it was established, the Namibia Development Fund was scheduled to use World Bank lending criteria and funds were to be channeled through FNDC, the predecessor of NDC. This never occurred since the NDF fund manager did not wish to follow World Bank guidelines, so instead funds came from the GON. The funds have since been sitting idle as the fund manager has invested the funds in safe securities. The Government has been trying to obtain access to the funds. In 1994 the Ministry of Finance issued orders to transfer some of the funds to the NDC and Fishcorp (a fishing parastatal) despite protests by the NDF manager. The Government recently allocated N$20 million to the NDF in connection with job creation project. The NDF now has N$60 million to N$80 million. The Cabinet recently decided to use N$5.5 million (in the form of loans not exceeding N$50,000 at a per annum interest rate of four percent) of the N$20 million for immediate disbursement for job creation.

whether it could be used as a financial intermediary to reach SAEDF's primary target group of SMEs.

Northern Business Development Consortium Venture Capital Fund

The Northern Business Development Consortium (NOBUDEC) was created by a group of six retail businessmen in Northern Namibia. The group is led by Mr. E.P. Shimi, a prominent local businessman in Ondangwa who is on the board of directors of the First National Bank and the Southern Life Insurance Company. NOBUDEC's purpose is to take an active role in: the identification of business opportunities in Northern Namibia; the development of such businesses for the benefit of the local economy; and the sustainable integration of the northern economy into the overall economic development of the country. NOBUDEC intends to establish a venture capital fund to organize finance for small and new businesses in various sectors. The fund will solicit money from the private sector, pension funds and government finance corporations. The founders would like to start the fund with N$30 million (US$8.3 million) but admit they will need assistance. They would like to reach a fund size of about N$150 million to N$200 million. NOBUDEC would be interested in training and technical assistance if a donor could provide matching funding.

According to information provided during interviews, the venture capital fund will be organized and run as a separate company under the umbrella of NOBUDEC. It will identify formal sector (i.e., registered) entrepreneurs and evaluate their ideas and business plans, as well as encourage venture capitalists to participate in the companies and serve on the boards of directors. The fund will be interested in seeking joint ventures with registered businesses. It would like to have a technical assistance component to ensure sustainability.

The SAEDF manager should monitor the progress regarding the development of this fund to determine whether it could use it as a financial intermediary to reach its primary target group of SMEs.

Explore Joint Investment Opportunities with Institutional Investors

Insurance companies and pension funds have billions of Namibian dollars in their investment portfolios. Like many companies in Namibia, a majority of their funds are invested abroad, mostly in South Africa. This is done because of the actual or perceived lack of suitable investments in Namibia, as well as the fact that all of the major insurance companies and pension funds in Namibia are subsidiaries or affiliates of South African corporations. In an attempt to stem the flow of investment funds out of the country the GON decided in 1994 that insurance companies and pension funds should be required to invest 35 percent of their investment funds in Namibia. A gradual increase was allowed, whereby they were required to reach 10 percent by September 30, 1994, 25 percent by March 31, 1995 and 35 percent by June 30, 1995. The Ministry of Finance's Directorate of Financial Institutions is respons'' 'e for monitoring compliance with these regulations.[5]

One insurance company portfolio manager said it would be able to meet the 35 percent requirement for its insurance and pension fund activities. He said that there is a lack of available financial instruments in Namibia so most companies invest the bulk of the 35 percent requirement in Namibian Government securities and local government securities. Many companies therefore see this requirement as a reliable way for the GON to finance its yearly budget deficit. Some funds are invested in companies listed on the Namibia Stock Exchange which currently has 17 listed companies, several of which are South African companies. Investors are looking forward to the fact that ten more are expected to be listed on the NSE by the end of 1995. Funds above the 35 percent requirement are generally invested on the Johannesburg Stock Exchange.

In order to leverage its resources, the SAEDF should explore possible opportunities to make joint venture investments with insurance companies and pension funds in viable medium-sized businesses.

Conclusion

While the universe of firms potentially eligible for SAEDF assistance in Namibia is not large, there are a significant number of projects in a variety of sectors which are well-conceived and whose funding would make an important contribution to the growth of Namibia's private sector. Moreover, there exists a larger pool of proposed projects which -- while currently insufficiently developed as business plans -- will yield some additional projects worthy of development with some technical assistance.

While a number of NGOs provide lending assistance to disadvantaged SME businesses, and larger, established businesses can benefit from traditional commercial bank lending, there exists a well-defined lending niche which could be met by the SAEDF. By focusing primarily on projects in the N$50,000 to N$100,000 range, SAEDF resources can be used in a fashion which is highly complementary with existing lending efforts and satisfies a clear-cut need of the private sector which is currently not addressed. Moreover, the capacity to use existing NGOs and commercial banks as training and financial intermediaries for the program avoids duplication or competition with existing NGO or

[5] Regulation Number 28 for pension funds and Regulation Number 34 for non-linked insurance business.

governmental programs, thereby making the most effective and focused use of USAID resources.