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Financial Services for Small Enterprises in Namibia

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CONTENTS

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Abbreviations

ASDSE	Adult Skills Development for Self-Employment
BAF	Business Advisory Forum
Canamco	Canada Namibia Cooperation (Programme)
CBN	Commercial Bank of Namibia
CISP	Comitato Internazionale per lo Sviluppo dei Popoli
COSEDA	Community Small Enterprise Development Agency
CRIAA SA-DC	Centre for Research Information Action for Development in Africa – Southern Africa Development and Consulting
CRS	Catholic Relief Services
CSIB	City Savings and Investment Bank
DABE	Directorate Adult Basic Education
DBSA	Development Bank of Southern Africa
DFID	Department for International Development (British)
DFN	Development Fund of Namibia
DLO	district literacy officer (National Literacy Programme)
ELCIN	Evangelical Lutheran Church in Namibia
FES	Friedrich Ebert Stiftung
Finnida	Finnchurchaid + SIDA
FNB	First National Bank
GTZ	Deutsche Gesellschaft fuer Technische Zusammenarbeit
HIVOS	Humanistic Institute Voor Ontwikkelung Stigtung
IMLT	Institute for Management and Leadership Training
JCC	Joint Consultative Committee
KAP	Katutura Artisans' Project
KAYEC	Katutura Youth Enterprise Centre
K-Rep	Kenya Rural Enterprise Programme
MBEC	Ministry of Basic Education and Culture
MTI	Ministry of Trade and Industry
NACCUL	Namibia Co-operative Credit Union League
NDC	Namibia Development Corporation
NEPRU	Namibian Economic Policy Research Unit
NLP	National Literacy Programme
NNCCI	Namibia National Chamber of Commerce and Industry
NNRCCI	Northern Namibia Chamber of Commerce and Industry
NORAD	Norwegian Agency for Development
NPA	National Property Academy (see JCC contact list)
NPC	National Planning Commission
NPOSB	Namibia Post (NamPost) Savings Bank
NRDP	Namibia Rural Development Project
NYC	National Youth Council

OHA	Okutumbatumba Hawkers' Association
PSF	Private Sector Foundation
READ (Project)	Reaching Out with Education to Adults in Development
SBN	Standard Bank Namibia
SIDA	Swedish International Development Agency
SMEs	small and micro enterprises
USAID	United States Agency for International Development
WVTC	Windhoek Vocational Training Centre
MLS	Micro Loan Scheme (Lisikamena)
ILS	Individual Loan Scheme (Lisikamena)

Foreword

Two years have passed since the Friedrich Ebert Stiftung (FES) published the booklet entitled *Credit Delivery Systems for Small Enterprises in Namibia*. That booklet has proved to be one of the most widely sought publications of the FES, which is not surprising particularly for people working with small businesses. Finance still constitutes one of the main bottlenecks in the development of the small business sector. Consequently, information on financial services is highly appreciated, and it is essential that the information provided is correct and updated to keep abreast of institutional and political changes.

In 1997 and 1998 we observed important developments affecting the small business sector. The Government of Namibia published its well-intentioned small business policy, while the Joint Consultative Committee (JCC) was formally registered as a network of support institutions and new financial programmes emanated from different partnerships between government, NGOs and the financial sector. In view of these developments the JCC deemed it necessary to update the old booklet, to integrate new institutions and to restructure the section of the booklet dealing with the political environment and financial services.

The present publication, entitled *Financial Services for Small Enterprises in Namibia*, attempts to cover current information needs. The authors, C. Tonin, P. Dieci, A. Ricoveri and S. Foresi of Comitato Internazionale per lo Sviluppo dei Popoli (CISP), and D. Hansohm of the Namibian Economic Policy Research Unit (NEPRU), are themselves involved in small business credit programmes and/or research, and may be considered as experts on the subject in Namibia. The main strengths of this study are the descriptions of the various programmes and the evaluations of important issues such as borrowing conditions and default rates. This information is not only relevant for analysing the support structure in Namibia as compared to that of other countries, but it is also of value to micro and small entrepreneurs who could use this publication to gain an overview of the available financial options. Of course, further information should be sought through direct contact to the service-providing institutions. In this regard, the newly established JCC office may be willing to lend a helping hand to interested entrepreneurs.

The FES, established in Germany in 1925, has been present in Namibia since the country gained its independence in 1990. It supports Namibia's nation-building and development process. Our programme of co-operation with Namibia is aimed at fomenting the political, economic and social transformation of the society in order to create democratic and representative structures. The integration of the different social groups and economic sectors in Namibia is considered as one of the main development tasks to be achieved through our co-operation programme.

The FES therefore supports small businesses in an indirect way by strengthening the capacity of service providers to the sector and by trying to improve the general conditions for small business development on the national and local levels. The FES's collaboration with government, the JCC and the Namibia National Chamber of Commerce and Industry (NNCCI) is seen as a key factor for the formulation of partnerships to tackle the limitations to small business development. The provision of adequate financial services is but one aspect of developmental programmes and partnerships, but without doubt it is one of the most important for the development of the small business sector. I am sure that this study will contribute much to the exchange of experience and help in the co-ordination of efforts by the different stakeholders.

Dr Michael Langer
FES Project Manager
6 October 1998, Windhoek

Summary

Financial Services for Small Enterprises in Namibia is a study report published by the Joint Consultative Committee (JCC) with the support of the Friedrich Ebert Stiftung (FES). The study was carried out and the report written by Claudio Tonin, Paolo Dieci, Alessandro Ricoveri and Serena Foresi of Comitato Internazionale per lo Sviluppo dei Popoli (CISP), an Italian NGO, in collaboration with Dr Dirk Hansohm of the Namibian Economic Policy Research Unit (NEPRU).

The present study was primarily conceived as an update of research on financial services rendered to small businesses in Namibia. A first report dealing with this subject was published by the Friedrich Ebert Stiftung in October 1996 under the title *Credit Delivery Systems for Small Enterprises in Namibia*. The goal of the first study was to analyse the available credit and saving facilities for small and micro enterprises (SMEs) in Namibia, and to discuss how they could be improved.

The primary aims of the present study are as follows:

- To analyse the service providers, the different forms of financial support given to SMEs, the areas served by the programmes offered, the linkages and collaborations existing between service providers and their programmes, and the sustainability of the credit schemes implemented.
- To compare the situation in 1996 with the current situation.

SME service providers comprise the target group of this study. In the Namibian context, these service providers are basically NGOs and parastatals. An analysis was made of the credit systems set up by these organisations and institutions. The information gathered pertains to outreach, performance rate, interest rates applied, repayment period and accessibility. Information regarding the commitment and participation of formal credit and savings institutions in the development of the SME sector was also collected.

This study makes the following main assumptions:

- The growth of the SME sector could have a very positive impact in terms of employment and socio-economic development.
- This growth is currently hampered by a number of factors, including the lack of formal collateralised credit for micro and small enterprises.
- Consequently there is a need for micro credit schemes that specifically cater to the SME sector.
- The success of any micro credit programme depends upon its financial sustainability and its impact in terms of entrepreneurship development.

This report stresses that despite the many differences existing between current credit providers in respect of the financial and methodological criteria they employ, all follow an "interventionist" approach, whereby a number of services, such as training, enterprise follow-up, evaluation and skills upgrading are added to credit delivery. This can be counterposed to a "minimalist" approach, which tends to concentrate exclusively on credit in order to cut down operational costs and ensure sustainability.

The authors recommend that efforts be made to simultaneously attain the following objectives:>

- To make credit delivery sustainable.

- To reach micro businesses.
- To provide micro entrepreneurs with the necessary technical and managerial support.

One possibility in this direction could be to strengthen the collaboration between small credit providers, such as NGOs, parastatals, and formal credit institutions. The idea is that NGOs and parastatals should concentrate on a number of activities (training, follow-up, monitoring and evaluation, savings mobilisation, etc.), which is necessary to ensure the greater impact of credit, while the financial aspects of credit delivery are managed by the formal credit institutions. At the same time, NGOs funded by time grants should work closely with public or existing private institutions, so that these institutions can take over the relevant projects once the grants have terminated. Alternatively, specialised micro financial institutions could be established once a feasibility study has been conducted in terms of a minimalist approach.

Another suggestion formulated in this report pertains to the need to strengthen a participatory approach, where borrowers/clients are involved directly in designing the credit scheme, as well as in the loan disbursement decision-making process. The study also identifies a need to undertake a survey on informal traditional credit and saving behaviour in Namibia. Such a survey could make ongoing projects more culturally driven.

Regarding the 1996 and 1998 situations of credit providers in Namibia, the study draws a comparison on the basis of four sets of indicators, as follows:

- General indicators (total size of fund, number of loans disbursed, provision of training).
- Strategic indicators (access to credit by gender, access to startup/ongoing credit, access to credit in urban/rural areas).
- Effectiveness indicators (total disbursed capital, average loan size, default).
- Efficiency indicators (processing capacity, number of staff involved in loan processing and disbursement, time for disbursement).

Generally, the results of this comparative exercise indicate that there has been an increase in the amount of both available and disbursed funds, as well as in the number of delivered loans. At the same time, data from the two periods indicate improvements in the strategies followed by credit providers. In fact, more emphasis is currently given to gender equality, with women's participation in the schemes constituting around 60% of the capital disbursed as loans as compared to 40% in 1996. Another positive strategic development is the growing number of loans disbursed to small businesses in rural areas.

1. Introduction to the Study

1.1. TERM OF REFERENCE OF THE SUDY

This study has been conceived as an update of the research carried out by the Namibian Economic Policy Research Unit (NEPRU) in late 1995, discussed at a Joint Consultative Committee (JCC) workshop in March 1996, and published in October 1996 by the Friedrich Ebert Stiftung under the title, *Credit Delivery Systems for Small Enterprises in Namibia* (Hansohm, Matsaert & Bebi, 1996). This study, the first of its kind, was received with great interest and, due to the rapid developments in the promotion of small enterprises in Namibia, a need was felt to update the study. Furthermore, in line with the international discussion on small enterprise finance, the need for widening the conceptual framework beyond the provision of credit was recognised. For this reason, the present study is entitled *Financial Services for Small Enterprises in Namibia*.

The study has been conducted on the basis of the terms of reference defined by the JCC during the first half of 1998. Accordingly, its goal has been to analyse the available credit and savings facilities for small and micro enterprises (SMEs) in Namibia, and determine how they can be improved. The study findings are in line with national policy for the small enterprise sector (see Republic of Namibia, *Finance Policy on SMEs*, 1997).

Consistent with this goal, the main objectives of the study have been the following:

- To analyse the service providers, looking at the different forms of financial support given to SMEs, the areas served by the programmes offered, the linkages and collaborations existing between service providers and their programmes, and the sustainability of the credit schemes that have been or are being implemented.
- To compare the current data with the data collected during the first study as reported in the 1996 publication above-mentioned.
- To provide general background information on the sector supported by the service providers and to list the needs and problems of this sector.

Agricultural credit has not been covered in this study, as it was not in the previous study, due to its unique nature which would require additional resources and time to research.

The target group of the study are the financial service providers to SMEs. In the Namibian context, these service providers are basically NGOs and parastatals. An analysis has been made of the credit system set up by these organisations and institutions. The information gathered pertains to outreach, performance rate, interest applied, repayment period and procedures, and accessibility.

To select the organisations and institutions to be interviewed, the list utilised in the previous study was examined, updated and reviewed. Some of the institutions analysed in the previous study are no longer involved in credit provision, this being the case with the Private Sector Foundation, the Northern Namibia Chamber of Commerce and Industry (NNRCCI) / Evangelical Lutheran Church in Namibia (ELCIN) / First National Bank (FNB) group and the Namibian Women Association. Others have changed their denomination and organisational setup, as in the cases of CISP, Canamco/Lihepurura and Co-operation for Development.

Two additional programmes that deliver credit to SMEs have been taken into consideration, namely Okutumbatumba (NGO) and the Namibia Development Fund (parastatal).

The study has been based on data collected from seven NGOs and two parastatals. As for the first study, the reliability of data is solely attributable to the answers given by the interviewees. Information on the commitment and participation of the formal credit and savings institutions in the development of the SME sector was also collected.

This study was comprised of four phases. The first phase involved a review of the relevant publications and research undertakings on the issues of micro credit and SME development in Namibia and, more generally, in other developing countries. The second phase involved identifying, in close co-operation with NEPRU, the existing service providers for SMEs. The third phase involved a review of the questionnaire used for the previous study on the basis of the new terms of reference elaborated by the JCC. The questionnaires were administered following this review (in June 1998), as part of the third phase. All the investigated organisations and institutions were interviewed, and special meetings were convened with the formal credit and savings institutions. The analysis of the data collected and the drafting of the report constituted the final phase of the study. It should be noted that the draft was discussed with all the members of the JCC's Credit Standing Committee.

There is a basic difference in the methodology applied in the previous study and this one, flowing from the need to focus more attention and effort on comparing performances and achievements during the two periods in question. The credit delivery system model based on Otero and Rhyne (1994) that was used in the first study has not been used in this one.

Although this booklet is intended as a practical tool for all those engaged in the development of SMEs in Namibia, rather than as an exhaustive theoretical exercise, some of the main conceptual ingredients of the current debate on micro credit and small business have been considered.

1.2.CONCEPTS USED

Although the conceptual interest nowadays goes beyond credit and encompasses savings mobilisation and other financial services, the actual provision of services in the area of savings in Namibia is still very limited. Thus, as in the 1996 study, the key subject in the present study is **credit**. The concept of credit utilised here is the same as that utilised in the previous study and defined in the 1996 report as follows: "Credit is the provision of capital by a lender to a borrower, with a legal agreement for the repayment of a specific amount over a given term."

It must be emphasised that this definition does not include informal credit, which is delivered by private moneylenders, not always on a legal basis. In any case, informal credit has not formed part of this investigation.

The definition of credit serves primarily to make a clear distinction between credit and a grant. There is a growing awareness of the potential involved in using credit as a tool for social and economic development. In fact, credit is perceived as a means of avoiding dependency on outsiders, and it is considered to be potentially sustainable. Grants, on the other hand, are generally considered to be unsustainable and to generate a high degree of dependency on donors.

Several successful experiences have shown that the poor can be reliable borrowers if they are given the chance to start or improve a viable business and to become economically active. The lack of financial collateral is recognised as a major factor hampering the access of micro and small entrepreneurs to formal credit. Various credit programmes/projects have consequently been designed and implemented with the aim of ensuring access for small and micro entrepreneurs and reaching sustainability.

Donors and NGOs increasingly tend to finance development activities that have a high probability of becoming sustainable. This issue is particularly significant when viewed in the context of credit, because by definition a revolving credit facility or fund implies sustainability. Resources are delivered, supposedly repaid and then delivered again. Although a project always has a defined time span, a credit fund is meant to be self-perpetuating.

In other words, the real challenges of any micro credit scheme are to reach the needy entrepreneurs who have no access to formal credit, and to be economically sustainable. Any evaluation of the performance of a project focused on micro credit should consider these two issues as priority areas of assessment. Exchanges of experiences and results among stakeholders implementing similar programmes in different countries are certainly useful and can lead one to improve one's own methodologies and to define strategies better. At the same time, the peculiarities of each country must be taken into account in designing a micro credit scheme. In fact, no single model is able to fulfil the needs and match the specific facets of the different realities.

Moreover, to ensure the **sustainability** of a credit fund beyond the life of a project, it is not sufficient to rely on the fact that it will necessarily revolve. There are some factors that lead to a diminishing of the resources and impact of the start-up funds. There are basically four such factors, and they are viewed as the "enemies of a successful credit intervention": (i) low repayment rates by borrowers; (ii) inflation; (iii) operational costs that are greater than fund income; and (iv) weakness of the institutional framework under which the micro credit scheme is implemented.

Since the borrowers in the credit schemes investigated are micro, small or, in the case of parastatals, medium entrepreneurs, **entrepreneurship** has represented a *de facto* area of investigation. Although the reality of the Namibian SMEs has not been directly studied for this analysis, its main facets have been considered in order to analyse the appropriateness of the offers of credit to the "clients". This was made possible by the experience acquired by CISP and NEPRU in dealing with SMEs in Namibia, as well as by the review of research already carried out on this subject (see selected references). A very brief summary of this review is reported below. It is therefore important to clarify what we mean by entrepreneurship. It will be appreciated that rather than being a purely academic issue, defining entrepreneur-ship is a step towards a better and clearer definition of the recipients of micro credit schemes. This holds true whether these schemes approach established businesses or whether they attempt to encourage the start-up of new enterprises.

Entrepreneurship can be assumed to be one of the major factors that guarantee a real potential growth of small businesses. Although a precise and unique definition of entrepreneurship does not exist, the literature on this topic has revealed diverse facets that can be used to develop a comprehensive typology.

First of all, since the last century the entrepreneur has been defined as "the bearer of non-insurable risk". The implication of this conceptualisation is that the skill of entrepreneurship includes the ability to minimise the risks related to profit-making. This is also true in the case of credit. Borrowing is always risky and credit should only be requested to run profitable operations, since the viability of businesses is the best way to reduce risks.

A second role assigned to entrepreneurship is that of managerial co-ordination. The success of any entrepreneur, regardless of the size of the business owned, depends largely on the owner's capacity to co-ordinate the different aspects of the business, such as production, accountancy, pricing, marketing, etc. With regard to credit, managerial co-ordination is believed to play an important role in defining the criteria for the utilisation of a loan, as well as in incorporating the repayment process into the life of the enterprise. Once the loan has been received, repayment is not an optional ingredient of the credibility and viability of the business, but a vital one.

Innovation is a third major component of the entrepreneurship function. This role is closely related to the roles of strategic planning and decision-making. Changes frequently occur in any social and economic environment, leading to new market opportunities and new demands from potential customers. Accordingly the success of an enterprise also depends on its ability to introduce innovations to meet changes in its environment. In other words, innovation is usually necessary to make an enterprise really market driven and able to compete with similar enterprises.

The three components of entrepreneurship described above do not constitute an exhaustive definition of entrepreneurship. Nevertheless, the concepts of risk-bearing, managerial co-ordination and innovation can be utilised in evaluating the performance of an enterprise and for planning financial programmes for SMEs.

The main assumptions of this study have been formulated as follows:

- The growth of the SME sector could have a very positive impact in terms of employment and social and economic development.
- This growth is currently hampered in Namibia by a number of factors, including a lack of formal collateralised credit to micro and small enterprises.
- There is consequently the need for micro credit schemes, specifically aimed at the SME sector as well as the informal sector.
- The success of any micro credit programme depends on its financial sustain-ability and its impact on entrepreneurship development.

1.3.SHORT PROFILE OF THE SMALL BUSINESS SECTOR IN NAMIBIA

[Most of the information here reported is based on Republic of Namibia, Namibia: Policy and Programme on Small Business Development , January 1997.]

There is no unique definition of a small business or enterprise, since this definition would have to take into account the legal, social and economic environments of different countries.

The most common criteria used to arrive at such a definition would include the number of employees, the turnover and the capital employed. The following definition of a small business has accordingly been adopted to fit the Namibian context: *[Whenever this study refers to SMEs or small businesses it is also referring to micro businesses which are not included in the government's definition given above.]*

TABLE 1: DEFINITION OF A SMALL BUSINESS IN NAMIBIA

Sector	Employment	Turnover (N$000)	Capital Employed (N$000)
Manufacturing	Less than 10 persons	1 000	500
All other businesses	Less than 5 persons	250	100

This definition is believed to cover the most disadvantaged small enterprises in the country.

Small businesses fall under the wider category of SMEs, which are believed to provide employment and income for approximately one third of the Namibian workforce. This fact indicates the weight that the sector has objectively acquired in Namibian society and substantiates the rationale for programmes aiming to promote the growth and development of small and micro enterprises.

In Namibia, as in any country, a small business may be an informal unregistered enterprise or a formally licensed firm. Informal businesses are generally very small enterprises with a turnover of below N$20 000, while formal small enterprises are generally larger in terms of both staff size and turnover.

It has to be stressed that the participation of women in the small business sector is consistently higher in the informal sector vis-à-vis the formal sector. In fact, less than 1% of women in Namibia own a formal business; most of those in business are engaged in a low-profit informal business. It is widely recognised that women entrepreneurs are the most disadvantaged of all entrepreneur types in Namibia.

It is widely believed that of the many constraints to the stability and growth of small businesses in Namibia, a lack of finance is the most crucial. The lack of collateral, as well as difficulties in dealing with banking procedures and regulations are the main factors impeding the access of small entrepreneurs to formal credit. Women are again particularly disadvantaged in this regard, as they rarely own property that can be used as collateral for loans. Relatives and friends are usually the only sources of finance for those who intend to start any kind of business.

After finance, other important constraints to the development of the small business sector in Namibia reportedly relate to marketing, purchasing, technology, training and a lack of business support. In addition, managerial skills and strategic planning abilities are generally very low among Namibia's small entrepreneurs.

Both local and international institutions in Namibia are still in a learning process with regard to the most effective ways of promoting the development of the small business sector (see selected references). Periodic evaluations of the impact of ongoing programmes are certainly necessary as a tool for ensuring that these programmes meet existing needs and that they are driven by the needs of the sector they intend to support. This booklet should be viewed in this light, as it attempts to detect possible areas of improvement for the ongoing interventions that are aimed at developing small business.

1.4. PROGRESS MADE IN SMALL BUSINESS PROMOTION IN NAMIBIA

A milestone in the promotion of SMEs in Namibia was the launching of Namibia's "White Paper on Small Business Development" in September 1997. This document gives the sector a high profile, and in line with this notion the Finance Minister, in his 1997/98 budget speech, highlighted the sector as a priority sector. A finance policy for SMEs that complements the White Paper is presently in its final stage of development, in consultation with the stakeholders.

The White Paper identifies five key constraints to SME growth and development: finance, markets, purchasing, technology and training. Access to finance is seen as the greatest constraint, in both the formal and informal sectors. Particularly, gaps are identified in the paper in respect of the informal sector and in the areas of seed capital and venture capital.

The policy framework that will guide the government's approach to the sector's business over the next three years will aim to operate through three kinds of interventions:

- Deregulation and incentives
- Proactive programmes
- Institutional support

As part of the deregulation process the government has taken several policy and legislative measures towards creating a more favourable regulatory environment, such as the Close Corporations Amendment Act of 1994, the 1993 moratorium on the use of the highly restrictive Road Transportation Act of 1977, the Trades and Occupational Licenses Repeal Act of 1995 and the Married Persons Equality Act of 1996 which has eliminated the gender bias against women.

These steps went a long way to improve the environment for SMEs in Namibia. However, there is a need to further reduce the legal and bureaucratic obstacles to establishing and operating small businesses. Among the remaining obstacles are many cumbersome procedures, which often result in long delays in processing permits, licenses and approvals. Indeed, processes such as those involved in the proclamation and establishment of townships in rural areas may still take 24 months or more to complete. The environment can be improved by repealing or simplifying such administrative procedures.

The White Paper sets out a plan to launch programmes designed to overcome the main constraints on the sector's development and help small businesses to exploit market opportunities. These programmes will cover the following six areas:

- Finance
- Markets
- Technology transfer
- Purchasing
- Sites and premises
- Training

The Ministry of Trade and Industry is to serve as the leading government agency in developing the small business sector. The Ministry of Finance, in conjunction with the National Planning Commission (NPC) and the Namibia Development Corporation (NDC), will be largely responsible for mobilising the required financial resources to implement the programmes. The NDC and NGOs that work with small entrepreneurs are expected to play a substantial role in implementing and running these national programmes.

The White Paper, which covers the period 1997-2000, envisages budgets of N$37,5 million, N$46,5 million and N$42,5 million respectively for the three years, bringing the total to N$126,5 million. The paper aims to increase the contribution of the SME sector to GDP from less than 5% to 10%, as well as to create additional gainful employment for 35 000 persons and to raise average sector incomes by at least 10%.

However, it has to be understood that the White Paper represents a vision and an appeal to government and donors to support this vision, rather than a binding document based on concrete commitments.

Although many agencies are involved in the provision of financial services to SMEs, these services are still far from sufficient, especially from the side of the commercial banks operating in Namibia. Thus, over the short to medium term, government aims to provide the bulk of the sector's financial requirements. In the longer term, however, government hopes that commercial banks will come to take over the lead role in financing SMEs.

Over the medium term, according to the White Paper, government plans to provide financial assistance of four types:

- A micro loan scheme (of up to N$20 000 for capital expenditure and up to N$10 000 for working capital).
- A credit guarantee scheme (encouraging commercial banks to lend to SMEs) for larger loans than those provided in the micro loan scheme.
- Seed capital (to pump-prime the establishment of new businesses; through the NDC).
- Venture capital (to enable SMEs to access equity and loan finance; through the NDC).

The current state of the four planned forms of financial assistance is as follows:

- Micro loan scheme: no budget available.
- Credit guarantee scheme: still under consideration, but likely to happen.
- Seed capital: in the proposal stage.
- Venture capital: presently not under consideration.

The White Paper is an important step taken by government in its focus on SME promotion. However, the following shortcomings of the paper are worth noting:

- The references to existing actors and their invaluable experience are very limited, and there is a danger of missing important potentials.
- No critical review of the many experiences in SME promotion in Namibia is provided, which could have formed a solid basis for achieving maximum success.
- Lessons learned in SME promotion internationally have not all been taken up. Specifically:
    - the economic perspective of SME promotion is somewhat mixed with social welfare objectives;
    - government is envisaged as a strongly interventionist actor (i.e. active in implementation), although international experience generally points to a more restricted role for government as enabler and catalyst;
    - the paper proposes assistance in virtually all areas imaginable, rather than taking a selective approach which would avoid the danger of creating dependency and undermining sustainable development.

2. Recent Lessons from International Best Practice in Small Enterprise Finance

In order to assess Namibia's financial services to small enterprises, we need to understand the international discussion on this subject. In recent years a major shift in thinking about financing small enterprises in developing countries has taken place, based on accumulated experience in many countries. There are common strands in this thinking and major lessons have been learned. These lessons provide the background for our evaluation of the credit system in Namibia. We can evaluate the current system of credit provision to small enterprises in this country by comparing it with the "best practice" in other countries.

This short section of the booklet summarises this theoretical background. The bibliography at the end of the booklet provides references for further reading, and includes documentation containing very practical advice which service providers can use in a "hands-on" manner – making use of the relevant findings and lessons. The first subsection below summarises the evolution of approaches to finance in development in general, which has implications for the thinking on financing small enterprises. This summary is followed by a discussion of the principles underlying successful small enterprise finance.

2.1. CHANGING PARADIGMS OF DEVELOPMENT FINANCE

The dominant thinking about the importance and role of finance in development has changed significantly over the last 40 years (Krahnen & Schmidt, 1994). Broadly speaking we can distinguish four phases in the mainstream thinking, each of which emphasises different elements.

At the birth time of development economics in the 1950s, development was equated with growth, which in turn was largely regarded as a process of capital accumu-lation. According to this model, growth of capital is seen as the result of saving, that is, of foregone consumption out of current income. Poverty perpetuates itself because incomes are too low to enable saving, which would be necessary to invest and increase income. Development capital comes in to close the savings gap. Although there is obviously some merit to this view, it is certainly much too narrow and simplistic: a number of other factors determine the success of development interventions of this sort; such capital is not a simple function of the amount of savings. Furthermore, this view emphasises finance in the sense of capital and ignores the crucial aspect of the financial system. It simply assumes the existence of proper mechanisms that transform savings into investment capital. This is an improper assumption in developing countries especially. In fact, it is reasonable to suggest that an "institution gap" is one of the key features these countries have in common.

This mechanistic view of development was questioned in the 1970s. It was realised that the infusion of foreign capital into large development projects had seldom resulted in a significant growth and "trickle down" of positive effects into the traditional economy. Instead, dualism, poverty, unemployment and rural-urban migration were enforced. As a result, economists shifted their attention from the economy in its entirety to target groups, aiming at poverty alleviation, employment creation and income generation rather than growth. However, the basic perception of "finance" remained the same: provision of capital to those who would be able to use it optimally. Credit was perceived as the critical bottleneck to the development of small-scale farmers and small business. Because existing banks were found to be unwilling as well as unsuited for use as institutions for channeling credit to disadvantaged groups, specialised development banks were set up. These provided generally subsidised credit and did not operate on a commercial basis. Efficiency and effectiveness were not high on their agenda, due to the conviction that their target groups were too poor and too risky for these criteria to be applied.

The failure of this subsidised target-group credit provision led to a process of rethinking on finance. The third view strongly attacks the financial repression on which the two preceding views are based. The third view instead emphasises the strategy of liberalising and strengthening the financial system, such emphasis being based on the premise that a functioning financial system which is not constrained by unnecessary regulation will be able to mobilise large volumes of savings, to transform these savings into investible funds, and to allocate these funds to socially valuable projects. Emphasising the importance of the quantity and quality of financial inter-mediation for development and its determination by economic policy, a policy of drastic deregulation was recommended. It was demonstrated that on the one hand, low interest rates made people save less, which led to less rather than more investment as hoped for, and on the other hand, the subsidisation of capital made borrowing attractive also for projects which had not been profitable at market interest rates. Credits had to be rationed, and were frequently allocated according to non-economic criteria, leading to a lower average productivity rate. It was largely those with the best political connections who benefited, rather than those most in need. Thus, the quality of investment was also negatively affected. Furthermore, it was not only savings, investment, growth and distribution that were negatively affected, but also the financial institutions themselves.

The micro-economic implications of this third view are as follows:

- There is a demand, not just a need, for financial services among the poor.
- People do not need subsidised credit, but rather access to fairly priced credit. In other words, their problem is gaining access to credit, rather than the cost of credit.
- The demand for deposit facilities with low transaction costs is even higher than that for credit, and for this reason an appropriate savings mobilisation system can mobilise sufficient savings to cover local investment needs.
- Banks which have to mobilise their own savings will do their best to ensure proper lending practice.
- If a favourable legal and economic environment exists, a proper financial intermediary targeted at the majority of the population is feasible.

This view can be regarded as basically correct. However, the empirical evidence supporting this radical view on liberalisation is as yet limited. There is also not enough theoretical underpinning for this view. The implicit model on which the view of radical liberalisation is based looks at financial institutions as monolithic, profit-maximizing firms. Furthermore, financial markets are seen as functioning in the same way as any other markets. These two assumptions, however, are too crude.

The fourth view on the role of finance in development is based on recent insights into the theory of organisation, finance and markets, known as "new theoretical institutionalism". This view emphasises the idea that economic development is more dependent on "good institutions" than on anything else. It rejects the claim of the third view that a financial system which is not repressed functions optimally by itself. Rather, the issue is how institutions function, based on the information they have and the incentives to which its agents are subject. Information is not available at no cost and neither is it evenly distributed, as is implicitly assumed by the third view. Thus, an intervention should aim at improving the way that institutions function, and at improving the incentive system. The basis for such aims should be an analysis of the current functioning of the market as well as the institutions.

The table on the following page summarises the four views discussed above.

2.2. PRINCIPLES OF SUCCESSFUL SMALL ENTERPRISE FINANCIAL NSTITUTIONS

Any thinking on SME finance should commence with a reflection on why such consideration is necessary, or in other words, why SMEs experience problems in gaining access to credit from the formal banking system.

TABLE 2: CHANGING PERCEPTIONS OF THE ROLE OF FINANCE IN DEVELOPMENT AND THEIR IMPLICATIONS

View	Time	What is relevant about "finance"?	Central assumption why finance matters	Finance has an impact on …	Policy implications and recommendations	Standards for evaluating financial systems	Empirical evidence for success of policy
1	'50s/'60s	Capital accumulation	Macro-economic production function	GNP growth	Transfer capital (and technology)	Capital stock; savings and investment rates	Yes, but mixed
2	'60s/'70s	Capital accumulation and allocation to target groups	Very imperfect goods and capital markets	Sectoral growth, income and production	Design "targeted" and subsidised credit programmes	Outreach of credit supply to many segments of society, i.e. "optimal access"	Partially yes, but with negative side effects on finance institutions and markets
3	'70s/'80s	Mobilisation, transformation and allocation of capital	Perfect markets and efficient institutions (only) if liberalised	a.) Quantity and quality capital b.) Supply and cost of financial services	Set up viable non-subsidising financial institutions in a liberalised and stable environment	Low-cost/complex array of financial services from efficient and stable institutions	Yes, but only in a stable economy
4	'80s/'90s	As above plus co-ordination of expectations and incentives	Pervasive information and incentive problems	Functioning of markets and institutions	Analyse and rationalise the incentive structure	As above plus efficient incentive structures within institutions and vis-à-vis clients	Multiple financial institutions exist and are viable

Source: Krahnen & Schmidt (1994: 27)

The following elements are relevant (Levitsky, 1993: 6-7):

- SME lending is perceived as risky.
- This perception has a real basis, as the mortality rate of SMEs is in fact high.
- There is also a reluctance on the part of SMEs to borrow from formal banks due to administrative and costly formalities.
- Banks maintain an institutional bias towards lending to the large corporate sector due to close links.
- The administrative costs of SME lending are high.
- SMEs are either unable or unwilling to present the full accounting records demanded by banks.
- SMEs are usually unable to provide collateral and security.

These are real and not just perceived obstacles, which have to be taken into account in designing programmes to provide financial services to SMEs.

The general evolution of our understanding of the role of finance in development has had profound implications for the practice of providing finance for small enterprises. The most recent approach to small- and micro-enterprise financing is based on the fourth view described in the previous subsection. However, most existing finance programmes are still based on the second view, or otherwise they are undergoing the process of evolving towards the new view and practice. This is especially true for African countries (World Bank, 1997).

The traditional practice of small enterprise finance:

- operated with a high rate of subsidy;
- made high losses due to low repayment rates;
- reached only a few; and
- as a rule, reached neither those most in need nor those who would make the most economical use of it.

By contrast, successful programmes (Christen et al., 1994; Rhyne & Otero, 1994) following the new approach:

- reach out to a large number of clients;
- reach especially the very small or micro enterprises which have no access to formal banks;
- are financially viable, i.e. they operate at a level of profitability that allows for sustained service delivery with minimal dependence on donor funds;
- are in many (but not all) cases fully self-sufficient, i.e. they generate positive returns on capital;
- depend largely on the local financial market;
- provide savings mobilisation services;
- adopt a market perspective in considering the preferences of the client group;
- specialise in providing only financial services;
- focus on measures to increase access to financial services, rather than on their "impact" on measurable enterprise growth;
- use innovative techniques to slash administrative costs as well as to motivate repayment (e.g. group guarantees, pressure from social networks, promising repeat loans in increasing amounts, savings requirements).

As mentioned above, some programmes manage to become fully profitable, but the debate continues as to whether this is feasible for most institutions. When it comes to micro enterprises and rural areas in particular, there are limits to full profitability. Institutional performance can be analysed in terms of four levels of self-sufficiency which institutions can attain (Rhyne & Otero, 1994). The lowest level pertains to traditional, highly subsidised programmes. Grants or soft loans cover operating expenses and establish a revolving loan fund, but the fund erodes through delinquency and inflation. There is a continuous need for grants.

At the second level programmes raise funds by borrowing on terms near, but still below, the market rate. Interest income covers the cost of funds and part of the operating cost, but grants are still needed.

At level three most subsidising is eliminated, but a dependence on some subsidy persists. The programmes operating at this level are generally not required to move further, as donors are satisfied with such a degree of performance. The Grameen Bank programme is perhaps the most prominent example in this category.

At the fourth and final level, programmes are self-sufficient, that is, they are fully financed from the savings of their clients and from funds raised at commercial rates from formal financial institutions. Fees and interest cover the real cost of funds, including loan loss reserves (for many, programme losses amount to less than 3% of principal).

While the fourth level is of course the most desirable to attain, programmes should be judged less by their current level of operation than by the progress they are making towards a higher performance level. In Namibia, the experience on this count is very encouraging. During the field work for the first study in 1995, it was found that the "new approach" to finance service provision, which emphasises sustainability and outreach, was largely unknown to Namibian service providers and met with a lot of skepticism. By contrast, just over two years later, these concepts had become widely accepted and institutions are now on their way to restructuring their operations accordingly.

Providing increases in finance to small and micro enterprises can be effected within different institutional structures. Three promising avenues have been identified (Rhyne & Otero, 1994):

- Linking non-governmental programmes to sources of finance (especially relevant when there are obstacles to finance through deposits).
- Transforming programmes into specialised financial institutions.
- Specialised operations within financial institutions.

The importance of including savings elements in the financial services package is increasingly being recognised. This can be done either through a joint credit and savings scheme in which a loan is conditional upon savings, or through separate savings and credit schemes, each with its own clients. The importance of savings lies in the following areas:

- There is a demand for savings facilities not only among SME entrepreneurs, but among the population at large. Contrary to popular belief, the poor also save. Because the demand for savings facilities is not met, savings are held in non-financial forms (e.g. cattle, precious metals), and this is sub-optimal from the point of view of both the savers and the national economy.
- Where credit is linked to a savings requirement, there is a greater commit-ment to using the credit for income generation.
- The savings linkage also diminishes the inclination to invest the borrowed resources in risky business ventures.
- There is evidence of a direct relationship between savings and higher loan repayments.
- Savings render financial institutions independent and require the discipline that only voluntary deposits can provide (additional information on potential borrowers, relationships that bind intermediary and client, the borrowers' knowledge that loans come from neighbours' savings rather than anonymous institutions).

One insight of the "new view" on SME finance is that financial services should be separated from non-financial services. If both kinds of services are provided by the same institution, it is not advisable that the same personnel who advise the entrepreneurs decide on the credit to be provided. Service providers following the "minimalist approach" – they do not provide any other service and do not concern themselves about the use of the credit provided – are very successful. However, this approach does not point to an absence of need for non-financial services. On the contrary, it is increasingly recognised that the financial constraint of a borrower must not be seen and addressed in isolation (see Finance Policy). Although few entrepreneurs would reject the offer of financial assistance, their perceived need for credit often emanates from deeper problems, and often masks other problems, or otherwise it relates to other issues. For example, entrepreneurs may not approach financial institutions because they are not informed about the services offered, or an application for credit is rejected because the institution does not have enough information about the entrepreneur and business, or the entrepreneur does not keep records due to a limited ability to present the necessary data. Also, although one may discern a solution to every problem in accessing capital, this may not be a sustainable solution. For example, there may not be enough demand for the entrepreneur's products or services because of limited purchasing power, or the business idea may not be feasible for other reasons. In such cases the solution to the entrepreneur's problems does not lie in the provision of finance but in other areas, or in a combination of finance and one or more other areas. For financial assistance to make sense, it has to be ensured that appropriate use can be made of the capital through the provision of other services, such as training and business advice.

3. Profiles of Institutions and Organisations Surveyed in the Study

This section of the booklet presents the profiles of the entities interviewed for the study, which were selected according to the criteria summarised in the introductory section. The interviewees include NGOs, parastatals and formal credit and savings institutions.

3.1.NON-GOVERNMENTAL ORGANISATIONS (NGOs)

3.1.1. Co-operation for Development (CD)

After years of operation in Namibia, CD (a London-based NGO) launched a new credit scheme in 1996 called Limbandungila, which is based in the Oshana Region in northern Namibia. The total capital outlay of N$750 000 originated from the British Department for International Development (DFID) and Comic Relief. The scheme is designed to sustain female entrepreneurs operating especially in the informal market of the town of Oshakati. The programme has been implemented in partnership with the Commercial Bank of Namibia. The agreement signed with the Commercial Bank foresees the following: the fund will cover 100% of default; CD will be allowed to lend up to 60% of the fund value; the bank will disburse the loans in advance; repayment will usually be collected by CD's credit programme officers; interest on loans will go to the bank; administration costs will be paid by the entrepreneurs to the bank. The available guarantee fund amounts to N$361 000, of which 56% or N$202 300 had been disbursed by November 1997.

The scheme is structured to encompass three loan stages:

- The first loan is made available to a group of three or four women, each of whom receives an amount of N$800, which should be repaid within four months. In case of default the amount due is recovered from the other group members.
- The second loan of N$1 500 is disbursed on an individual basis and should be repaid within six months.
- A third loan of N$2 500 can be disbursed to individuals who have repaid the previous loans, and should be repaid within eight months.

The scheme structure foresees a limit of N$7 000. For all three types of loan, the interest rate is 25%, no grace period is given and a savings amounting to 20% of the loan requested should be deposited into a savings account as collateral. The loans are disbursed in cash through the Commercial Bank of Namibia. By the end of 1997 a total of 189 loans of all three types had been disbursed.

Applicants for a CD loan must satisfy the following criteria:

- They must be women, as the CD credit scheme serves female entrepreneurs exclusively.
- They must prepare a business plan, which they do in collaboration with CD personnel through a brief training session on loan management.
- They should apply in groups of three or four members for the first loan (the second and third loans being disbursed on an individual basis).
- They should save and deposit into a savings account 20% of the loan amount as collateral.

The credit scheme does not target a specific sector, but alcohol-related businesses are excluded from the scheme.

In the past, a Loan Committee composed of 10 members, which had to meet on a monthly basis, decided on the applications. CD took over the function of assessing, screening and approving the applications in 1997. The processing of applications can take up to two months, during which period CD is capable of disbursing approximately 25 loans. Following the disbursement of loans, borrowers are visited on a weekly basis by the credit programme officer. Three people are currently involved in managing the fund: a chief executive officer, a finance officer and the credit programme officer.

Measures undertaken in case of default include collateral repossession and legal action to repossess assets if necessary. The target default ratio ranges from 5% to 10% per annum. In November 1997, due to a very high default rate of 43%, the Commercial Bank and CD agreed to put on hold the disbursement of loans to enable CD to focus exclusively on the repayment of loans. The default rate has decreased to 19% as a result.

To achieve sustainability CD plans to adopt the following measures in the near future:

- Charging a commission for each loan disbursed.
- Charging an administration fee of N$10 for each loan application. *[This measure has already been taken.]*
- Re-negotiating with the Commercial Bank of Namibia to collect interest on loans.

TABLE 3: SUMMARY OF KEY DATA FOR CD LOANS

Area of operations (split urban/rural)	Oshakati (100% urban)
Size of loan fund (state if split) in N$	N$361 000
Origin of funds	DFID Comic Relief
Duration of funding	DFID 1995-1998 Comic Relief 1996-1998
Nature of control/co-ordination with donors	N.A.
% of fund disbursed as loans	56%
No. of loans disbursed (gender breakdown)	189 loans (100% women)
Average size of loans	N$1 070
Upper limit (size)	N$7 000
Lower limit (size)	N$800
Average term	6 months
Upper limit (term)	8 months
Lower limit (term)	4 months
Processing time for loan (from submission to disbursement)	2 months
Processing capacity (no. of loans)	25 every 2 months
Target industries/activities Any industries/activities excluded? If yes, which?	Retailing (100%) Yes Alcohol-related businesses
Collateral requirements	20% savings of loan amount deposited
Training requirements	Loan management (one day)
Links to training institutions	None
Interest charged	25% fixed
Provision of interest rate to cover operational costs, default, inflation	N.A.
Target default ratio	5% to 10% per year
Actual default ratio (to date)	19%

Monitoring of borrowers	Weekly visit to borrowers by credit programme officer

3.1.2. Community Small Enterprise Development Agency (COSEDA)

COSEDA is an NGO that provides credit to micro and small businesses operating in Windhoek and Katutura which may not be able to access credit in the formal banking sector. This organisation was established in 1991 as the National Job Creation Service (NJCS), and its name change to COSEDA was instituted in 1995 at the outset of its current development phase. COSEDA provides credit through the Savings and Credit Scheme known as Ngaturitunge Pamwe, a name deriving from two indigenous languages – Otjiherero and Oshiwambo – which means "Let's Develop Ourselves Together". Ngaturitunge Pamwe draws its inspiration from traditional community practices which focus on self-help and on mutual support and sharing in local communities. During the period leading to May 1997 the focus of COSEDA operations was on preparing the groundwork for the launch of the Ngaturitunge Savings and Credit Programme. In developing its policy, COSEDA has drawn its inspiration from institutions like Grameen Bank and the Kenya Rural Enterprise Programme (K-Rep). COSEDA aimed at developing a model that would have a similar impact in Namibia, adapting the key principles and methodology of the institutions cited to the Namibian context. Technical assistance was provided by K-Rep through a three-month consultancy beginning in June 1997. By following this process of policies and systems refinement, COSEDA was able to set up its new programme and start disbursing loans by October 1997.

The capital allocation for the Ngaturitunge Pamwe Credit and Savings Scheme, which in 1998 is N$450 000, is provided by several donors agencies: Oxfam (USA), Catholic Relief Services (CRS), Humanistic Institute Voor Ontwikkelung Stigtung (HIVOS), Care Austria, and the READ Project of the United States Agency for International Development (USAID). The donors assert control over the fund by means of accountability auditing, in ways that vary for each donor. This control in no way influences the programme policy.

Thus far 26,6% of the fund has been disbursed to finance 122 loans, 87% of which went to female entrepreneurs. During the first year of scheme membership the upper loan limit is N$1 500, repayable within six months. In the second year of membership the upper limit is N$2 500, repayable within nine months. In the third year of membership loans amounting to a maximum of N$4 500 can be disbursed and repaid within 18 months. No grace period is envisaged in the programme. Interest rate is presently at prime, and is intended to cover 10% of inflation, 5% of default and 4% of operational costs.

The following sectors are supported by this scheme:

- Trade/Retail (88%)
- Service (7%)
- Manufacturing (5%)

The programme does not provide loans to taxi businesses due to high-risk factors such as a high accident rate involving taxis and the high number of unlicensed taxi drivers, and also due to the large loan amounts requested by entrepreneurs in this sector.

Ngaturitungwe Pamwe has adopted a group-based methodology of lending to entrepreneurs. Before potential clients are accepted, an assessment is carried out by COSEDA credit officers to determine whether they meet the eligibility criteria used to screen applicants, which include the following:

- Enterprises should have a maximum of 10 employees.
- The enterprise's assets should not exceed N$10 000.
- Enterprises should be located within the programme's operational area, i.e. Windhoek or Katutura.
- Entrepreneurs should be resident Namibians aged 18-75 years.
- Applicants should be willing to participate in the group-based scheme.

Entrepreneurs who meet the above criteria and wish to apply for loans are assisted to form self-selected groups of six potential borrowers. In the Ngaturitunge Pamwe scheme the group of six is known as *mabasen*, meaning "self-reliance". Two to four *mabasens* are needed to form an association known as an *oruuano*. Savings mobilisation and lending does not begin until the *oruuano* is formed. The *oruuanos* are also self-selecting and constitute the administrative units for COSEDA lending operations.

Upon the *oruuano*'s formation COSEDA Credit Officers facilitate the orientation of members around the scheme's policies and procedures to ensure that each member comprehends these. This orientation process involves discussing every credit and group policy and explaining to members how each policy affects them. Procedures regarding savings, loan applications, disbursements, repayments, arrears, defaults and subsequent loans are explained in detail. Training used to be provided by the Private Sector Foundation (PSF) in Windhoek.

Members of each *oruuano* meet with a Ngaturitunge Pamwe Credit Officer on a weekly basis. Members make a weekly contribution of N$5 into their group savings account (COSEDA has signed an agreement with Standard Bank to open the group saving accounts), and they continue to make these contributions for as long as they remain members of the scheme. Members familiarise themselves with other *oruuano* members and their businesses and elect association officials. Much of the decision-making and administrative processes is carried out by borrowers through their *oruuanos*.

After eight weeks of consecutive and uninterrupted saving by every *oruuano* member, two members from each *mabasen* become eligible for a loan. Loans are disbursed by cheque in group meetings. The group is responsible for appraising the loan, with guidance from the Ngaturitunge Pamwe credit officer. Loans are repaid with interest in weekly installments and all members continue to save. Four weeks later the next group qualifies for loans, provided that the first group has made regular weekly repayments.

If a borrower defaults, his/her savings are forfeited and the balance is recovered from the savings of other *mabasen* and *oruuano* members. Such group pressure is considered to be a good incentive to ensure that loans are repaid. When the first lending cycle is complete, *oruuano* members can apply for a second loan, as long as they maintain the savings and repayment installments as scheduled. A 10% saving is required for subsequent loans to be granted. Credit officers attend weekly *oruuano* meetings and monitor loan repayments, savings mobilisation and banking procedures. The repayment rate is currently 100%.

Nine people are involved in managing the Ngaturitunge Pamwe Savings and Credit Scheme Fund: four credit officers, one accountant, one administrator, one administrative assistant, one office assistant and the director.

COSEDA aims to reach sustainability by charging positive market-related interest rates (and the introduction of a cost-based interest rate in 1999 is planned), keeping operational costs down, servicing a larger number of loans (the intention being to replicate the scheme in northern Namibia once performance and design standards are fully tested) and maintaining a high repayment rate.

TABLE 4: SUMMARY OF KEY DATA FOR COSEDA LOANS

Area of operation (split urban/rural)	Windhoek and Katutura (100% urban)
Size of loan fund in N$	N$450 000
Origin of funds	Oxfam (USA), CRS, HIVOS, Care Austria READ Project of USAID
Duration of funding	From 1-2 years renewable
Nature of control/ co-ordination with donors	Accountability auditing
% of fund disbursed as loans	26,6%
No. of loans disbursed (gender breakdown)	122 loans (87% F, 13% M)
Average size of loan	N$1 000 in year 1
Upper limit (size)	N$1 500 in year 1 N$2 500 in year 2 N$4 500 in year 3
Lower limit (size)	N$200 in year 1
Average repayment term	6 months in year 1 9 months in year 2 18 months in year 3
Upper limit (term)	6 months in year 1 9 months in year 2 18 months in year 3
Lower limit (term)	3 months
Processing time for loan (from submission to disbursement)	8 weeks (for the first loan)
Processing capacity (no. of loans)	24 loans per month
Target industries/activities Any industries/activities excluded? If yes, which?	Trade/Retailing 88% Service 7% Manufacturing 5% Yes Taxi businesses
Collateral requirements	10% and continuous saving for second loan
Training requirements	8 weeks
Links for training	PSF (up until early 1998)
Interest charged	Prime
Provision of interest rate to cover operational costs, default, inflation	10% inflation 5% default 4% operational costs
Target default ratio	5%

Actual default ratio (to date)	No default
Monitoring of borrowers	Loans are repaid weekly and credit officers attend weekly meetings, during which loans are repaid and savings mobilised.

3.1.3. Directorate Adult Basic Education of the Ministry of Basic Education and Culture (DABE) / Comitato Internazionale per lo Sviluppo dei Popoli (CISP) / Adult Skills Development for Self-Employment (ASDSE)

Seeking to satisfy educational needs expressed by learners in the National Literacy Programme (NLP) of the Ministry of Basic Education and Culture (MBEC), the ministry, through its Directorate Adult Basic Education (DABE), established contact in December 1994 with Comitato Internazionale per lo Sviluppo dei Popoli (CISP), an Italian NGO that implements small- and micro-enterprise development projects in Namibia.

A proposal to set up the Adult Skills Development for Self-Employment (ASDSE) project was approved and funded by the European Commission under budget line B7-5071: Assistance to Rehabilitation Programmes in Southern Africa.

The ASDSE was launched in February 1996, to run for a period of 36 months, piloted by a team of two experts from Italy as well as local experts and consultants in the fields of training and credit provision. The project covers the whole country excluding the Kunene Region and parts of the Erongo Region.

The project has been designed as a link between Namibia's education system and efforts to create a favourable environment for job creation and self-employment in the country.

The main goal of the project has been to train NLP District Literacy Officers (DLOs) in their respective regions, to equip them for tasks that they will be required to perform in the MBEC's regional offices as part of the ASDSE project. These tasks include the following:

- Selecting the businesses or entrepreneurs in their communities who may qualify for ASDSE support.
- Completing the Business Plan Questionnaire and loan request forms.
- Providing the follow-up of the credit scheme.
- Providing the follow-up and entrepreneurial training for candidates;
- Managing the follow-up and training of NLP literacy promoters who work in their communities at the grassroots level, with the aim of creating a "literacy network" to share existing resources.

The availability of the DLOs to perform these tasks has the following advantages:

- By and large they are familiar with the people they are dealing with, which helps to minimise the risk of bad loans (defaults).
- Using the DLOs means utilising available and trained human resources, whose training costs and remuneration are paid by government, for a project administered by government. The project itself only had to provide training for the DLOs in the area of basic business management.

- The majority of the DLOs are using the project to attract more learners to the literacy programme, and it is used as an additional community facility.

So, all the logistical and operational costs of the ASDSE, such as the costs of follow-up and monitoring, are already covered by the MBEC as running costs of the NLP.

ASDSE loan disbursement is based on criteria for selection defined at the outset of the project, the most relevant of which are: to give preference to individual rather than group entrepreneurs; to allocate no more than 30% of the project fund to new ventures and at least 60% to female entrepreneurs; to evaluate the viability of the project and managerial skills of the entrepreneur. Training is not usually seen as a precondition but is available.

Terms and conditions of the scheme foresee a minimum of N$500 and a maximum of N$5 000 for micro loans, and a minimum of N$10 000 and maximum of N$20 000 for the special window created to support expansion in the activities of previously successful entrepreneurs. Interest rate is prime plus 2%, and an amount equivalent to 10% of the loan requested is required, intended either to serve as collateral or as a display of the entrepreneur's commitment. The repayment period ranges from six to 18 months.

Selecting the bank with which to establish the credit guarantee scheme has been another important factor. The signing of the agreement between the ASDSE project, First National Bank (FNB) and the MBEC is considered to be an achievement of the project chiefly because this means it has been implemented in **partnership** with a commercial bank. In fact, the FNB's participation entails covering 20% of the loans defaulted and not charging any management and administrative fees for the guaranteed funds, leaving to the project the responsibility for the final decision in approving loans.

The joint management of the ASDSE Credit Guarantee Scheme proposed a clear division of tasks between the FNB and ASDSE. As a result, the tasks of ASDSE include: identifying borrowers, appraising loan applications, providing business training, monitoring and following up of businesses and developing a database. FNB's main duties include: disbursing and collecting the loans, opening business accounts, developing a loan reports system and providing details on banking rules. So far the loan repayment rate stands at 98%.

The total number of loans disbursed by the end of July 1998 was 118, for a total amount of N$275 294. of which 66,94% was disbursed to female entrepreneurs. Of the total credit fund amount disbursed, 60% is directed to rural areas, and the sectoral breakdown is as follows: manufacturing 6%, services 55%, retail 17% and craft 22%.

In cases of default tracking agencies are hired and legal action is taken directly by the bank.

TABLE 5: SUMMARY OF KEY DATA FOR DABE/CISP/ASDSE LOANS

Area of operation	Nationwide (rural 60%, urban 40%)
Size of loan fund	N$500000
Origin of funds	European Commission
Duration of funding	3 years from February 1996

Nature of control/co-ordination with donors	Quarterly financial and technical reports and frequent discussion with donor representatives in the country
% of fund disbursed as loans	55%
No. of loans disbursed	118 (66,94% to women)
Average size of loans	N$2 333
Upper limit	Micro loan N$5 000; second-tier loan N$20 000
Lower limit	Micro loan N$500; second-tier loan N$10 000
Average term	12 months
Upper limit (term)	18 months
Lower limit (term)	6 months
Processing time for loan (from submission to disbursement)	1,5 months
Processing capacity (no. of loans)	7 loans per month
Target industries/activities Any industries/activities excluded? If yes, which?	Manufacturing 6% Services 55% Retail 17% Craft 22% Yes Alcohol-related businesses
Collateral requirements	10% savings of loan amount deposited
Training requirements	Entrepreneurial Management (3 days) if needed
Links for training	None (project provides training)
Interest charged	Prime + 2%
Provision of interest rate to cover operational costs, default, inflation	Inflation 15% Default 5% Operational costs 6%
Target default ratio	Lower than 4%
Actual default ratio (to date)	2%
Monitoring of borrowers	Once a month at their work sites

3.1.4. Institute for Management and Leadership Training (IMLT)

The IMLT was established in 1983 as a training institution directed mainly to the commercial, industrial and agricultural sectors. IMLT courses were made available to the public at large, and focused on disadvantaged groups in the aforementioned sectors. The IMLT's main donor is the

German Hanns Seidel Foundation, which provides a fund that covers operational expenses for implementing the training and credit programmes aimed at the SME sector.

In its mission statement the IMLT "endeavors to facilitate the development of a Namibian Small Enterprise sector, by offering entrepreneurs an opportunity to expand their productive and/or wealth-generating capabilities". This is done by providing a set of services, as follows:

- Specific training courses in business management, namely the "Start Your Business" and "Improve Your Business" courses.
- The Revolving Credit Fund.
- The IMLT/FNB Credit Guarantee Fund.

The Revolving Credit Fund (RCF) was initiated in 1994 as a pilot scheme to supply loans to small enterprises in Namibia. The loan fund originated from the Deutsche Gesellschaft fuer Technische Zusammenarbeit (GTZ), which provided N$970 000, and from the Ministry of Trade and Industry (MTI) which provided N$130 000. In addition the IMLT received N$192 000 from the GTZ in 1997, to cover the scheme's operational expenses.

The criteria set for the RCF pertain to the viability of the business, the presentation of a business plan and attendance of a training course in business management if needed. A trainer/consulting officer undertakes the necessary visits to the business to assess its viability and follows up on each application. The application is then submitted to the Management Committee, composed of all the IMLT staff, which then takes the final decision. All committee members must approve the application and the officer who submitted it then becomes 100% responsible for the follow-up activities and loan repayments. The IMLT has adopted an approach whereby the performance of the trainers/consultants is measured according to the performance of their individual loan portfolios. This might translate into a remuneration benefit. Approved loans are disbursed by way of a cheque made out to the supplier for the purchase of assets. Only in limited cases will loans go to cover working capital (in an amount not exceeding 10% of the loan requested). A collateral system is applied for most loans, based on a clause in the hire purchase style included in the contract signed between the IMLT and the entrepreneur.

Businesses are visited at least once every three months and an assessment is made in terms of improvement and needs. In case of default the IMLT proceeds legally against the business to repossess the assets purchased with the loan.

The IMLT management stresses that the institute would like to gradually move away from credit supply to SMEs to focus mainly on the training component and capacity-building. The idea would be to identify an organisation that would be willing to take over the outstanding RCF loan portfolio.

The IMLT/FNB Credit Guarantee Scheme was implemented in 1997. The FNB donated a fund of N$250 000 to the IMLT to deliver loans to the SME sector. The IMLT recommends and selects the businesses that receive the loans. Applications are approved by a committee composed of the IMLT general manager and one trainer/consultant, and a credit manager and the International Operations manager of the FNB. The fund gives a 100% guarantee on the loans disbursed. Four loans have been disbursed to date, totaling N$150 000. Interest on loans is prime plus 2%.

TABLE 6: SUMMARY OF KEY DATA FOR IMLT/RCF LOANS

Area of operation (split urban/rural)	Nationwide (rural 35%; urban 65%)
Size of loan fund (split) in N$	N$2 300 000 (original N$1 100 000)
Origin of fund	GTZ and Government of Namibia (Ministry of Trade and Industry)
Duration of funding	1994-1997
Nature of control/ co-ordination with donor	Reports to be given to MTI on yearly basis
% of fund disbursed as loans	96,4%
No. Of loans disbursed (gender breakdown)	106 loans (49% F; 51% M)
Average size of loan	N$20 915
Upper limit (size)	N$50 000
Lower limit (size)	N$5 000
Average term	2 years
Upper limit (term)	5 years
Lower limit (term)	1 year
Processing time for loan (from submission to disbursement)	4 weeks
Processing capacity (no. of loans)	5 loans per month
Target industries/activities Any industries/ activities excluded? If yes, which?	Service 50% Manufacturing 36,7% Trade 13,3 Yes Alcohol-related and taxi businesses
Collateral requirements	Hire-purchase arrangements
Training requirements	Yes if needed
Links to training institutions	Training is provided by the IMLT
Interest charged	Prime minus 2% for 1st year Prime minus 1% for 2nd year Prime for the following years
Provision of interest rate to cover operational costs, default, inflation	Inflation 15% Default 4-6% Operational costs 0%
Target default ratio	10%
Actual default ratio (to date)	13%
Monitoring of borrowers	Loan holders are visited every quarter and an assessment is made in terms of improvement and needs

3.1.5. *Lihepurura Kavango Trust*

[The data available on the Lihepurura Kavango Trust loan scheme is not comprehensive as the scheme has not yet begun to disburse loans, but the information given here is derived from the organisation's plan of action.]

The Lihepurura Kavango Trust is an NGO that emerged from the Canada Namibia Cooperation (Canamco) programme. Canamco was a five-year programme (ending 31 March 1997) implemented by Oxfam Canada. The programme aimed to improve the quality of life of the rural poor of the Kavango Region of northern Namibia, by providing the necessary assistance to increase agricultural production and build cottage industries and co-operatives in the region, this assistance addressing the acute needs of the region for credit, literacy training, water development and primary health-care services.

Lihepurura Kavango Trust operations are based in Rundu in northern Namibia and are led from the Rundu office. Lihepurura is still in its transitional phase of separation from the Canamco programme. The trust intends to continue with what Canamco started, on the basis of the experience gained during the course of the programme, and focusing on programmes which will lead the rural communities of the Kavango Region to achieve the objectives of economic development. To this end Lihepurura is implementing a small-enterprise programme aimed at achieving higher levels of income through creating employment that will lead to self-reliance for the communities of the region. A loan scheme is envisaged for the programme that is intended to encourage more effective savings to enable community members to gain access to existing sources of credit which would otherwise be denied. The entire loan scheme fund of N$500 000 was provided by Canamco/Oxfam Canada as a grant. Lihepurura is bound to an external mid-term review (with Canamco auditors) to evaluate the management of the funds received.

The Lihepurura Kavango Trust had not disbursed any loans at the time of writing as it is still in the process of evaluating the loan applications, but the trust has inherited 24 outstanding loans (totaling N$350 000) from the previous Canamco loan scheme. The loans mainly target the agricultural sector (farming/gardening associations) and community bakeries, and are all disbursed to groups. The loans should be repaid by the end of 1998 at a 5% interest rate. So far Lihepurura has not experienced any default on these loans.

The new scheme will provide funds to be disbursed as loans ranging from N$1 000 to N$20 000. The beneficiaries of the scheme could be any small- or medium-scale entrepreneurs, subsistence agricultural farmers and other individuals or groups of individuals found to meet the requirements of the scheme. Borrowers should be residents of the Kavango Region and preference is given to those who have already started to operate viable income-generating activities – these being mainly in the agricultural sector (70%) and processing manufacture sector (30%) – and who want to improve production. Cuca shops are excluded as businesses that qualify for loans. Loans should be repaid within five years at maximum and an interest rate of 21,5% will be charged for all types of loans. Lihepurura will also provide materials and equipment purchased for income-generating projects on a loan basis. Repayment will begin three months after the equipment or materials are received. In the case of loans disbursed in cash (working capital), an up-front amount of 10% should be deposited in a savings account before the loan can be released. People can withdraw and save in the account, but they cannot withdraw the 10%, and the next loan will be determined by the amount of savings and the repayment period. Borrowers should undergo a training course provided by Lihepurura's Department for Small Business Enterprises. The trust is also finalising an agreement with the Pahuka Training Programme which will assist the organisation in providing the training needed by the entrepreneurs.

Nine members of the total staff of 36 employed at the Lihepurura Kavango Trust are involved in managing the loan scheme. Six field co-ordinators are in charge of mobilising the rural community and assisting the loan applicants in drafting their respective project proposals and business plans. Each loan application form must be accompanied by a letter of motivation from the field co-ordinator explaining why the applicant should be considered for the loan. The letter acts as an evaluation of the viability of the income-generating project concerned, and should include technical justifications (i.e. land size and fertility level, distance from a water source, amount of labour required, cost estimation of material needed, etc.). The field co-ordinator is expected to clarify the technical details of the project to the loan administrator and the small-business advisor before the application is submitted to the deciding body, the Loan Reviewing Committee. The loan administrator is responsible for the financial status of the loan scheme. The loan administrator and the small business advisor do feasibility studies on the project for submission with recommendations to the Loan Reviewing Committee for a decision. The committee is composed of nine members: the Lihepurura Kavango Trust's small-business advisor, loan administrator, executive director and manager for Programme Co-ordination and Planning; a member of Lihepurura's Board of Trustees; and two community representatives who reside to the west and east of Rundu. Loans are monitored through ongoing support provided by the field co-ordinators, who regularly visit the businesses.

TABLE 7: SUMMARY OF KEY DATA FOR LIHEPURURA KAVANGO TRUST LOANS

Area of operation (split urban/rural)	Kavango Region (80% rural; 20% urban)
Size of loan fund in N$	N$500 000
Origin of fund	Canamco
Duration of funding	1997-1999
Nature of control/ co-ordination with donor	Auditing from Canamco
% of fund disbursed as loans	Loans disbursement has not yet commenced
No. Of loans disbursed (gender breakdown)	As above
Average size of loan	N.A.
Upper limit (size)	N$20 000
Lower limit (size)	N$1 000
Average term	N.A.
Upper limit (term)	5 years
Lower limit (term)	15 months
Estimated processing time for loan (from submission to disbursement)	1 month
Processing capacity (no. of loans)	N.A.
Target industries/activities	Agriculture 70% Processing manufacturing 30% (pottery, bakery) Yes

Any industries/activities excluded? If yes, which?	Cuca shops
Collateral requirements	10% savings for cash loans
Training requirements	Compulsory for all borrowers
Links for training	Lihepurura Department for Small Business Enterprises Pahuka Training Programme
Interest charged	21,5% fixed
Provision of interest rate to cover operational costs, default, inflation	None
Target default ratio	N.A.
Actual default ratio (to date)	N.A.
Monitoring of borrowers	Regular visits to businesses by field co-ordinators

3.1.6. Lisikamena

Lisikamena is a non-profit financial institution which was set up in Rundu in 1994. Lisikamena provides credit through two loan schemes: the Individual Loan Scheme (ILS) and the Micro Loan Scheme (MLS). Operations are financed by commercial interest rates and funding from the Government of Austria through Care Austria. Donor control is asserted through an expatriate technical advisor. Lisikamena accounts are audited annually and the audit report is submitted to the Government of Austria. Funding from Care Austria should cover the period 1994-2002, but funds are secured only up to 1998. Future funding will be granted depending on Lisikamena's sustainability, which should stand at 40% by the end of 1998 and 100% by the end of 2002. To achieve sustainability Lisikamena intends to reduce administration costs by fixing expenditure limits, to expand the MLS clientele, to improve the ILS assessment of loans and to expand to other regions in the long term.

Nine people are presently involved in managing the funds in the Rundu office: one administrator, one assistant administrator, two ILS credit officers, two MLS credit officers, one MLS manager, one overall manager and one technical advisor. Lisikamena co-operates with the Commercial Bank of Namibia and the Business Advisory Forum (BAF).

Individual Loan Scheme (ILS)

The ILS was started in 1994 to target small and micro businesses in the Kavango Region which do not receive any financial support from other institutions. Priority is given to:

- viable businesses either existing or starting out;
- female entrepreneurs (58%);
- manufacturers (58%);
- service outfits (10%); and
- retailing outfits (32%)

The current fund available for the ILS amounts to N$2 563 940, of which 77% had been disbursed by February 1998 to finance 147 loans. The loan size ranges from N$5 000 to N$20 000. The average ILS loan size is N$13 493. The loan repayment term varies between one and two years according to the loan amount and business particularities. The average repayment term is 21 months, while the average grace period is 1,5 months. Repayment is on a monthly basis and the current interest rate charged is 25%. In certain cases it may be possible to delay repayment. The following measures are taken after a six-month default period, should this occur: the loan outstanding is written off from the portfolio, legal action is taken and collateral or hire-purchased assets are repossessed. A good repayment record is a precondition for receiving a second loan. From March 1997 to February 1998 the default rate for the ILS was 20%, the target default ratio for this scheme being 10%.

The criteria applied in screening ILS loan applications are as follows:

- Purpose of the loan (loans should be used for business purposes only).
- Two days of training conducted by the Pahuka Training Programme.
- A business plan must be produced.
- Business location (businesses should be located in the Kavango Region).
- Collateral or guarantor is required.
- A contribution in cash or in kind of 10% of the loan amount is a prerequisite for all individual loans.
- Loans are only disbursed upon objective criteria concerning the viability of the business.

The Loan Committee – composed of three external members who are members of the business community – meets once a month and takes the final decision on the business plans submitted by Lisikamena's manager and credit officer. The whole loan process can take up to two months. Lisikamena's processing capacity is 20-25 potential loans per month, of which 25% (4-8 loans) are normally approved. Loans are usually disbursed by cheque in the name of the client. Once the loan has been disbursed, two credit officers assume the responsibility of paying monthly visits to the businesses.

Micro Lending Scheme (MLS)

Lisikamena's MLS is a non-profit programme that was started in 1996 with the aim of disbursing small loans to women trading in markets to improve their businesses and increase their income. Priority is thus given to women (97%) selling vegetables, meat, secondhand clothing and various other items in Rundu markets. Men are accepted into the scheme (3%) only in exceptional circumstances.

The current fund available for the MLS amounts to N$705 658, of which 42% was disbursed by 1997 to finance 359 loans. The loan amount ranges from N$200 to N$5 000. The average loan amount is N$835, and the present interest rate charged for micro loans is 29%. The repayment term ranges from 1-12 months, the average term being nine months. Loans should be repaid in monthly installments, with the first installment due one month after the loan is received. No grace period for MLS loans is envisaged.

The criteria applied in screening MLS loan applications are as follows:

- Applicants must comprise a group of at least three members.
- Applicants must have been in business for more than six months (the MLS does not provide start-up funds).

- Payment of an individual entrance fee of N$5 must be made.
- An ID card or passport number is required to register.
- An up-front saving of 20% of the loan amount should be deposited by each member of the group as collateral.
- Businesses should be located in one of the designated markets around Rundu.

To register for the MLS, the applicant needs to form a group with three to 10 people from the same area, but not from the same family. Each of the group members should apply for the same loan amount. The group should adopt a name and elect a group leader and a treasurer. It is the treasurer's task to collect the repayments from the other group members and to pay these either to the office or directly to the credit officer who regularly visits the group. MLS credit officers visit the businesses during this process to get to know the respective groups. Three MLS staff members (one manager and two credit officers) discuss each case and decide whether to approve the loan or not. After three weeks from the date of application the credit officers inform the group about the application. The entire approval stage normally takes one month. After approval, and before the loan is received, each group member should deposit 20% of the loan amount with Lisikamena. Thereafter they should continue depositing money each month until the loan is fully repaid. Loans are preferably disbursed by cheque to suppliers in the informal sector. If this is not possible, loans are disbursed in cash. Once a loan has been disbursed, two credit officers begin to pay weekly visits to the businesses. Once all the loans are fully repaid, the group members get their deposits back, or alternatively a second loan. Members can also decide to request a larger loan, and their savings can be used as a deposit on the next loan.

In case of default in repaying the loan, credit officers assert pressure on the group members by paying regular visits to the defaulters. If pressurising the community in this way proves unsuccessful and the 20% savings is insufficient to cover the amount owing, legal action is taken through a debt collector/lawyer. Lisikamena is reviewing the current MLS procedure for handling default (i.e. peer pressure), with the aim of setting up a more formalised system of action to be taken. From March 1997 to February 1998 the default rate for the MLS was 6%, the target rate being 5%.

Training is not compulsory for MLS loans but Lisikamena is at present considering the possibility of providing training for micro-loan borrowers also.

TABLE 8: SUMMARY OF KEY DATA FOR LISIKAMENA LOANS

Area of operation (split urban/rural)	Kavango Region (50% urban and 50% rural for ILS; 100% urban for MLS)
Size of loan fund in N$	N$1 954 161 for ILS N$528 629 for MLS
Origin of fund	Government of Austria via Care Austria
Duration of funding	1994-2002
Nature of control/ co-ordination with donor	Future funding dependent on sustainability of fund, which should be reached by 2002.
% of fund disbursed as loans	77% for ILS 42% for MLS

No. of loans disbursed (gender breakdown)	147 for ILS (58% F; 42% M) 359 for MLS (97% F; 3% M)
Average size of loan	N$13 493 for ILS N$835 for MLS
Upper limit (size)	N$20 000 for ILS N$5 000 for MLS
Lower limit (size)	N$5 000 for ILS N$200 for MLS
Average term	21 months for ILS 9 months for MLS
Upper limit (term)	24 months for ILS 12 months for MLS
Lower limit (term)	12 months for ILS 1 month for MLS
Processing time for loan (from submission to disbursement)	2 months for ILS 1 month for MLS
Processing capacity (no. of loans)	22 loans per month
Target industries/activities Any industries/ activities excluded?	ILS: Manufacturing (58%) Services (10%) Retailing (32%) MLS: Market women (100%) None
Collateral requirements	20% deposit upfront for MLS Collateral/guarantor for ILS
Training requirements	Training from Pahuka Training Programme compulsory for ILS
Links for training	Pahuka Training Programme
Interest charged	25% for ILS 29% for MLS
Provision of interest rate to cover operational costs, default, inflation	24% for both schemes [5]
Target default ratio	10% for ILS 5% for MLS
Actual default ratio (to date)	20% for ILS 6% for MLS
Monitoring of borrowers	ILS: Monthly visit by credit officers MLS: Weekly visit by credit officers

5 =The interest rate applied in both schemes currently covers 24% of the operational costs.

3.1.7. Okutumbatumba Hawkers' Association (OHA)

The OHA was established in 1989 for the benefit of street hawkers. The association has sought to provide encouragement and assistance to its members through a range of activities aimed at improving the operation of their businesses as well as the legal, commercial and regulatory environment in which they operate. The OHA is comprised of 1 300 members, of whom 98% are women.

Through the years the OHA has relied on institutional support from international donors such as NORAD and World Education, and in this last year of operation, from Austria's North-South Institute for Development Co-operation. In 1997 the association's total capital stood at N$530 033, of which 94,5% was supplied from donors and the remaining 5,5% from annual membership fees.

The OHA is structured to consist of an executive office and seven branches located in various suburbs of Katutura, whose activities are co-ordinated by the executive office. Each branch has its own chairperson, secretary, treasurer and members.

The OHA renders the following services to its members:

- Advocacy
- Commercial services
- Access to finance
- Life skills and business courses
- Community development advisory services

The Bulk Buy Programme (BBP) constitutes the nucleus of the OHA. During 1990 the OHA realised that there was a need to improve the structure and management of the relationships existing between hawkers and suppliers, and to this end the BBP was implemented. The main objective of this programme is to enable poor hawkers to obtain goods on credit from local suppliers. OHA members are able purchase certain products at bulk or wholesale prices through the programme.

The BBP accommodates cash and credit clients. Cash clients graduate to become credit clients after three months of membership, depending on their repayment performance. During the first phase of the scheme credit ranges from a minimum of N$350 to a maximum of N$700. This amount is repayable within seven days. The second three months sees an increase of the credit limit from N$700 to N$5 000. The repayment period varies from seven days to one month depending on the type of goods sold and the turnover capacity of the business. The seven-day repayment period will apply to fast-moving consumer goods. Once the second loan has been successfully repaid, clients are linked to suppliers such as Hartlief meat suppliers or Pepsi Cola for bulk buying and/or facilities such as containers.

The BBP has thus far disbursed loans to 150 clients, amounting to N$300 000. There is no fixed fund for the scheme but individual agreements are signed between the OHA and suppliers. The conditions set down in these agreements are revised on an annual basis with consideration given to the demand for the goods supplied and the repayment rate achieved by the hawkers.

No interest is charged on BBP loans but the OHA intends to modify its approach to this scheme as from the year 2000 with a view to covering some of its operational costs. Currently the OHA's administration costs are covered mainly by donor funds and the commission fee received from suppliers.

The main criteria set for accessing a BBP loan are as follows:

- Training in basic business management, which is provided within the OHA.
- The business should have a bank account, and the OHA and Bank Windhoek have an agreement that enables OHA members to open accounts.

The loan assessment stage encompasses three levels and begins at the relevant branch, where the programme chairperson evaluates the viability of the proposal. Once the application has been approved by the branch, the viability of the business is carefully assessed by personnel at OHA's head office, who in turn submit their analysis to the Board of Directors for a final decision. The disbursement of BBP loans involves combining similar loan requests so that a bulk purchase from one supplier can be made.

Should any entrepreneur of a particular branch default, all loans to that branch are blocked until the situation has been clarified and the loan fully repaid by that entrepreneur.

The monitoring and follow-up of businesses participating in the scheme is done on a weekly basis by five officers who use a special form to control the performance of the ventures and simultaneously provide the necessary advice on addressing the problems encountered.

TABLE 9: SUMMARY OF KEY DATA FOR OKUTUMBATUMBA LOANS

Area of operation (split urban/rural)	Katutura (100% urban)
Size of loan fund in N$	N$300 000[6]
Origin of fund	Agreement with suppliers
Duration of funding	Annual agreements with each supplier
Nature of control/ co-ordination with funder	Loans blocked for relevant branch in case of individual default
% of fund disbursed as loans	Undefined
No. of loans disbursed (gender breakdown)	150 clients (97,33% F; 2,67% M)
Average size of loan	N$2 000
Upper limit (size)	N$5 000
Lower limit (size)	N$350
Average term	14 days
Upper limit (term)	31 days
Lower limit (term)	7 days
Processing time for loan (from submission to disbursement)	1 month
Processing capacity (no. of loans)	N.A.

Target industries/activities	Hawkers (100%)
Collateral requirements	Good performance of the business
Training requirements	Training in business management compulsory
Links for training	None
Interest charged	None
Provision of interest rate to cover operational costs, default, inflation	None
Target default ratio	0%
Actual default ratio (to date)	5%
Monitoring of borrowers	Weekly visit to each business. Record of stocks and receipts. Monitoring of bank accounts.

6 = N$300 000 is the amount disbursed by OHA so far. OHA does not have a loan fund, given the programme's own peculiarities.

3.2.PARASTATALS

3.2.1. Development Fund of Namibia (DFN)

The DFN was established in 1987 as the Development Fund of South West Africa/ Namibia, with an initial fund of N$40 million that was made available in 1985/86 by the colonial government's Administration for Whites to provide development assistance. The DFN's capital amounts to N$112 000 000, of which N$56 000 000 constitutes the loan portfolio, of which 19,2% has been disbursed to SMEs.

The DFN is governed by a Control Board of seven to nine members appointed by the Cabinet, two of whom are required to be officers in the government service, with the chairman designated by the Cabinet and the vice-chairman elected by the members of the Control Board.

The objectives and purpose of the fund, as set out in the Development Fund of Namibia Act, are as follows:

- To help promote Namibia's economic and social development by allocating finance to needy entrepreneurs in rural areas to increase productivity and thus raise the living standards of people in less-developed areas.
- To finance defined projects considered to be economically viable, mainly in the form of loans so as to ensure that the fund's capital is maintained, which in turn assures the continuity of the fund.
- To provide technical assistance and training in the identification, preparation, appraisal, implementation and management of development efforts.

- To assist with the implementation of defined and approved projects where this is requested and the necessary funds are provided.

The DFN currently has no branches or representative offices outside Windhoek, but it is in the process of opening two offices – one in Oshakati and the other in Keetmanshoop. The fund's contact with customers is largely handled through the 13 Regional Councils of the government. The DFN's lending programme for SMEs utilises commercial banks – primarily Bank Windhoek, First National Bank and the Commercial Bank of Namibia – for the disbursement and collection of loans.

The criteria applied in selecting loan applications include, inter alia, the following:

- The applicant must be a Namibian citizen or permanent resident.
- Applicants must be between 18 and 60 years of age.
- A business plan must be presented.
- Applicants must be willing to participate in a training course if necessary.
- Applicants may not have financial commitments to any other organisations.
- Applicants may not have access to other sources of finance.
- The business must be a processing or manufacturing enterprise.
- The business must be labour intensive and employ local people.
- The business must utilise or promote local raw materials where possible.
- The business must provide a service that meets the needs of the targeted communities.

Applications for loans under the SME scheme are assessed by a DFN Management Committee composed of four Control Board members and the DFN management team. The DFN notifies the commercial banks upon deciding to approve a loan, and the relevant banks then disburse the loan by way of guaranteed cheques to suppliers for assets, and in cash for working capital.

As stated above, the DFN is to open additional branches in the north and south of the country, which will serve to strengthen its follow-up capacity. Follow-up on businesses falling into arrears generally involves a monthly visit from the DFN, while follow-up on loan beneficiaries generally is undertaken twice per year.

The following action is taken in cases of default:

- Negotiations are held concerning the causes of the default.
- If legal action is taken, this will normally lead to the repossession of the assets acquired with the loan.

As stated in the Development Fund of Namibia Act, the measures to maintain sustainability of the fund are in general terms intended "to ensure that the capital of the Fund is maintained and the continuity of the Fund is assured".

It has to be noted that the DFN criteria and procedures are being revised (during 1998) and changes may occur. The following issues will be broached in the terms of reference proposed for a review of the DFN policy framework:

- Mission statement
- Financing policy
- The project
- Operations
- Review of criteria and conditions for SME loans

TABLE 10: SUMMARY OF KEY DATA FOR DFN (SME) LOANS

Area of operation (split urban/rural)	Nationwide (urban/peri-urban 75%; rural 25%)
Size of loan fund (split) in N$	N$56 million for SME loan portfolio
Origin of fund	Government of Namibia
Duration of funding	Permanent
Nature of control/ co-ordination with funder	DFN Control Board
% of fund disbursed as loans[7]	19,2%
No. Of loans disbursed (gender breakdown)	200 (85% M; 15% F)
Average size of loan	N$54 000
Upper limit (size)	N$100 000
Lower limit (size)	N$5 000
Average term	5 years
Upper limit (term)	5 years
Lower limit (term)	5 years
Processing time for loan (from submission to disbursement)	5 weeks
Processing capacity (no. of loans)	10 loans per month
Target industries/activities Any industries/activities excluded? If yes, which?	Manufacturing/Processing 80% Service 20% Yes Trade
Collateral requirements	Hire-purchase arrangements
Training requirements	Training in basic business

	management skills compulsory
Links for training	None
Interest charged	15%
Provision of interest rate to cover operational costs, default, inflation	15% for operational costs (under revision)
Target default ratio	Below 10%
Actual default ratio (to date)	8%
Monitoring of borrowers	Monthly report from commercial banks to DFN audit manager; follow-up by audit manager and/or project manager

7 = The percentage corresponds to funds allocated to small enterprises, according to the respondent .

3.2.2. Namibia Development Corporation (NDC)

The NDC was established in 1993 by an Act of Parliament (Act 18 of 1993), and is the successor to the First National Development Corporation (FNDC). As such the NDC is the first development corporation to be established in the independent republic of Namibia. The NDC is currently a parastatal and is wholly owned by the Government of Namibia through its Ministry of Trade and Industry (MTI) – the custodian ministry.

Over the past few months a comprehensive restructuring has occurred within the NDC with a view to cutting costs while simultaneously providing a more efficient service to clients.

In 1998 the NDC secured a loan of N$65 million from the Development Bank of Southern Africa (DBSA). This loan should see the NDC slowly abandoning the provision of small loans to individual entrepreneurs and moving into the areas of wholesale finance, franchising, lease financing, venture capital, project appraisal, loan monitoring, aftercare services and marketing.

Several financial facilities are made available by the NDC for a wide variety of entrepreneurs. The schemes particularly pertinent to this study include the Small and Medium Scale Enterprise Scheme (SME) which provides loans ranging from N$1 000 to N$200 000, the SME Start-up Scheme for loans of up to N$80 000, the Small Builders Bridging Fund and the Tenants' Aid Fund. Tenants or entrepreneurs affiliated to the SME Modules and Industrial Parks which the NDC is currently developing countrywide may borrow money from the Tenants' Aid Fund to start or expand business operations within the SME Modules and Industrial Parks.

Small and Medium Scale Enterprise Scheme (SME)

The total loan capital available for SME loans is approximately N$5 000 000. This amount could be increased once the DBSA loan becomes operational. Of this capital the NDC disbursed N$3 626 458 in loans from 1993 to the end of 1997, making this scheme by far the largest informal lender to the SME sector in Namibia. The NDC aims to target a very wide clientele over very large distances. However, its primary focus is on small- to medium-sized enterprises in terms of capital allocation and job creation within the scheme.

Most lending within the scheme is collateralised and subject to a clause in the "hire purchase or suspensive sales" style. A minimum own contribution of 20% is also required. The SME loan scheme requires the submission of a business plan that is produced with the help of NDC business analysts who also evaluate and assess the application. The application process takes a minimum of seven weeks and involves a Pre-assessment Committee appraisal, a feasibility study, the writing of an investigation report or business plan, and finally an approval or rejection by the designated Management Committee. No clear indication can be given as to how long it will take to disburse the loans, as this factor is tied to the preconditions set in the contract signed between the NDC and the entrepreneur.

The NDC has adopted a policy to prioritise the manufacturing sector, as is reflected in the loan portfolio's sectoral breakdown for 1996-1997:

- Manufacturing 50%
- Trade 15%
- Services and tourism 17,5%
- Small Builders Bridging Fund 17,5%

The scheme operates with a default rate of around 25%. The loan interest structure is differentiated according to the sectors of operation of the businesses: prime for manufacturing and tourism; prime plus 2% for trade; and prime plus 3% for services. This interest structure does not favour the SME funds due to the high risk associated with the manufacturing sector.

Small Builders Bridging Fund

This scheme was initiated to assist small builders' companies to bridge the financial gap upon commencing with a building contract. The NDC has contributed an initial amount of N$1 million to the scheme (since 1995). The maximum financial assistance given is 35% of the value of the contract, and should amount to between N$10 000 and N$50 000. The conditions set for repayment require that the loan is repaid directly by the financier/owner of the building to undergo the construction work. This ensures that upon completion of the building contract the loan is repaid to the NDC. In 1996/97 a total of nine loans totaling N$187, 821 were disbursed, all of which were successfully repaid.

SME Start-Up Scheme

In 1996 the NDC introduced the SME Start-Up Scheme to replace the Mini Loan Scheme, the aim being to provide finance at market rates to new enterprises, with the hope of launching new entrepreneurs into sustainable business activities. The NDC contributed initial seed capital of N$1 million for the pilot phase of the scheme, and in one year managed to disburse 95,5% of the funds. Unfortunately, due to a very low repayment rate, the high risks involved and a lack of funds, the scheme was closed at the end of 1997.

The scope of assistance provided to all successful candidates was as follows:

- Total start-up capital to cover capital expenditure and running costs for the first three months.
- Business training.
- Marketing/match-making/buyer-seller contracts.
- Counselling and advice.

The conditions set for this assistance were as follows:

- A total capital requirement not exceeding N$80 000.
- Interest on the loan at prime.
- A repayment period of not more than five years.
- A grace period of three months and not exceeding 12 months.
- No own contribution by the entrepreneur towards the business and no form of collateral required.

TABLE 11: SUMMARY KEY DATA FOR NDC LOANS

Area of operation (split urban/rural)	Nationwide (offices in Windhoek, Oshakati, Katima Mulilo, Rundu and Otjiwarongo)
Size of loan fund in N$	Total N$5 000 000
Origin of fund	NDC own funds, funds provided by the Namibian government, funds borrowed from the DBSA
Duration of funding	No limit
Nature of control/co-ordination with funder	Audited accounts and reports
% of fund disbursed as loans	72,5% (N$3 626 458)
No. of loans disbursed (gender breakdown)	108 (39% F)
Average size of loan	N$ 33 578
Upper limit (size)	N$200 000
Lower limit (size)	N$1 000
Average term	3 years
Upper limit (term)	5 years
Lower limit (term)	1 year

Processing time for loan (from submission to disbursement)	Minimum of 7 weeks
Processing capacity (no. of loans):	9-12 per month
Target industries/activities Any industries/activities excluded? If yes, which?	Manufacturing and Agro Industries 50% Services and Tourism 20% Small Builders Bridging Fund 20% Trade 10% Yes Those which may contribute towards social decay in Namibia
Collateral requirements	Collateral is required in all cases, e.g. suspensive sales arrangements on assets purchased with NDC financial assistance (HP), bonds on fixed property, cession of Permission to Occupy (PTO) certificates
Training requirements	Only on an "as-needed" basis through assistance from the IMLT and WVTC; and in-house training for provision of aftercare services
Interest charged	Varies by industry: prime for manufacturing and tourism; prime plus 2% for trade; prime plus 3% for services
Provisions of interest rate to cover operational cost, default, inflection	Inflation 15% Default 15,5% Operational costs 4,5%
Target default ratio	15,5%
Actual default ratio (to date)	25%
Monitoring of borrowers	Monthly, if possible, at offices or in the field

3.3.FORMAL CREDIT AND SAVING INSTITUTIONS

3.3.1. Commercial Bank of Namibia (CBN)

The CBN offers its clientele a wide range of products, ranging from personal loans and overdrafts to home loans and business loans at market-related interest rates, depending on risk. In accordance with the "Golden Banking Rule", these loans are partly or fully covered by collateral depending on the risk.

Apart from its common banking activities the CBN participates in credit schemes for SMEs funded by international donors and the Namibian government.

The first scheme in which the CBN became involved is the Limbandungila Credit Scheme funded by Co-operation for Development (see section 3.1.1 above). CD provides funds to guarantee the disbursement of small loans by the CBN to female entrepreneurs operating in Oshakati's informal market. The CBN is responsible for disbursing the loans.

TABLE 12: CBN LOANS DISBURSEMENT FROM 1996

Loan Size (N$)	Number of Clients	Total N$
800	126	100 800
1 500	56	84 000
2 500	7	17 500
	189	202 300

Due to a low repayment rate (50-70%, according to the bank) the programme has been put on hold, but not terminated. The CBN does not take legal action against clients who default, since that responsibility rests with the NGO concerned.

The CBN carries no risk in the scheme, and charges CD a fee for administering the scheme. For further information on the scheme please see section 3.1.1 above.

The CBN is also involved in the disbursement of loans for the Development Fund of Namibia (DFN), whose loan schemes comprise the Job Creation Fund and SME Fund. The Job Creation Fund loan amounts range from N$100 000 to N$1 million, and the SME Fund amounts range from N$15 000 to N$30 000. No information was provided as to the number of loans disbursed by the CBN thus far under these two funds.

Finally, the CBN is currently negotiating with International Finance Co-operation (IFC) to disburse loans under IFC's Environment Lending Programme. These loans will go towards environmental objectives and will not benefit SMEs in Namibia.

3.3.2. Bank Windhoek

Bank Windhoek is in the process of implementing a pilot programme for SMEs known as the Value Package and aimed at emerging entrepreneurs.

Through this programme the bank will deliver the following services to small and micro entrepreneurs:

- Training in business management, cost accounting, budgeting, marketing and compiling a business plan.
- Financial assistance on the basis of the business plan compiled.
- Business advice during the running time of the loan.

The following criteria are applied in disbursing loans:

- Loan size: mainly in amounts ranging between N$1 000 and N$20 000.
- Repayment period: set in accordance with the business plan and cash-flow projection; two years on average.
- Interest rate: market-related; above prime.
- Sectors: manufacturing, trade, services and others.
- Security: none requested as a rule.

A large number of loans have been considered under this scheme during the past year, but details of these are unfortunately unavailable.

3.3.3. First National Bank (FNB)

FNB is involved in several schemes in collaboration with local and international NGOs and the Namibian government. The bank has been or otherwise plans to become involved in five different schemes offering loans to SMEs under varying conditions and criteria. The schemes are as follows:

- The Adult Skills Development for Self Employment (ASDSE) scheme is run in collaboration with the Ministry of Basic Education and Culture (MBEC) and Italian NGO Comitato Internazionale per lo Sviluppo dei Popoli (CISP) (see section 3.1.3 above).
- The Development Fund of Namibia (DFN) (see section 3.2.1 above).
- A new scheme with the Institute for Management and Leadership Training (IMLT).
- A scheme with the Northern Namibia Chamber of Commerce and Industry (NNRCCI), Evangelical Lutheran Church in Namibia (ELCIN) and Finnida.
- The Government Credit Guarantee Fund.

ADULT SKILLS DEVELOPMENT FOR SELF EMPLOYMENT (ASDSE)

FNB signed an agreement with the MBEC and CISP in respect of the ASDSE in July 1996, which is still operational. The ASDSE Credit Guarantee Scheme guarantees an amount equal to 80% of the value of the loans disbursed, with the remaining 20% of the loan guaranteed by FNB. The bank’s specific duties under this scheme are as follows:

- To manage a fixed-deposit account for the project funds and generate interest on the funds according to the rates defined.

- To disburse loans in advance to entrepreneurs either by depositing the funds into the relevant business accounts or by issuing bank-guaranteed cheques to the suppliers of the businesses.
- To participate in the selection of the businesses.
- To supply monthly financial reports on all loans disbursed.

The ASDSE Credit Guarantee Scheme is the only scheme implemented in Namibia in real partnership with a commercial bank, in that the bank involves itself in the project by bearing risk and sharing costs. See section 3.1.3 above for further details on the ASDSE project.

DEVELOPMENT FUND OF NAMIBIA (DFN)

Like other commercial banks FNB is a disbursing agent for the DFN. See section 3.2.1 above for further details on the DFN.

INSTITUTE FOR MANAGEMENT AND LEADERSHIP TRAINING (IMLT)

FNB recently donated a sum of N$250 000 to the IMLT, which was reinvested with FNB as guarantee funds for loans to be disbursed to selected entrepreneurs who have received training from the IMLT. These loans are made available only to the manufacturing and service sectors. The loans disbursed under this scheme will be in amounts of up to N$50 000, and thus far four loans totalling N$130 000 have been disbursed.

NORTHERN NAMIBIA CHAMBER OF COMMERCE AND INDUSTRY (NNRCCI) / EVANGELICAL LUTHERAN CHURCH IN NAMIBIA (ELCIN) / FINNIDA SCHEME

This scheme was launched in 1993 following a feasibility study conducted by the NNRCCI and funds totalling N$500 000 from Finnchurchaid and SIDA (Finnida).

This credit delivery scheme was terminated by FNB in March 1998 due to a very high default rate. FNB has decided not to disburse more loans under the scheme as the guarantee fund has been depleted as a result of the high default level. Some entrepreneurs are still repaying their loans but the bank believes that it has lost a sizeable sum of money. According to FNB the scheme failed for several reasons, chiefly the following:

- Loans were disbursed directly to the entrepreneurs rather than the suppliers, which meant that there was no real control over the use of the funds.
- Screening and follow-up procedures were poorly executed by the NNRCCI.
- The entrepreneurs regarded the money as church funds and therefore did not feel they needed to repay it.

GOVERNMENT CREDIT GUARANTEE FUND

FNB is presently negotiating with the Ministry of Trade and Industry concerning the Government Credit Guarantee Fund which will serve to guarantee loans disbursed to SMEs. It is envisaged that the fund will be implemented towards the end of 1998. It is also envisaged that NGOs will be involved in delivering services to support the fund.

3.3.4. The City Savings and Investment Bank (CSIB)

The CSIB does not currently have a scheme in place to fund SMEs. Term loans for a minimum of N$100 000 are disbursed to businesses, plus working capital based on the specific requirements of businesses. The CSIB is unbiased in its approach to granting loans to SMEs, in the sense that any loan application will be considered and approved if it is viable.

3.3.5. Standard Bank of Namibia (SBN)

The SBN Small and Medium Enterprises Pilot Scheme effectively started at the end of 1996. Ten accounts were initially decided upon for the purposes of the scheme, to serve mainly the following market mix:

- Manufacturing (textiles/clothing) enterprises
- Carpentry enterprises
- Small take-away shops or mobile shops
- Bakeries

There is no guarantee fund in place and the bank carries the total risk. The loan amount ranges from N$1 000 to N$5 000 for the first loan, from N$5 001 to N$10 000 for the second loan and from N$10 001 to N$20 000 for the third loan. The loans should be repaid within 12 months but the repayment period can be negotiated and a moratorium on capital considered. The interest rate applied is the prime rate.

By June 1998, 38 loans totalling N$320 300 had been disbursed under this scheme.

TABLE 13: DISTRIBUTION OF SBN LOANS (1997-1998)

Loan Category (N$)	**Number of loans**
1st loan: 1 000 to 5 000	22
2nd loan: 5 001 to 10 000	6
3rd loan: 10 001 to 20 000	10

There have been two defaults on these loans, totalling N$8 383,35, as a result of which the scheme has a default rate of 5,26% on the number of loans disbursed and 2,85% on the total amount loaned. The bank offers no training for SMEs, but to gain access to the scheme the entrepreneur must show proof of having received trained either from the IMLT or from any institution that offers basic business skills training.

The manager of the bank's SME portfolio, who is based at SBN's Katutura branch which runs the scheme, analysed and assessed the strengths and weaknesses of the scheme during its pilot phase. Its main strengths are reported to be the following:

- SBN has been able to introduce a product that is reflective of the customer's needs within the SME sector.
- The limited activities of other financial institutions in the field has secured a good market position for SBN.
- The monthly monitoring system applied enables a follow-up on outstanding payment immediately.
- Interest is low (i.e. prime) and the loan flexibility allowed is reflective of the customer's need.
- No collateral or security is required from customers, even though the bank would prefer to request some where available.

The main weaknesses of the scheme are reportedly as follows:

- The scheme is not cost-effective at present, considering the amount of time spent in administering a loan.
- No collateral or security is required, which results in a low commitment to repaying a loan.

SBN also acts as agent for the Katutura Youth Enterprise Centre (KAYEC) scheme. KAYEC deposited a guarantee fund of N$40 000 and the risk is shared by KAYEC (80%) and the bank (20%). There are no costs involved for the administration of the scheme and SBN disburses loans of a maximum amount of N$5 000 to clients identified by KAYEC, with interest at the prime lending rate.

KAYEC applied for a loan from the DFN to increase the amount in the guarantee fund, but had not yet received a response at the time of writing.

3.3.6. NamPost Savings Bank

Namibia Post Limited (NamPost) is a mail transport and mail service organisation which is wholly government-owned and which resorts, as does Telecom Namibia, under Namibia Post and Telecom Holdings Limited. This holding company was managed by the Department of Post and Telecommunications until 1 August 1992 when new legislation rendered it an independent operation (see section 2(1)(a) of the Post and Telecommunications Companies Establishment Act, 1992).

The NamPost Savings Bank (NPOSB) is a fast-growing, profit-making division of NamPost which serves the Namibian population residing in the most outlying rural areas and sometimes in under-developed areas of the country. NPOSB clients carry out their banking transactions through more than 85 post offices and mobile agents countrywide. The company's Finance Department managed the savings bank until August 1994 when a bank manager was appointed for the first time. The bank's staff has increased from five members in 1983 to more than 30 in 1998. As part of the NPOSB's development, NamPost signed an agreement in 1995 with the German Savings Bank Foundation for International Co-operation with the ultimate aim of developing the NPOSB into a fully-fledged savings bank.

The NPOSB currently offers four savings products: savings accounts, savings certificates, save-as-you-earn accounts (launched in September 1997) and fixed-term deposits (launched in April 1998). Additionally, the savings bank offers two money transfer services: postal and money orders.

It should be noted that the bank's portfolio has tripled in the last five years, which attests to the statement above regarding its rapid growth. The number of savings account holders currently stands at more than 100 000 people. The interest paid to individuals is tax free and involves no service or transaction costs.

The current objective of the NPOSB is to encourage and promote saving among the inhabitants of Namibia, and to provide efficient banking and financial services to meet the requirements of both the rural and urban populations of the country.

In the draft Finance Policy on Small and Micro Enterprise in Namibia, which is currently under discussion at the Ministry of Trade and Industry, the NPOSB has been emphasised as an important outlet for the provision of financial services to SMEs, especially in the rural areas of the country. Namibia's current Postal Act also foresees lending as a service that should be provided by the NPOSB.

4. Appraisal of Credit Provision

4.1. CREDIT ACCESSIBILITY

This section of the booklet deals with small entrepreneurs' access to credit. The information presented derives from an analysis of the criteria – financial and non-financial – applied by the credit providers interviewed in screening loan applicants. This analysis was done by means of questioning respondents about their credit scheme criteria.

TABLE 14: OVERVIEW OF NGO CREDIT SCHEMES

Institution	Loan fund available (N$)	Number of loans disbursed	Total capital disbursed as loans (N$)	Average loan amount (N$)	Percentage of operation in rural and urban areas	Breakdown by loan use
DABE/ CISP/ ASDSE	500000	118	275294	2333	60% rural 40% urban	30% start-up 70% ongoing
CD	361000	189	202300	1070	100% urban	Mainly ongoing
Lihepurura	500000	None yet	0	N.A.	80% rural 20% urban[8]	Mainly ongoing[9]
Lisikamena	ILS 2563940	ILS 147	ILS 1974233	ILS 13493	ILS 50% rural 50% urban	ILS N.A.
	MLS 705658	MLS 359	MLS 296376	MLS 835	MLS 100% urban	MLS 100% ongoing
OHA	Not defined	150[10]	300000	2000	100% urban	100% ongoing
COSEDA	450000	122	120000	1000	100% urban	Mainly ongoing
IMLT	2300000	106	2217000	20915	35% rural 65% urban	Mainly ongoing

8 = *Lihepurura's urban/rural split is only an estimate as this scheme has not yet started disbursing loans.*
9 = *The Lihepurura indicators are targets as this scheme has not yet started disbursing loans.*

10 =*The data only indicate the number of clients who have received loans.*

TABLE 15: OVERVIEW OF PARASTATAL CREDIT SCHEMES

Institution	Loan fund available (N$)	Number of loans disbursed	Total capital disbursed as loans (N$)	Average loan amount (N$)	Percentage of operation in rural and urban areas	Breakdown by loan use
DFN	56.000.000	200	10.800.000	54.000	25% rural 75% urban	100% ongoing
NDC	5.000.000	108	3.626.458	33.578	N.A.	Mainly ongoing

4.1.1. Collateral requirements for accessibility

All institutions offering credit schemes set financial criteria that have to be met by SMEs seeking to gain access to credit. The degree of stringency attached to each set of criteria varies for each institution and scheme. Tables 16 and 17 below present the collateral requirements of the institutions interviewed.

The majority of the NGO respondents require collateral of some kind, which should in most cases consist of an up-front saving equal to a defined percentage of the loan amount requested. This up-front savings deposit serves to affirm the entrepreneur’s commitment to mobilising his/her savings and repaying the loan. In the case of the Individual Loan Scheme (ILS) run by Lisikamena, the business applying for a loan should have a minimum of 50% of the loan amount as security, and/or a guarantor with a regular salary. The IMLT applies a hire-purchase policy because its loans are generally in higher amounts than are those disbursed under the other schemes covered in this study, and because IMLT loans are chiefly intended to enable businesses to acquire assets. The OHA, on the other hand, does not require collateral of any kind because the specific approach of this credit scheme adopts the "peer pressure" method instead.

Both of the parastatals interviewed use hire-purchase arrangements as a means of reducing risk. Their credit schemes address the needs of small- and medium-scale enterprises by providing larger loans, and legal action is taken against defaulters which leads to the repossession of assets acquired with the loan.

TABLE 16: NGO ACCESSIBILITY BY FINANCIAL REQUIREMENTS

NGO	Collateral required	Loan fund available (N$)
DABE/ CISP/ ASDSE	10% savings	500.000
CD	20% savings	361.000
Lihepurura	10% savings for cash loans only	500.000
Lisikamena	20% deposit (MLS) Collateral/guarantor (ILS)	705.658 (MLS) 2.563.940 (ILS)
OHA	None	Undefined
COSEDA	10% savings for the second loan	450.000
IMLT	Hire purchase arrangements	2.300.000

TABLE 17: PARASTATAL ACCESSIBILITY BY FINANCIAL REQUIREMENTS

Parastatal	Collateral required	Loan fund available (N$)
DFN	Hire-purchase arrangements	56.000.000
NDC	Hire-purchase arrangements	5.000.000

4.1.2. Group guarantee for accessibility

Apart from their financial requirements, the institutions interviewed also set non-financial screening criteria for loan applicants, as presented in Tables 18-26 below. Tables 18 and 19 deal with the group guarantee as a criterion for accessing credit. Some of the NGO respondents require that applicants form self-selecting groups when applying for credit so that the group guarantee can stand as collateral. This approach among lenders is partially dictated by the nature of the target group, in the sense that group lending provides a means of creating social collateral among borrowers who do not have any formal asset-based collateral to offer. Group or peer pressure is considered to provide a good incentive to ensure that loans are repaid on time. Groups also serve as the administrative units for the relevant lending operations, since loans are repaid and savings mobilised during the groups' meetings and through the officials elected by group members.

Parastatals do not disburse credit to groups but only to individuals, their target being small and medium enterprises requiring larger loans. A different and more stringent form of non-financial collateral is conceived in these cases (see Table 19).

TABLE 18: NGO GROUP GUARANTEE REQUIREMENTS

NGO	Group guarantee required
DABE/ CISP/ ASDSE	None
CD	For first loan only
Lihepurura	None
Lisikamena	For MLS only
OHA	None
COSEDA	For all loan applications
IMLT	None

TABLE 19: PARASTATAL GROUP GUARANTEE REQUIREMENTS

Parastatal	Group guarantee required
DFN	None
NDC	None

4.1.3. Gender accessibility

The gender of loan applicants may also be a criterion determining their accessibility to a credit scheme (see Tables 20 and 21). Women generally find it more difficult to access credit than do men, largely because few women own "property" that may serve as collateral. Two NGO schemes target women entrepreneurs exclusively: Lisikamena's Micro Lending Scheme and CD's Limbandungula Credit Scheme. Most NGO schemes covered in this study acknowledge the "gender issue", with the result that the majority of their borrowers are women. The loan amount requested by most women who apply for credit is very small, as the funds are usually sought for small retailing and catering ventures which do not involve high start-up or running costs.

Parastatals do not target women specifically, so the number of loans disbursed to female entrepreneurs is lower than the number disbursed to them by NGOs.

TABLE 20: ACCESSIBILITY TO NGO CREDIT BY GENDER

NGO	Percentage of fund disbursed as loans	Number of loans disbursed and percentage disbursed to women	Total capital disbursed as loans (N$)	Loan fund available (N$)
DABE /CISP/ ASDSE	55%	118 – 66,94% F	275.294	500.000
CD	56%	189 – 100% F	202.300	361.000
Lihepurura	N.A.	N.A.	N.A.	500.000
Lisikamena	ILS 77%	ILS 147 – 58% F	ILS 1.974.233	ILS 2.563.940
	MLS 42%	MLS 359 – 97% F	MLS 296.376	MLS 705.658
OHA	N.A.	150[11] – 97,33% F	300.000	Undefined
COSEDA	26,6%	122 – 87% F	120.000	450.000
IMLT	96,4%	106 – 49% F	2.217.000	2.300.000

11 = *See note 10 [=the data only indicate the numer of clients who have received loans.]*

TABLE 21: ACCESSIBILITY TO PARASTATAL CREDIT BY GENDER

NGO	Percentage of fund disbursed as loans	Number of loans disbursed and percentage disbursed to women	Total capital disbursed as loans (N$)	Loan fund available (N$)

DFN	19,2%	200 – 15% F	10.800.000	56.000.000[12]
NDC	72,5%	108 – 39% F	3.626.458	5.000.000

12 = *This amount constitutes the total loan portfolio of the DFN, which includes loans to SMEs as well as loans in amounts of above N$100 000 that have not been included in the analysis.*

4.1.4. Entrepreneurial skills and training for accessibility

Training is a requirement of all NGO credit providers, so to qualify for a loan the applicant should undertake the relevant training courses, which normally include courses in basic business management and credit procedures. The training that COSEDA provides focuses mainly on explaining the scheme policy and procedures. In some cases – DABE/CISP/ASDSE, IMLT and NDC – training is provided on the basis of individual needs, while for Lisikamena's Individual Loan Scheme, and the schemes of COSEDA, CD, the OHA and Lihepurura, training must be completed before the entrepreneur applies for the loan. Applicants for these schemes are in fact required to complete their loan application form (which usually constitutes a business plan) that is compiled during the training sessions. The study data indicate that all the institutions interviewed consider training to be an important element of the support provided to enterprises accessing credit.

Some credit providers provide the training themselves while others rely on training institutions such as the Pahuka Training Programme, as in the case of Lisikamena and Lihepurura. The training required for NDC and DFN credit is mainly given through the IMLT, the WVTC, and until recently the PSF.

All the credit providers interviewed agree that there is a need for an assessment of the business applying for credit, which should provide evidence of its viability. This assessment normally takes the form of a business plan, the presentation of which is usually followed by a visit to the business in question.

TABLE 22: TRAINING REQUIRED FOR NGO LOANS

NGO	**Training compulsory?**	**Business plan required?**
DABE/CISP/ASDSE	Yes, if needed	Yes
CD	Yes	Yes
Lihepurura	Yes	Yes
Lisikamena	Yes, for ILS only	Yes, for ILS only
OHA	Yes	Yes

COSEDA	Yes	No [13]
IMLT	Yes, if needed	Yes

13 = *COSEDA does not require that a Business Plan Questionnaire be completed by trainees, but COSEDA officials carry out a viability assessment of each business involved.*

TABLE 23: TRAINING REQUIRED FOR PARASTATAL LOANS

Parastatal	**Training compulsory?**	**Business plan required?**
NDF	Yes	Yes
NDC	Yes, if needed	Yes

4.1.5. Locality (area of operation) for accessibility

People in rural areas find it difficult to gain access to credit due to a lack of financial services in certain regions, and due to the long distances involved in travelling to obtain services elsewhere. Table 24 below reflects the extent to which the rural/ urban credit-access gap has been bridged by the credit providers interviewed, who were asked to provide the rural/urban split in their portfolios. Only the DABE/ CISP/ASDSE project favours rural over urban areas, and this is due to its much wider area of operation. Some credit providers only serve urban areas due to the location of the institution (e.g. Katutura or Oshakati) and its limited resources.

The DABE/CISP/ASDSE, NDC and DFN schemes operate countrywide, which is made possible by their respective organisational structures and resources. The rural/urban split for these schemes is therefore determined on the basis of their priorities, available loan fund and the loan amounts requested.

TABLE 24: ACCESSIBILITY TO NGO LOANS BY LOCALITY

NGO	**Total capital disbursed as loans (N$)**	**Percentage of operations in rural and urban areas**
DABE/CISP/ASDSE	275.294	60% rural; 40% urban
CD	202.300	100% urban
Lihepurura	N.A.	80% rural; 20% urban [14]
Lisikamena	ILS 1.974.233	ILS 50% rural; 50% urban
	MLS 296.376	MLS 100% urban

OHA	300.000	100% urban
COSEDA	120.000	100% urban
IMLT	2.217.000	35% rural; 65% urban

14 = *Lihepurura's urban/rural split is only an estimate as this scheme has not yet started disbursing loans.*

TABLE 25: ACCESSIBILITY TO PARASTATAL LOANS BY LOCALITY

PARASTATAL	**Total capital disbursed as loans (N$)**	**Percentage of operations in rural and urban areas**
DFN	10.800.000	25% rural; 75% urban
NDC	3.626.458	N.A.

4.1.6. Sector and use of capital for accessibility

The differences prevailing between the sectors and activities of enterprises targeted for credit reflect the specific facets of each economic environment approached by credit providers. In a few cases the sectors and activities of the target enterprises are predefined by the credit providers. This is the case for Lisikamena's MLS and for the CD credit scheme, which lend only to women trading in markets, as well as for the OHA which targets hawkers exclusively. Overall the main sectors currently benefiting from loans made by the study respondents include the retail, trade and service sectors. Only in the case of Lisikamena's ILS has the majority of loans been disbursed to enterprises in the manufacturing sector.

Some businesses are *a priori* excluded by the institutions interviewed, regardless of their sectoral classification. There are basically two reasons for such exclusion: the business's socially negative impact (which typically applies for alcohol-related activities), and the high risk to which a business falls prey due to its weak economic viability.

Where access to a credit scheme is determined by the use of the loan requested, Tables 26 and 27 reveal that ongoing activities are privileged over those just being started. The reason for this is that credit providers perceive the risk potential of more established businesses to be minor.

TABLE 26: ACCESSIBILITY TO NGO LOANS BY SECTOR AND CAPITAL USE

NGO	Manufacturing sector	Trade sector	Service sector	Retail and other sectors	Businesses excluded	Breakdown by loan use
DABE/ CISP/ ASDSE	28%	0%	55%	17% (retail)	Alcohol-related	30% start-up 70% ongoing
CD	0%	0%	0%	100% (retail)	Alcohol-related	Mainly ongoing
Lihepurura	30%	0%	0%	70% (agriculture)	Cuca shops	Mainly ongoing [15]
Lisikamena	ILS 58%	ILS 0%	ILS 10%	ILS 32% (retail)	Agricultural	ILS N.A.
	MLS 0%	MLS 100%	MLS 0%	MLS 0%	–	MLS 100% ongoing
OHA	0%	0%	0%	100% (retail)	Sewing	100% ongoing
COSEDA	5%	88% (includes retail)	7%	0%	Taxi trades	Mainly ongoing
IMLT	36,7%	13,3%	50%	0%	Bottle-stores and taxi trades	Mainly ongoing

15 = *The Lihepurura indicators are targets as this scheme has not yet started disbursing loans.*

TABLE 27: ACCESSIBILITY TO PARASTATAL LOANS BY SECTOR AND CAPITAL USE

NGO	Manufacturing sector	Trade sector	Service sector	Retail and other sectors	Businesses excluded	Breakdown by loan use
DFN	80%	0%	20%	0%	Traders	100% ongoing

NDC	50% (includes agro-industry)	10%	20%	20% (building)	Businesses contributing to social decay	Mainly ongoing

4.2.OUTREACH

4.2.1. Outreach indicators

In the context of this survey, "outreach" basically refers to the current capacity of credit providers to deliver loans to small and micro enterprises. No specific analysis has been undertaken of the potential loans demand level among these businesses, nor of the potential disbursement capacity of the credit providers interviewed. The data presented below thus only provide an indication of these potentials.

A total of 1 191 loans have been disbursed to date under the NGO credit schemes covered in this study. In this regard it should be noted that the periods of operation of these schemes differ, with some having started to operate in 1994 and others a year or more later. The average loan processing capacity of the NGOs is 14,1 loans per month, the average disbursement period is 1,6 months and an average of 7,5 people are involved in processing loans. The average loan size of the NGO schemes is N$6 573, but evidently this average is increased by the IMLT scheme which has an average loan size of N$20 000.

The total number of loans disbursed by parastatals to date is lower than the total for NGOs, at 308. The current loan processing capacity of parastatals is also lower, at 10 loans per month, but the average disbursement period is similar to the NGO average, at 6 weeks, and an average of 7 people are involved in processing loans. Finally, the average loan size of the two parastatals interviewed is N$43 789.

The large discrepancy between the average NGO and parastatal loan sizes – the NGO average beingroughly one seventh of the parastatal average – suggests that a distinction is made by credit providers between target enterprises. It is believed that while NGOs tend to support micro businesses, parastatal clients are in most cases small or medium enterprises.

TABLE 28: NGO OUTREACH INDICATORS

NGO	Number of loans disbursed	Loan processing capacity (No. per month)	Disburse-ment period	Number of persons involved in loan process	Loan fund available (N$)	Total capital disbursed as loans (N$)	Average loan size (N$)
DABE/ CISP/ ASDSE	118	7	1,5 months	4	500.000	275.294	2.333
CD	189	12,5	2 months	3	361.000	202.300	1. 070
Lihepurura	None yet	N.A.	1 month (prevision)	10	500.000	0	N.A.
Lisikamena	ILS 147	ILS 4-8	ILS 2 months	ILS 2	ILS 2.563.940	ILS 1.974.233	ILS 13.493
	MLS 359	–	MLS 1 month	MLS 3	MLS 705.658	MLS 296.376	MLS 835
OHA	150 [16]	N.A.	1 month	11	Undefined	300.000	2.000
COSEDA	122	24	8 weeks	4	450.000	120.000	1.000
IMLT	106	5	4 weeks	10	2.300.000	2.217.000	20.915

16 = The data indicate the number of clients who have received loans.

TABLE 29: PARASTATAL OUTREACH INDICATORS

NGO	Number of loansdisbursed	Loan processing capacity (No. per month)	Disburse-ment period	Number of persons involved in loan process	Loan fund available (N$)	Total capital disbursed as loans (N$)	Average loan size (N$)
DFN	200	10	5 weeks	10	56.000.000	10.800.000	54.000
NDC	108	9-12	7 weeks minimum	4	5.000.000	3.626.458	33.578

4.2.2. Loans structure for interviewed institutions

Tables 30 and 31 reflect the loan sizes of all the credit schemes surveyed. Only two incorporate two different loan ranges in the same scheme, as these schemes serve different target groups. It is worth noting the significant disparity in the average size of NGO loans to micro enterprises (N$1 465) and small enterprises (N$33 028). Parastatals essentially target larger enterprises than those targeted by NGOs.

TABLE 30: NGO LOAN STRUCTURE

NGO	Number of loans disbursed	Loan range (N$)	Average size of loans (N$)
DABE/CISP/ASDSE	118	500 to 5.000 (micro) 10.000 to 20.000 (2nd tier)	2.333
CD	189	800 to 2.500	1.070
Lihepurura	None	1.000 to 20.000	N.A.
Lisikamena	ILS 147	ILS 5.000 to 20.000	ILS 13.493
	MLS 359	MLS 200 to 5.000	MLS 835
OHA	150	350 to 5.000	2.000
COSEDA	122	200 to 4.500	1.000
IMLT	106	5.000 to 50.000	20.915

TABLE 31: PARASTATAL LOAN STRUCTURE

NGO	Number of loans disbursed	Loan range (N$)	Average size of loans (N$)
DFN	200	5,000 – 100,000	54,000
NDC	108	1,000 – 200,000	33,578

4.3.DEFAULT AND INTEREST RATES

4.3.1. Default rates

[The respondents all agreed that "default rate" means, as also defined in the study questionnaire, "total principal amount collected during the period / total loans matured during the period".]

Tables 32 and 33 below reflect current default levels in the credit schemes covered. If we compare the data on default with the data on loan sizes presented above, we see that in some cases the schemes lending relatively larger loans tend to have a higher default rate. Among the NGO lenders this applies to Lisikamena and the IMLT, and of the two parastatal lenders this applies to the NDC.

TABLE 32: NGO CREDIT SCHEME DEFAULT RATES

NGO	Current default rate	Total capital disbursed as loans (N$)
DABE/CISP/ASDSE	2%	275.294
CD	19%	202.300
Lihepurura	N.A.	0
Lisikamena	ILS 20%	ILS 1.974.233
	MLS 6%	MLS 296.376
OHA	5%	300.000
COSEDA	0%	120.000
IMLT	13%	2.217.000

TABLE 33: PARASTATAL CREDIT SCHEME DEFAULT RATES

NGO	Current default rate	Total capital disbursed as loans (N$)
NDF	8%	10.800.000
NDC	25%	3.626.458

4.3.2. Interest rate provisions to cover inflation, default, operational costs

Tables 34 and 35 below clearly reflect that uniform criteria have not yet been set to assure the sustainability of the credit schemes surveyed.

In general it will be observed that the respondents have assigned different values to the prime interest rate, which is due to the fact that this rate has recently changed.

TABLE 34: NGO INTEREST RATE PROVISIONS

NGO	Provision of interest rate to cover inflation	Provision of interest rate to cover default	Provision of interest rate to cover operational costs	Interest rate charged
DABE/ CISP/ ASDSE	15%	5%	6%	Prime + 2%
CD	N.A.	N.A.	N.A.	25% fixed
Lihepurura	None	None	None	21,5% fixed
Lisikamena	None	None	ILS 25%	ILS 25%
			MLS 29%	MLS 29%
OHA	None	None	None	None
COSEDA	10%	5%	4%	Prime
IMLT	15%	4-6%	0%	Prime – 2% 1st year Prime – 1% 2nd year Prime following years

TABLE 35: PARASTATAL INTEREST RATE PROVISIONS

NGO	Provision of interest rate to cover inflation	Provision of interest rate to cover default	Provision of interest rate to cover operational costs	Interest rate charged
DFN	None (under revision)	None (under revision)	15%	15% fixed
NDC	15%	15,5%	4,5%	Prime for tourism and manufacturing;

				Prime + 2% for trade; Prime + 3% for services

5. A Brief Comparison of Trends in Credit Provision to SMEs in Namibia in 1996 and 1998

This section of the booklet is devoted to comparing the findings of the present study with those of the aforementioned study on the same subject conducted in 1996. The availability of these parallel sets of research data represents a unique opportunity for those seeking to gain a wider perspective of Namibia's SME sector.

To generate the clear and structured perspective sought through this comparative exercise, a methodology was devised which entailed determining what information was logically necessary, and then dividing the selected pieces of information into four main groups of indicators, as follows:

- **General** – total size of fund; number of loans; training; collateral.
- **Strategic –** gender; new/ongoing; urban/rural; industry.
- **Effectiveness –** total capital disbursed; average loan size; default rate.
- **Efficiency –** processing capacity; staff; disbursement period.

The 1996 questionnaire responses and the individual data collected in 1996 together form the data set to be compared with the updated 1998 data set. It should be noted that the NGO and parastatal credit providers are accounted for in this exercise as a single or combined domain base. Whether NGO or parastatal, seven of the eleven credit providers interviewed in 1996 were interviewed again in 1998, which helps to ensure the fairness and reliability of the conclusions of this exercise.

5.1.GENERAL INDICATORS

Indicators for the general situation of the credit delivery system to SMEs in the two periods under review suggest that the total funds available for disbursement by the credit providers surveyed increased from N$4,1 million in 1996 to over N$7,38 million in 1998. *[The increase has occurred either in individual terms as an NGO or parastatal or as groups of NGOs or parastatals. Moreover we may take into consideration the fact that the OHA did not provide information on this specific issue and the PSF loans portfolio is excluded. It has also been noted that parastatal loan funds have also been delivered to medium-sized enterprises.]* The total number of loans disbursed by these credit providers also increased, from 789 in 1996 to 1 499 in 1998. It is also important to note the growing number of institutions which envisage providing services such as training as part of their schemes.

FIGURE 1: TOTAL FUNDS COMPARISON

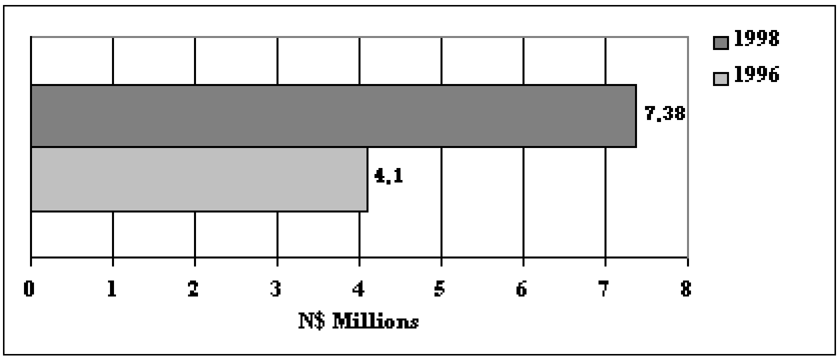
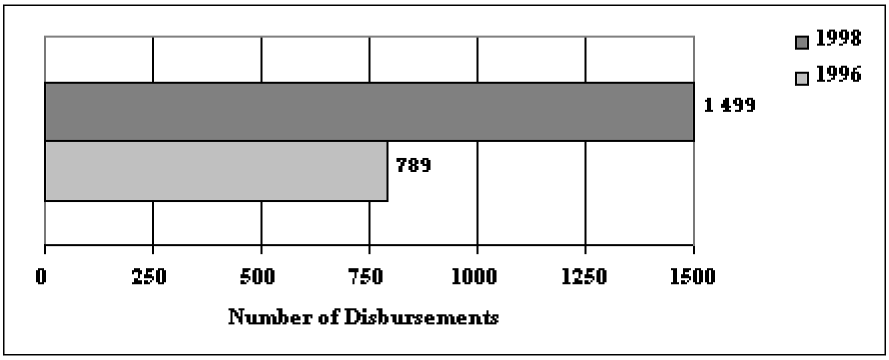


FIGURE 2: TOTAL NUMBER OF LOANS DISBURSED

[The graph on total funds presents data collected for the NGO group only because the NDF was not included in the 1996 study and the massive financial input of this parastatal would have affected the data analysis. However, the data presented on the total number of loans disbursed is inclusive of all the credit providers surveyed.]



It is also important to note that a growing number of credit providers foresee the requirement of collateral in their schemes. In 1998 only the OHA did not require any form of collateral, as compared to four institutions which did not require any in 1996.

5.2.STRATEGIC INDICATORS

This set of indicators gives us an idea of the strategic choices made by the credit providers surveyed with a view to offering better loan products and improving the operational environment for SMEs in Namibia.

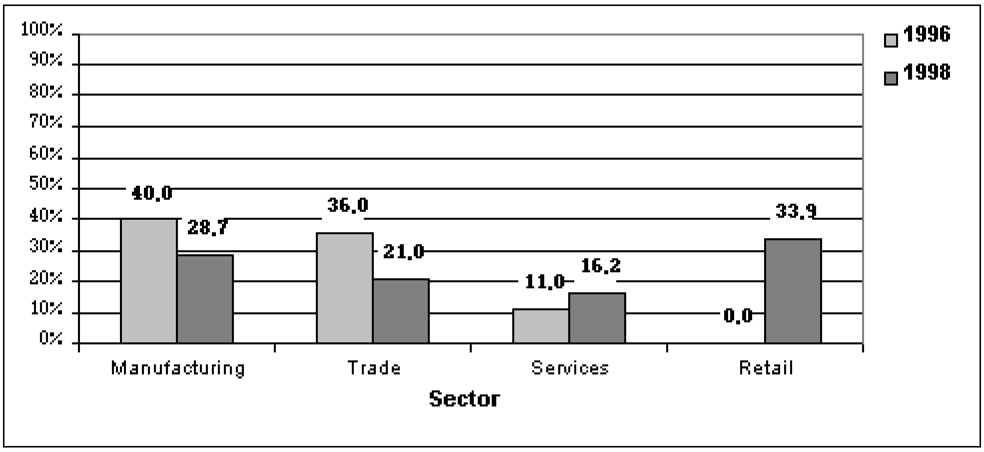
In this regard, firstly, the number of loans made available to women entrepreneurs has increased substantially from around 40% to more than 60% on average, which reveals that credit providers are committed to the task of bridging the gender gap in the SME sector.

Secondly, the data reflecting the number of loans delivered to ongoing enterprises as opposed to those just starting out, and the data reflecting the urban/rural split in loans disbursement, indicate a more careful approach in that the general preference of credit providers in 1996 was to support urban rather than rural enterprises, and those which were ongoing rather than starting out, which is no longer necessarily the case.

The final strategic indicator reveals interesting information regarding the industries ideally preferred, and perhaps reflects the reasons underlying the decisions made in this regard, as well as on the research that has been undertaken towards assuring more sustainable operations.

FIGURE 3: PERCENTAGE OF LOANS DISBURSED BY SECTOR

[The retail figure is around 3%.]



5.3.EFFECTIVENESS INDICATORS

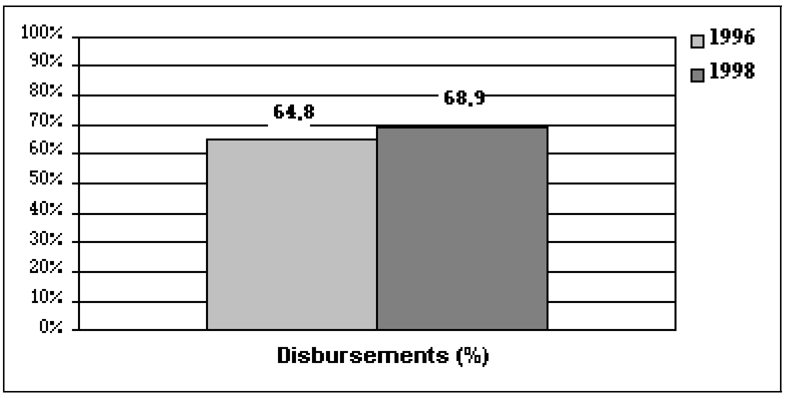
These indicators essentially refer to the achievements or output of the enterprises served as measured against their own goals or stated objectives. In other words, this indicator is concerned with the consequences of the effort of credit providers rather than the effort itself.

The first indicator here refers to the total capital disbursed by the credit providers as loans, *[This indicator takes into account the whole loan portfolio of the DFN, which includes loans to SMEs as well as loans in amounts of above N$100 000 . (See also note 12.)]* which has increased since 1996 to an amount of N$5 085 203 in 1998, pointing to an improved service to SMEs as well as an improved use of the funds.

The second indicator here refers to the average size of the loans disbursed, which has decreased since the 1996 study.

The third effectiveness indicator refers to the default rate, and here the figures seem to have remained constant from 1996 to 1998. This suggests that measures need to be devised to minimise the effect of default on the credit schemes so that they may serve SMEs better.

FIGURE 4: PERCENTAGE OF TOTAL AVAILABLE LOAN CAPITAL DISBURSED



5.4. EFFICIENCY INDICATORS

"Efficiency" is a notion related to the productivity of an endeavour and must take into account the alternatives facing the implementers of a project for transforming the means at their disposal into real output. In other words, efficiency is to a large extent dictated by implementation procedures.

The first indicator that may enable an efficiency assessment of the credit providers surveyed is their loan processing capacity per month, as determined by the time span required to analyse a normal loan request. The 1996 responses to this question revealed that the PSF *[See Appendix: Private Sector Foundation.]* processed almost half of all the loans disbursed in one month, while the other six credit providers surveyed in 1996 processed the other half. Today there is not so wide a gap between the processing capacities of the credit providers, and the average number of loans processed in a month in 1996 was only slightly higher at 116 than the 102 processed per month in 1998.

Another efficiency indicator concerns the number of people involved at all levels of a credit scheme's implementation process. The combined number of staff assigned to implement the schemes surveyed has increased from 67 in 1996 to 73 in 1998.

The third efficiency indicator implicitly confirms the accuracy of the previous two. The period of time required to disburse a single loan in 1998, being six weeks on average, is shorter than it was in 1996 at an average of seven weeks.

This section of the booklet has principally proved that credit providers have paid attention to speeding up loan procedures.

6. Conclusions, Suggestions and recommendations

6.1. ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Most of the conclusions and recommendations formulated in the 1996 study report may still be considered as valid as well as consistent with the current situation as analysed according to the responses given in this 1998 survey on credit provision to SMEs in Namibia.

In particular, the authors of the 1996 report utilised the "Strengths, Weaknesses, Opportunities and Threats (SWOT)" analysis methodology to provide a general overview of the credit delivery systems available for SMEs in Namibia at that time. Table 36, which stresses the main elements believed to characterise the situation in 1998, has been constructed in accordance with the SWOT method, but with the aim of avoiding a repetition of the concepts formulated in the 1996 analysis.

TABLE 36:
TENTATIVE SWOT ANALYSIS OF CREDIT DELIVERY SYSTEMS IN NAMIBIA (AUGUST 1998)

Strengths

- „ A high level of flexibility exists which allows for very diversified target groups to be reached.
- „ The enabling environment sought for SMEs is indeed materialising and could well benefit the entire sector. To this end the government and media are also playing a vital role by persistently addressing the issue of SME development.
- „ All the role-players show an interest in finding solutions to the constraints experienced in current efforts to improve the quality of financial services. These constraints pertain to crucial aspects of finance provision, e.g. savings mobilisation and the credit provider's relationship with formal credit institutions.
- „ There is a tendency to utilise credit as a means of, *inter alia*, developing an entrepreneurial culture (see requirement to present a business plan in applying for credit).
- „ The adoption of international best-practice models is increasing among local credit providers.
- „ The commercial banks are increasingly open to becoming active in providing credit to SMEs in Namibia.

Weaknesses

- „ There is a lack of commonly-defined strategies for outreach and assuring sustainability, as well as a lack of strategies (e.g. training, follow-up procedures) to synergise the efforts of credit providers and eradicate the contradictory aspects (e.g. disparate interest rates charged) of finance delivery systems.
- „ Effective monitoring and follow-up procedures are lacking, which implies weak data-collection systems and a lack of clearly-defined

common strategies for repossessing loan funds or assets in the event of default.
- „ A real participatory approach – whereby clients take part in the designing and decision-making processes of the credit schemes – is rarely, if ever, adopted.
- „ The transfer of knowledge between role-players in credit provision to SMEs is limited despite the existence of collective bodies such as the Joint Consultative Committee.
- „ The low credit disbursement levels and lengthy procedures point to an under-utilisation of the potential capacity of credit providers.
- „ Institutional weakness is evident for most credit providers surveyed.
- „ Despite the increase in loan disbursements to SMEs in Namibia between 1996 and 1998, the loan output in the country is still very low according to international standards.

Opportunities

- „ The increased involvement of commercial banks in credit delivery to SMEs, even through a real risk-sharing agreement, will go a long way to promoting an enabling environment for SMEs.
- „ The exploitation of favourable conditions for improving information-sharing and consequently outreach efforts through government offices and the media will also help to create an enabling environment for SMEs.
- „ The participation of all role-players in formulating government policies affecting SMEs will help to build and stabilise the sector.
- „ The use of resources made available by donor agencies aimed at building the capacity of public bodies that could take over projects funded by timed grants will help to assure the sustainability of credit schemes and the SMEs served by them.
- „ The new JCC structure should enable improved co-ordination among the entities involved in SME support.

Threats

- „ The current excessive dependence on timed grants could lead to the collapse of credit schemes and the programmes they support once these grants have terminated.
- „ The contradictory aspects of finance delivery systems (e.g. disparate interest rates charged) that currently apply could result in fragmentation and 'unfair' competition in the SME sector.
- „ The current lack of opportunities for developing forward linkages with larger enterprises could constrain the growth of the SME sector.
- „ The possibility of political pressure being placed on parastatals to provide loans for unsustainable projects should be eradicated.
- „ There is a potential among credit providers to neglect non-financial services.

6.2. SUGGESTIONS AND RECOMMENDATIONS FOR THE DEVELOPMENT OF FINANCIAL SERVICES FOR SMEs IN NAMIBIA

6.2.1. Credit as a human right

One of the more significant ideas to have emerged in recent times in the diversified environment of development agencies – governmental or non-governmental – is that credit, apart from being an economic concept, is a human right. Poor people must have the right to gain access to credit because they need the opportunity to become self-sufficient. This basically "ethical" assumption does in fact seem to be widely shared by the parties interviewed for this study.

6.2.2. General, not individual, enabling effects

Credit schemes have traditionally been evaluated on the basis of the simplistic assumption of a direct causal link between the provision of credit to an individual and an immediate improvement in her/his life brought about by a higher income. However, it is now argued that financial services should be valued more for their general enabling effects across the entire economic sector they intend to serve, rather than for the direct effect on the individuals to whom loans are granted.

6.2.3. Diversification in credit provision

There is already a high degree of diversity among the existing schemes that provide loans to SMEs in Namibia. For example, there is considerable variation in the loan amounts granted by the different schemes, in their respective financial and general requirements, in the provisions each scheme applies to cover inflation, default and operational costs, in their target groups and in their application procedures. These differences are linked to the methodologies employed by credit providers in reaching beneficiaries, as well as to the financial criteria they apply to assure sustainability of the schemes. While partnerships between banks and NGOs are more common now than in the past, these partnership models or patterns differ among the credit providers, and the differences typically relate to the "learning process" of each institution surveyed. In other words, the institutions are testing and evaluating different ways of delivering credit to SMEs. Some are also in the process of reviewing their policies and financial as well as non-financial criteria. This diversification among credit providers also reflects the differences existing among the target enterprises, which may be micro, small or medium in size.

6.2.4. Standardisation in credit provision

While the methodological diversification discussed above is indicative of a flexible approach in designing and implementing credit programmes, which is favourable on the whole, it is believed that some degree of standardisation should also be introduced. Experience suggests that certain criteria could be profitably applied in every scheme. This standardisation could be achieved through a joint evaluation – involving all the main credit providers to SMEs – of each scheme's performance. An analysis of international "success stories" used in combination with this booklet would greatly help the role-players to achieve this objective.

6.2.5. The minimalist and interventionist approaches

Although the criteria applied by institutions providing credit to micro enterprises vary in many respects, an important shared strategy should be emphasised: their choice of the "interventionist" approach as opposed to the "minimalist" approach. The only notion upheld in both of these approaches is that credit should be made available to those who cannot provide collateral to guarantee their loans.

- *Minimalist approach*: In general terms the minimalist approach aims to run a sustainable credit scheme while keeping operational and administrative costs as low as possible, as does a bank. The main objective of this approach is long-term financial viability. The recipients of services rendered through this approach are likely to be seen as ordinary commercial clients because they are charged commercial rates for the services. The provision of non-financial services is seen to be counterproductive because it potentially leads to an increased dependency among the poor on top-down planning and subsidies. Minimalist ideas are summed up by the motto, "banking the unbankable". The poor are trusted to already have some expertise in coping with strategies and small investments because they cope with hardship in everyday life.
- *Interventionist approach*: According to this approach, which is usually the approach adopted in Namibia, *[This analysis does not include the formal credit institutions, which typically tend to adopt a minimalist approach worldwide.]* credit schemes must provide financial as well as non-financial services such as vocational and business management training, enterprise evaluation services and follow-up services. It is much more difficult for such projects to be sustainable, and interest rates cannot usually cover the costs of the services rendered. For this reason recipients are likely to be seen as beneficiaries rather than clients. The interventionist philosophy assumes that poor people are deprived in many ways and should therefore be supported in many ways. Interventionist programmes are often highly subsidised. There are micro-financing institutions which were set up according to the minimalist approach, but which evolved into interventionist institutions when their managers realised that credit alone cannot serve the goal of promoting the growth of small business among the poorest strata of entrepreneurs. The assumption that the poor can identify and adopt coping strategies by themselves, without external support, is considered by many micro-credit providers to be unrealistic. A minimalist-oriented micro-credit provider would reply that if other services are linked to credit, the scheme could not by any means be sustainable.

In general, the experience in many countries – including Namibia in our opinion – reveals that the challenge is to get the balance right. This implies, on the one hand, that sustainability is assured in adopting a minimalist approach to credit delivery and providing financial services to the largest possible number of clients. On the other hand this implies that measures will have to be taken to incorporate marginal groups and to promote an entrepreneurial culture among the owners of small and micro businesses.

6.2.6. Partnerships in credit provision

One way to get the minimalist-interventionist balance right could be to develop partnerships between rigorous and technically sound financial institutions and NGOs or other developmental organisations able to provide non-financial support services to small and micro entrepreneurs. It is therefore possible for micro-finance institutions to adopt a dual approach in providing credit services, whereby the financial aspects of credit provision are left in the hands of the existing specialised financial institutions. This could generate lower operational costs as well as increase outreach. In fact, the first lesson learnt from experience in the field is that the most important sustainability determinants of a credit scheme are the technical capacity of the provider and the institutional setup of the scheme.

6.2.7. Policies and procedures in credit provision

Working closely with formal lending institutions should also involve persuading them to adapt their policies and procedures to allow for credit to be provided from existing funds to target potential clients who have no access to credit, thus simultaneously widening the banks' clientele. This process would hopefully lead banks to open a special window for micro and small businesses.

Development-oriented lending policies should also take into account important issues such as the following:

- *Savings*: Savings should be encouraged to the extent that they become the major source of capital. Imposing compulsory saving as one of the guarantee mechanisms and encouraging voluntary saving could help to attain goals.
- *Group guarantees*: Credit delivery systems incorporating the group guarantee mechanism have proved to be extremely popular following the experience of the Grameen Bank in Bangladesh and other "Village Bank Schemes" based on the same model. The borrowing groups organised in accordance with this model should be of a manageable size and group members should preferably receive loans in turn so that the group security principles are respected. To strengthen the group guarantee process, the small primary groups should converge to form larger groups, often called "centres", in a sort of pyramidal structure.
- *Gender equality*: The promotion of gender equality in the credit provision arena should be encouraged, for the following reasons essentially. First of all, women in particular have been deprived of access to formal credit because they rarely own property that can serve as collateral, so credit programmes are potentially significant tools for balancing society's gender imbalances. Secondly, the income generated by women often has a more crucial impact on the welfare of their households than does the income of men. Thirdly, the Namibian experience has shown that women's commitment to repaying their loans tends to be higher than that of men.
- *Public awareness*: Adequate information about credit opportunities and the terms and conditions of the loan schemes should be widespread in the home and working environments of potential borrowers. Information-sharing and public awareness-raising activities may play an important role in relation to many facets of the programmes.
- *Default procedures*: Adequate information about clear procedures for dealing with defaulters should be given.
- *Technical assistance*: In many cases technical assistance should be provided for reviewing the business plans elaborated by loan applicants or integrating the plans with the loan applications.

6.2.8. Follow-up support and advice

Most of the issues raised in the previous section are not typically issues that engage banks. They may be considered priority areas of engagement for NGOs, parastatals or, more generally, development agencies. These agencies should also undertake the responsibility for follow-up work with the enterprises they support, so as to support their marketing and coping strategies and to provide relevant business information and advice to the entrepreneurs. This is particularly pertinent in the case of ventures starting up. In the absence of any business orientation, potential small investors are often led to imitate others in making choices. In the long term this may lead to excessive competition among small businesses operating in the same sectors and localities. NGOs and parastatals should also focus – when it is deemed necessary – on supportive activities such as adult education, managerial training, and building-market infrastructures and facilities. The presentation of relevant "success stories" of people who started their enterprise under very fragile economic conditions has proven to be a useful tool for encouraging and inspiring micro and small entrepreneurs. The role of developmental agencies should also be that of liaison agent between banks and local communities.

6.2.9. Minimising dependency on timed grants through co-operation and collaboration with public and private sectors

A problem that is very often highlighted – internationally and in Namibia – is the strong financial dependency of developmental agencies on external timed grants, whether the donors are national governments, other governments or international institutions. The risk is that when this funding stops, the activities themselves are stopped. The responsibility of minimising this risk probably falls to the national government and developmental agencies. Two possible ways to minimise this risk are as follows:

- *Co-operation between public and private sectors*: If there is close co-operation between government bodies and developmental agencies, the former may be asked to take over projects when the programmes supported by external funds are terminated. Despite the great number of constraints hampering small businesses in Namibia, the situation is still better in this country than it is in other developing countries due to the existence of a well-scattered banking network. Banks could be utilised as a base for service delivery in support of micro and small businesses. In some cases municipalities could also play this role. This idea is believed to be consistent with the Namibian government's attitude towards facilitating the growth of the private sector by creating links between the private and public sectors. The handing over of projects, however, is not a simple exercise that can be executed during the last months of an externally-supported programme. Programmes have to be conceived and implemented from the start in such a way that they can also be managed by existing and already operational public institutions. For instance, developmental agencies often have a specific "know-how" in the small-business development arena which is not necessarily found in public institutions. The training of trainers and other capacity-building efforts in support of these institutions should therefore be regarded as high priorities of any micro-credit programme.
- *Collaboration between developmental agencies and private sector*: Developmental agencies could collaborate and co-ordinate programme activities with the relevant private-sector establishments to benefit small enterprises. This could apply in the case of the JCC, which on 9 June 1998 was officially registered as an Incorporated Association not for Gain, representing the private sector and NGOs engaged in developing services for SMEs. Once the formalisation process has been completed, the JCC will be more effective as an organisation instituted specifically to address the needs of the sectoral service providers, to exchange information and experience, to co-ordinate efforts, and to ensure the most effective utilisation of available resources to support the horizontal development of the SME sector.

The potential strengths and weaknesses of such reliance on either public or private institutions to deliver additional financial services to small businesses may be summarised as follows (this summary being based chiefly on the experience of other countries):

TABLE 37:
POTENTIAL STRENGTHS AND WEAKNESSES OF CREDIT DELIVERY TO SMEs BY PUBLIC AND PRIVATE SECTORS

Strengths – public sector

- „ There is consistency of action taken in support of small businesses in terms of general poverty alleviation strategies.
- „ Attention is paid to incorporating micro businesses into the country development strategy.
- „ Attention is paid to rural areas and more disadvantaged businesses.

Weaknesses – public sector

- „ Delivery of services (i.e. training) is less market-driven.
- „ The capacity to impart business know-how and carry out market analyses is lower.
- „ Excessive bureaucratic constraints exist that could result in a low efficiency level.

Strengths – private sector

- „ The delivery of services is market-driven.
- „ There is development of backward and forward linkages among enterprises.
- „ The incorporation of small businesses into the private sector environment could result in a greater lobbying capacity for small entrepreneurs.

Weaknesses – private sector

- „ Insufficient attention is paid to informal micro businesses.
- „ Less attention is paid to businesses located in isolated areas which are not easily accessible.
- „ Start-up policies are insufficient.
- „ Little attention is paid to integrating social issues such as the gender issue.

The two options could be applied simultaneously, with some programmes relying on the involvement of private institutions and others relying on partnerships with public institutions. Bearing in mind the weaknesses of both options as listed above, it is very important that credit programmes opting for either arrangement take the necessary measures to minimise the risks.

6.2.10. Establishment of specialised micro-finance institutions

Although it has been recommended that programmes supporting small businesses consider collaborating with existing banks or specialised financial institutions, there is an alternative potential option to consider: the establishment of specialised micro-finance institutions. The rationale for this option would be that, despite any efforts made by NGOs, parastatals or other public and private bodies, the commitment of banks to small and micro businesses will never be satisfactory due to their mandate. There are no specialised micro-finance institutions in Namibia at present, since all the credit schemes investigated tend to deliver numerous and diversified services.

6.2.11. Structure and approach of specialised micro-finance institutions

The discussion must revert at this point to the minimalist and interventionist modes of operation discussed above. It is widely believed that a specialised micro-finance institution should preferably adopt a clearly minimalist approach, for two reasons: because sustainability must be attained, and because the concept of specialisation is inconsistent with the notion of delivering several diverse services simultaneously. The structure of a micro-finance institution should thus take into account certain crucial issues, including the following:

- *Finance source*: The amount of initial capital should be fixed and then made available. Thus the potential financing sources must first be identified. Some internal and external donors could be attracted by a well-structured, reliable project.
- *Target*: There is a need to clearly define the institution's target group/s and accordingly its lending policy, as well as to fix the running-costs amount.
- *Feasibility study*: A structured feasibility study should preferably precede the establishment of a micro-credit institution. This study could involve experts from similar institutions that have proven to be successful in other countries. Among other things, the study should also assess the potential market of the institution vis-à-vis the existing banking system and the legal framework according to which the institution is to be established.
- *Pilot phase*: There should preferably be a pilot phase of operation, during which a clearly written and well-structured manual setting out the "rules of the game" could be tested.
- *Social and cultural norms*: There is a need to be consistent with the socially and culturally widespread savings and credit habits existing in the country.
- *Approach and "know-how"*: A micro-finance institution should combine the approach and know-how of a competent poverty alleviation-oriented NGO with those of a rigorous, financially sound and market-driven bank. Its staff policy should also be planned accordingly.

6.2.12. Data-collection systems

A well-structured and reliable data-collection system is advantageous, if not crucial, to a development programme of any kind. It has been observed that programmes are not always able to provide up-to-date information on matters relating to their sustainability and outreach efforts. It must be reiterated here that monitoring and evaluation are only possible if reliable and regularly updated information is made available. Furthermore, credit programmes should preferably adopt the same data-collection criteria if a clear picture of the country situation is to be obtained. An effort towards standardising these criteria therefore appears to be necessary, and it is believed to be achievable through a good level of co-operation and discussion among existing credit providers.

6.2.13. Borrower participation

The participation of borrowers in designing, implementing and evaluating credit programmes is highly advantageous and thus advisable. The programmes have to recognise small and micro entrepreneurs as equal partners – to work *with* rather than *for*. This issue of borrower participation could be addressed by means of strengthening the role of entrepreneurs in the loans disbursement decision-making process. This process could therefore involve a loans committee composed of representatives of the bank/s, the promoting organisation/s and the SME sector. Entrepreneurs of small businesses in any target sector could be encouraged to elect their loans committee representatives on a rotational basis. Alternatively loans committees could consult SME representatives to procure their own evaluation of the viability of business plans presented by loan applicants. This mode of operation might have a number of positive effects, including the following:

- There would be a far greater degree of transparency throughout the decision-making process on loan disbursements.
- The level of co-ordination and co-operation within the SME sector would be much higher.
- The level of awareness among borrowers of the importance of a scheme's sustainability would be far greater. In other words, borrowers should be encouraged to perceive the loan funds as own resources in respect of which there can be no defaulting.
- The capacity of small entrepreneurs to formulate and assess viable business plans will be greatly increased.

In some cases credit providers could also involve themselves in joint ventures with micro and small enterprises, thereby sharing their risks and profits on a defined basis. It is very important that credit providers and their borrowers develop a mutual understanding and sense of partnership because they are confronted with the very same challenge.

6.2.14. Research into informal savings and credit behaviours

In-depth research into and an analysis of informal savings and credit habits in the country would be invaluable. Various meetings held during the course of this study have confirmed that little information and analyses exist on this topic, and this is considered to constrain the design and implementation of credit programmes. Informal savings mobilisation and credit delivery are usually culturally driven, so cultural perceptions and attitudes should be taken into account by programme designers and incorporated into projects by implementing agents. To decide what interest rate to charge – in addition to the necessary projections on the scheme's sustainability – it is useful to pose these simple questions:

- What interest rate do private money lenders charge "unbankable" people?
- Who are the private money lenders to the poor in Namibia?
- How do poor people save?
- Is saving always a personal affair or are savings mobilised on a community basis too?

Sometimes the international community and national development agencies tend to have a strictly negative perception of private money lenders, who they perceive as exploiters of the poor because they charge exaggerated interest rates on the loans they disburse. Although this may be partially true, there have been cases recorded in several countries, particularly in their rural areas, where private money lenders are relatively "better-off" people who take the risk of making funds available to the poor without demanding any security. Could informal credit experiences not serve as the basis for the design and implementation of micro-credit schemes? It is strongly believed that a survey of informal savings and credit habits in Namibia would be of concrete benefit in any effort made to secure the sustainability of credit delivery programmes in the country.

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Appendix

INTERVIEWS WITH GOVERNMENT MINISTRIES

Ministry of Youth and Sport

RESPONDENT: MR ELRICH PRETORIUS – ACTING DIRECTOR

This ministry presently has no credit scheme in place to support its skills training programme based at Mariental. The ministry currently places its students on job waiting lists and thus far has had a 70% success rate in securing employment for graduates. The ministry provides financial support to the National Youth Council, which in turn provides grants to entrepreneurs who wish to start new businesses.

National Youth Council (NYC) (funded by the Ministry of Youth and Sport)

RESPONDENT: MR JUSTUS BASSON – DEPUTY SECRETARY GENERAL

The NYC is funded by the Ministry of Youth and Sport to provide business start-up grants. The council does not provide training but would refer applicants to training institutions as required. The maximum amount granted as business start-up funds is N$10 000. Between N$80 000 and N$100 000 has been granted annually since 1994. The NYC has a monitoring system in place and reports on its activities to the Ministry of Youth and Sport twice per year.

Ministry of Regional and Local Government and Housing

RESPONDENT: MS MUSHIMBA – DEPUTY DIRECTOR

This ministry does not presently have any credit delivery system in place. Its Directorate for Community Development mobilises community groups to start income-generating projects and organises training for group members through NGOs such as the IMLT. The ministry also assists in drawing up business plans on behalf of community groups, which it forwards to donor agencies for funding.

Ministry of Labour

RESPONDENT: MR MUPAINE – DIRECTOR

This ministry does not presently have a credit delivery scheme in place. Its Job Creation Fund no longer exists, and funds which were previously available were transferred to the Ministry of Higher Education, Vocational Training, Science and Technology to fund vocational skills training.

INTERVIEWS WITH DEVELOPMENTAL AGENCIES

Centre for Research Information Action for Development in Africa – Southern Africa Development and Consulting (CRIAA SA-DC)

CRIAA SA-DC is a non-profit professional consultants' association established in 1996 and made up of members from Southern Africa and Europe. CRIAA SA-DC in Namibia undertakes applied research and consultancies in programme and project appraisal, monitoring, evaluation and management, in several sectors.

The main services provided so far by CRIAA SA-DC to SMEs and SME support organisations are as follows:

- Baseline studies, situation analyses, feasibility studies and the compilation of business plans for small-scale industrial manufacturing and agricultural processing enterprises.
- Market assessment and product development of *veld* foods (i.e. wild or bush foods), botanical materials and other non-timber forest products.
- Participatory strategic planning, business development support, technical assistance and organisational capacity-building for co-operatives, producer groups and community projects.

CRIAA SA-DC manages the Katutura Artisans' Project (KAP) for the Ministry of Trade and Industry. KAP is a service centre that focuses on promoting small-scale artisans – mainly from the informal sector – with the aim of boosting employment and income generation. KAP has also embarked on researching and developing appropriate technologies for small-scale enterprises. KAP does not provide credit to SMEs directly, but facilitates their access to credit and business management training, mainly by referring entrepreneurs to the appropriate credit providers and assisting them with loan application procedures.

Namibia Co-operative Credit Union League (NACCUL)

NACCUL was established in 1991 and is the national association for savings and credit co-operatives in Namibia. Since its establishment NACCUL has supported a number of credit groups as well as study groups in six of the country's thirteen regions, with mixed results (the organisation has suffered a number of setbacks in its operations.)

NACCUL's long-term development objective, which the organisation expects to achieve through its newly-implemented Namibia Savings and Credit Co-operatives Revitalisation Programme, is to build an effective and sustainable credit union movement in Namibia. In doing so, an alternative financial system will be created that is capable of facilitating the economic empowerment of the country's marginal and disadvantaged majority, and particularly women, who constitute more than two thirds of the league's membership. This will be done by providing support services that address the needs of the member savings and credit co-operatives. The programme's three-year development strategy is designed to facilitate the integration of savings and credit co-operatives as effective, efficient and sustainable instruments for the social and economic empowerment of members, communities and the country's population at large. Through this programme NACCUL will provide training and extension services to the committees managing the member co-operatives and study groups. NACCUL will also conduct information-sharing and mobilisation seminars and meetings to motivate the programme members and potential members, as well as to raise public awareness of savings and credit co-operatives.

Namibia Rural Development Project (NRDP)

The NRDP is a non-profit registered welfare organisation that aims to empower the rural and other disadvantaged groups to realise their potential and gain control of their lives, and to set them on the path of sustainable human development within the Namibian context.

The project has suspended its previous credit scheme and is now in the process of developing a new policy which will take into consideration, among other things, the following:

- Loan application procedures
- The nature and size of loans
- Eligibility requirements
- Administrative mechanisms for the scheme
- Other possible complementary services to be offered (i.e. training)

This new policy will be formulated in line with the government's policy on SME development and will be as sensitive as possible to the situation in rural areas.

A BRIEF REVIEW OF THE HISTORY AND CLOSURE OF THE PRIVATE SECTOR FOUNDATION

By Mr C Truebody

Introduction

The Private Sector Foundation (PSF) was closed down on 31 May 1998, having operated in terms of its mission – to serve Namibia's disadvantaged communities – since its inception on 1 December 1980. During its 17½ years of operation, the PSF initiated programmes in low-cost housing, labour relations, training, small-enterprise development and productivity promotion. In due time a number of other organisations also entered these fields, with more extensive resources. This enabled the PSF to concentrate its efforts on the development and support of micro enterprises as being an area from which Namibia's people and economy would draw particularly noticeable benefits.

Historical review

The activities of the PSF in the field of small enterprise development and support were initiated following a wide-ranging needs assessment that was conducted over a period of six months. Thereafter, a training programme in small- and micro-enterprise management was designed in collaboration with a focus group of small-scale entrepreneurs drawn from Rehoboth, Katutura, Khomasdal and Oshakati. Shortly after the introduction of the training programme, participants who had completed their courses approached the PSF to request assistance in gaining access to resources in order to set up enterprises and so to test the new knowledge they had acquired. The main concern was for access to finance, as the people concerned had been unable to convince the traditional finance institutions to make funds available.

In response to this request the PSF introduced the Mini-Loan Scheme, in terms of which clients could borrow up to N$2 500 for use in consolidating, expanding or starting a business. The interest rate was subsidised at 1% per month (which was about 60% of the prime bank rate at the time) and it was a condition that the loan be repaid over a period of 12 months in equal monthly installments.

About a year after the Mini-Loan Scheme was introduced, a number of women in Katutura approached the PSF to request a reduction of the loan amount and to change the conditions to make them more manageable for the sort of enterprises they were operating. It was then that the Get-up! Scheme was introduced, in terms of which people who belonged to a group could borrow an initial amount of N$25 to use for their enterprise. The N$25, together with the 10 cents charged as interest, had to be repaid after one week but could be borrowed again, also for one week, provided that the capital and interest were again repaid at the end of that week. If the first loan had been repaid according to the agreed conditions, then the loan amount could be increased to N$50, and for subsequent loans the amount could be increased in steps of N$25 until the maximum loan amount of N$500 was reached.

Funds for both the Mini-Loan Scheme and the Get-up Scheme were obtained from local donors and the operating costs were covered by contributions from the private sector.

Around the time of Namibia's independence in 1990, the local donors adopted the view that under the new political dispensation resources would be made available to continue these operations. As a result the government and foreign donors were approached for assistance and in 1993 and 1994 the first foreign funding was secured to supplement the funds made available from government sources.

The PSF credit scheme was revised to make provision for loans as follows:

- First loan – a maximum of N$500.
- Second loan (provided the first loan was fully repaid in terms of the loan agreement) – up to N$1 000.
- Third loan (depending on the needs of the enterprise and provided the second loan was fully repaid in terms of the loan agreement) – up to N$2 000.
- Fourth and following loans (depending on the needs of the enterprise and provided all previous loans were fully repaid in terms of the loan agreements) – up to N$5 000.

The conditions of the loans were as follows:

- All loan applicants had to attend at least one set of training sessions.
- An application form (a basic business plan) would have to be submitted for consideration by a Credit Committee.
- Interest rates would be at 2% below bank prime rate for the first loan, 1% below bank prime rate for the second loan and at bank prime rate for the third and subsequent loans.
- Repayments of loans would have to be made in equal monthly installments over a period of 12 months.
- The calculated repayment amounts could not exceed 40% of the estimated monthly net profit of the enterprise.
- The borrower would have to complete an Acknowledgement of Debt form.

Loans were paid out by way of a cheque made out to the borrowers, after all the preliminary requirements had been met. By the time the PSF stopped its operations, about 5 500 people had attended the training courses and about 3 200 people had obtained loans from the foundation.

An approximate total of N$1 600 000 had been paid out in loans, of which about N$900 000 was outstanding. The average value of the loans awarded amounted to about N$500, although the range covered amounts from N$300 to N$4 000. Over 80% of the clients were women in both urban and rural areas of the country. The PSF operations were run from a head office in Windhoek and four branch offices in Ongwediva, Katutura, Mariental and Keetmanshoop.

Operational costs

Based on information gathered over a period of four years, the PSF's operational costs were comprised of two major components: the training cost per entrepreneur trained and the cost of maintaining the loan administration system per loan in operation.

These costs, as at May 1998, amounted to N$420 per person trained and N$350 per annum, per loan in operation.

It was not possible to recover the full training costs from the trainees who were required to pay a standard fee of N$20 for the training. In fact, not all participants paid the training fee. The cost of follow-up courses, usually presented in one-day sessions, amounted to about N$100, but for these courses too, a fee of N$20 was levied.

In theory the cost of maintaining the loan monitoring system was to be recovered from the interest charged on the loans. As the interest rate was pegged at 2% below prime for the initial loans, the actual recovery of the loan-monitoring cost could not amount to more than N$90 per annum. For larger loans the recovery of loan-monitoring costs was more lucrative as the interest amount collected on the loan was greater. For loans of N$2 000, for instance, the amount of interest collected was N$360, whereas the cost of maintaining the monitoring system would be N$350 per annum, as for the smaller loans.

In respect of both the training and the loan monitoring costs, the cost of salaries and allowances made up about 65% of the total. The rest was incurred as a result of travelling costs (about 12%), communication costs (about 7%), office rentals and other overhead costs.

Lessons learned

The lessons learned over the past 17½ years may be summed up as follows:

- The experiences regarding strategies for the development and support of micro and small enterprises in other parts of the world are not necessarily applicable in Namibia.
- Interventions aimed at the development of the micro and small enterprise sector require an approach that is sensitive to the fact that such interventions must accommodate a development component which does not lend itself to financial economic analysis in the short term.
- The sustainability of interventions in respect of micro and small enterprise development and support is not possible in the short term and very much depends on whether a critical mass of activities can be attained and their overhead costs covered. The well-known operations in the world reached sustainability only after a long development period.
- To attain the critical mass of activities it is necessary to maintain a high level of outreach and efficiency in the organisation.
- Only when donors are prepared to offer long-term support is it possible to ensure the continued implementation of long-term support to micro and small enterprises.
- The benefits derived from the support and development of micro and small enterprises can only be justified in terms of development criteria.

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List of tables and figures

List of tables

List of figures